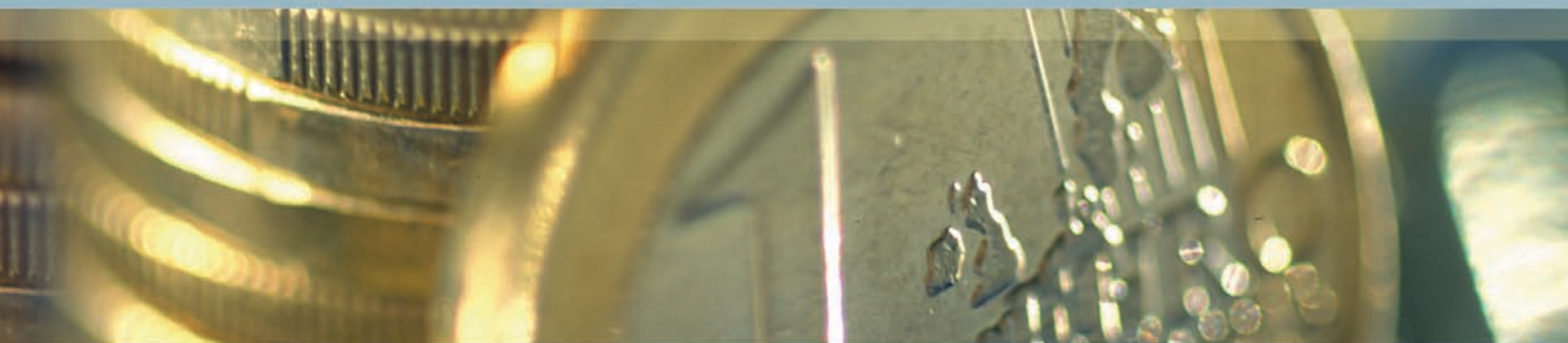


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The Economic Adjustment Programme for Greece Fourth Review – Spring 2011

Directorate-General for Economic and Financial Affairs

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EUROPEAN COMMISSION
DIRECTORATE GENERAL
ECONOMIC AND FINANCIAL AFFAIRS

The Economic Adjustment Programme for Greece

Fourth Review – Spring 2011

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EXECUTIVE SUMMARY

A joint Commission / ECB / IMF mission met with the Greek authorities in Athens from 3 May to 2 June, and 21 to 23 June 2011. The mission assessed compliance with the terms and conditions of the Fourth Review under the Economic Adjustment Programme.

Over the last year, the programme of economic policies has shown to be appropriate to help Greece in reducing its macroeconomic and fiscal imbalances. The objectives of the programme are restoring fiscal sustainability; preserving financial stability and adequate liquidity in the banking sector; and restoring competitiveness.

After a strong start in the summer of 2010, reform implementation has substantially decelerated in recent quarters. Insufficient political consensus on a number of reforms, weaknesses in political coordination and constraints in administrative capacity have weighed on programme implementation. A reinvigoration of the adjustment programme is necessary to prevent the fiscal deficit from getting entrenched at unsustainable levels, but also to implement the structural reforms that will support the recovery.

The recession appears to be somewhat deeper and longer than initially projected. Economic activity contracted in 2010 by 4½ percent, slightly more than projected at the inception of the programme and subsequent reviews. The contraction mainly concerned domestic demand, while the external sector has gained traction, thus contributing to the reduction in external imbalances. Progress in rebalancing the economy is also evidenced by a gradual reduction in inflation, wage settlements and labour costs. Yet, a further substantial reduction in unit labour costs will be necessary to perceptibly improve competitiveness. Contrary to earlier expectations, economic activity is expected to continue contracting in the second half of 2011, as additional fiscal consolidation and liquidity constraints are taking their toll on the economy. Real GDP growth for 2011 is now forecast at -3¾ percent in 2011, and to return to positive territory from 2012 onwards.

The fiscal performance criteria for the first quarter of 2011 have been met but underlying problems remain unresolved. The performance criteria concern state expenditure, government primary balance, central government debt and new state guarantees. Tax collection continues to underperform compared to plans, even after the downward revisions agreed in previous reviews. Although part of this underperformance results from the severity of the recession and the liquidity constraints of taxpayers, several measures to fight tax evasion have not been fully effective. Nonetheless, the quarterly performance criterion on the primary balance has been achieved thanks to under-execution of expenditure at the state level, and relatively favourable results in the budgetary execution of local government and social security. Moreover, a number of weaknesses in expenditure control have not yet been overcome. As a result, arrears to suppliers by the ministries, hospitals and other public entities, instead of having been eradicated, have increased further. There is a distinct risk that the performance criterion on primary balance for end-June has been missed.

The government is adopting a number of structural measures to ensure that the ESA-based fiscal deficit ceiling for 2011 is respected. The previous review mission (February) found that, without additional measures, the fiscal target for 2011 would be missed by at least ¾ of a percentage point of GDP. In the meantime, the gap between projections and the deficit ceiling has widened substantially. If no action was taken, the government deficit in 2011 would

remain close to the 2010 level, above 10 percent of GDP. To close this gap, the government has announced several deficit-reducing measures amounting to almost 3 percent of GDP in 2011.

A medium-term fiscal strategy (MTFS) has been prepared to ensure the durability of fiscal consolidation. The aim is to reduce the government deficit to 2½ percent of GDP in 2014 and further in 2015, and place the debt ratio on a downward slope. To meet this objective, the government identified fiscal consolidation measures of about 10 percent of GDP between 2011 and 2014, and above 11 percent of GDP if the period through 2015 is considered. The MTFS includes multiannual spending ceilings per ministry and establishes, therefore, a medium-term fiscal framework.

The MTFS addresses a number of key weaknesses of public finances in Greece. While a large-scale fiscal consolidation package needs to touch all areas of government activity, the MTFS particularly aims to reduce overstaffing of the public sector, improve financial performance of state-owned enterprises and streamline social transfers. Expenditure measures include cuts in the public sector wage bill, operational expenditure, defence expenditure and investment; reduction in transfers to extra-budgetary funds and other entities; savings in state-owned enterprises; cost-cutting initiatives in healthcare expenditure, pensions and other social benefits while protecting the most vulnerable. The cuts in the public sector wage bill will be achieved by eliminating most allowances in the context of a comprehensive wage grid reform and an increase in working hours. An attrition rule of 1 recruitment for 5 exits had already been taken into account in previous projections: it is now made stricter for 2011 and extended into 2015. The attrition rule, a reduction in temporary contracts, and the abolition in elected positions following the recently implemented local government reform are expected to reduce the number of government staff by 20 percent from 2010 to 2015. Moreover, excess staff is expected to be moved to a labour reserve at reduced wages. Revenue measures entail increases in a number of tax rates, some new taxes, abolition of several exemptions and measures to improve tax compliance. However, the most recent tax measures increase the complexity of the system. Efforts will, therefore, be necessary in the future to broaden tax bases and streamline the tax system as a whole.

To be successful, the MTFS has to be implemented in a decisive manner. Implementing legislation has been approved by Parliament at the end of June, and the approval of some other acts is expected shortly. Nonetheless, the implementation of this comprehensive policy package which aims to remove waste in all government entities is subject to significant risks. The delays in preparing the MTFS illustrate the increasing difficulties of the government to formulate and collectively support the necessary economic reforms. On the positive side, the impact of the measures that raise particularly large implementation risks, and that are difficult to quantify, have not been considered for the initial years (2011-13) covered by the MTFS. Among these are measures to reduce tax evasion or the misuse of social benefits.

Important steps have been agreed to strengthen and accelerate the privatisation programme. The Greek government is one of the European sovereigns with the richest portfolio of assets. This portfolio includes listed and non-listed companies, concessions and commercially-viable real estate (buildings and land). Most of these assets have not provided any relevant revenue, while loss-making state-owned enterprises have actually been a source of costs. Privatising those assets will contribute to reduce debt with a small, if any, cost in terms of future revenue. At the same time, privatisation promotes the economic activity and foreign direct investment. Key assets to be privatised have been identified and an indicative calendar of privatisation has been agreed. In order to accelerate the procedure, and ensure the irreversibility

of the whole process, the appropriate governance is being put in place: a privatisation fund managed by an independent and professional board has been legislated and will be established shortly. A new quantitative quarterly criterion on the cumulative privatization proceeds will help monitor progress in this area.

The financial sector situation remains fragile. Banks are still shut off from international capital markets and the level of deposits keeps contracting. This reflects consumption smoothing and lack of working capital at corporate level, but also the uneasiness caused by the ongoing discussion about debt restructuring. Concomitantly, the reliance of Greek banks on Eurosystem funding peaked in June 2011, after declining during the first quarter of 2011. Banks' liquidity has been further affected by shrinking collateral pools because of rating downgrades and declines in collateral valuation, as well as changes in the Eurosystem's collateral rules.

The Greek banks entered the crises with relatively strong capital buffers, though these varied considerably among banks. Asset quality has continued to deteriorate amid a weak economic environment, and provisioning levels are comparatively low. Several Greek banks are under restructuring, though the process has been slow. The Bank of Greece will require additional capital buffers against potential further deterioration of the operational environment, based on each bank's specific risk profile. Obviously, the outlook for the Greek financial sector is not independent from choices concerning private sector involvement.

Several structural reforms have been legislated. Over the last year, the Greek government has adopted several structural reforms in the areas of pensions, healthcare, labour market, product and service market regulation and other reforms to improve the business environment. Other than the reforms that are part of the fiscal consolidation efforts (e.g. pension and healthcare), these reforms aim at removing rigidities, reducing production costs, and increasing competition and competitiveness. While a decline in wages has contributed to competitiveness, the growth-enhancing reforms have not yet reached a critical mass that allows them to have a tangible impact on the economy's productivity and ability to grow. A decisive implementation of the several measures which were legislated or are under preparation is necessary to improve the business climate and pave the way for sustainable economic recovery.

Delays in implementing structural reforms reflect administrative capacity limits and constraints in political coordination. Against this background, the mission discussed the need to establish a formal project-management framework, in particular for the structural reforms. It recommended that project managers be nominated for each initiative to be carried out in key areas (labour market reform, product and service market reform, fast-track investment, etc.) and that an internal committee be mandated to develop, utilise, and publish result-oriented indicators for each of the key structural reform initiatives, on a regular basis.

Strengthening technical assistance is crucial to assure strict programme implementation and addressing capacity issues. Technical assistance by the Commission and the IMF has been useful in a number of areas like statistics, absorption of structural funds and land registry; and taxation, public finance management and financial sector reforms. Effective technical assistance should now be extended to other areas and should be provided also by the euro-area Member States.

Debt sustainability can only be restored if the government fully adheres to the fiscal consolidation and the privatisation plan. On the basis of current projections, the Greek

government debt ratio will peak in 2012 and decline afterwards, with a significant contribution from the privatisation plan. In any case, the Greek government debt will remain for many years at a high level and, therefore, subject to possible adverse developments that cannot be predicted. In particular the debt sustainability assessment is very sensitive to growth outcomes, highlighting the crucial importance of frontloading growth-enhancing structural reforms.

The cost of market financing remains prohibitive. Yields have increased substantially in recent months recording peaks well above those registered at the programme's inception. It is unlikely that yields will return to affordable levels in a matter of a few quarters. Reflecting this situation, the Greek sovereign rating has been further downgraded by the main credit rating agencies. The market scepticism is related to doubts about the ability of the Greek government and society to persevere in fiscal consolidation, and in restoring competitiveness.

One year after the start of the programme, almost half of the international assistance loans have been disbursed. By now, the euro-area Member States and the IMF together have disbursed EUR 53 billion: EUR 38.5 billion by the euro-area Member States and EUR 14.5 billion by the IMF. The fifth disbursement would amount to EUR 8.7 billion from the euro-area Member States and EUR 3.3 billion from the IMF, and bring total disbursements to EUR 65 billion.

Full and timely implementation of the comprehensive policy package agreed during the mission should ensure further progress towards fiscal consolidation, financial stability and improved competitiveness. In particular, the ambitious medium-term fiscal strategy and the enhanced privatisation programme are expected to keep the economic adjustment programme on track. However, there are significant implementation risks, which, if not properly addressed, would endanger the success of the programme in restoring competitiveness and debt sustainability.

A number of pre-conditions are necessary for the adjustment process to be successful. The programme of fiscal, financial and growth-enhancing reforms needs to be strictly implemented. Privatisation has to accelerate. Given the length, magnitude and nature of required reforms, political and social consensus remains a prerequisite for success. Weaknesses in institutional capacity will need to be addressed through enhanced technical assistance.

Against this background, a reinvigorated economic adjustment programme with scaled up financing assistance appears necessary. While noting the responsibility of the Greek government and other stakeholders to contain implementation risks identified in this report, the Commission services recommend this disbursement to take place, and at the same time to set up the main parameters for a new financing programme..

1. INTRODUCTION

- 1. This report assesses compliance with the conditions of the fourth review of the Greek economic adjustment programme.** The assessment is based on the findings of the joint Commission/ECB/IMF mission to Athens (3 May-2 June, and 21-23 June 2011). The mission assessed compliance with conditionality associated to the fifth disbursement and progress towards the key programme objectives of safeguarding the stability of the financial system, securing fiscal sustainability, and boosting competitiveness, potential growth and jobs.*
- 2. In May 2010, the euro-area Member States and the IMF provided financial support to Greece in the context of a sharp deterioration of its financing conditions.** On 2 May 2010, the Eurogroup agreed to provide bilateral loans pooled by the European Commission for a total amount of EUR 80 billion to be disbursed over the period May 2010 through June 2013. The financial assistance agreed by euro-area Member States was part of a joint package, with the IMF financing additional EUR 30 billion under a stand-by arrangement (SBA). This package was planned to fully cover the government's financing needs related to its fiscal deficit and maturing medium- and long-term liabilities until end 2011 and progressively less thereafter. During the whole programme duration, Greece was planned to keep access to short-term market financing.
- 3. One year after the start of the programme, almost half of international assistance loans have been disbursed.** By now, the euro-area Member States and the IMF together have disbursed EUR 53 billion: EUR 38.5 billion by the euro-area Member States and EUR 14.5 billion by the IMF. The fifth disbursement would amount to EUR 12 billion (EUR 8.7 billion by the euro-area Member States and EUR 3.3 billion by the IMF) and bring total disbursements to EUR 65 billion.

*

This Compliance Report is released together with the Commission Communication "Follow-up to the Council Decision of 10 May 2010 addressed to Greece" (COM (2011) 422 final, of 1 July 2011).

See also the quarterly report submitted on 16 June 2011 by the Greek Ministry of Finance, and available for download at: http://ec.europa.eu/economy_finance/sgp/deficit/countries/greece_en.htm.

During the review mission in Athens, the Commission / ECB / IMF staff teams met with the ministers of Finance; as well as with the ministers for Regional Development and Competitiveness; National Defence; Labour and Social Security; Health and Social Solidarity; Interior, Decentralisation and e-Government, and Education, Lifelong Learning and Religion, and with the governor of the Bank of Greece. Moreover the teams met with staff of these ministries and the central bank, as well as of the ministries of Infrastructure, Transport and Networks; Culture and Tourism; Public Debt Management Agency, Hellenic Financial Stability Fund, and Hellenic Competition Commission. Meetings also took place with social partners, think-tanks and several banks.

**Table 1. Disbursements under the economic adjustment programme
(EUR billion)**

Past disbursements					
	Euro-area Member States		IMF		Total
1st tranche	18 May 2010	14.5	12 May 2010	5.5	20.0
2nd tranche	13 September 2010	6.5	14 September 2010	2.5	9.0
3rd tranche	19 January 2011	6.5	21 December 2010	2.5	9.0
4th tranche	16 March 2011	10.9	16 March 2011	4.1	15.0
Total past disbursements		38.4		14.6	53.0
Planned disbursements					
	Euro-area Member States		IMF		Total
5th tranche	July 2011	8.7	July 2011	3.3	12.0
6th tranche	September 2011	5.8	September 2011	2.2	8.0
7th tranche	December 2011	3.6	December 2011	1.4	5.0
8th tranche	March 2012	7.3	March 2012	2.7	10.0
9th tranche	June 2012	4.4	June 2012	1.6	6.0
10th tranche	September 2012	4.4	September 2012	1.6	6.0
11th tranche	December 2012	1.5	December 2012	0.5	2.0
12th tranche	March 2013	4.4	March 2013	1.6	6.0
13th tranche	June 2013	1.5	June 2013	0.5	2.0
Total planned disbursements		41.6 *		15.4	57.0
Total programme					110.0

* Original amount to be provided by the euro-area Member States, as agreed in May 2010. The total amount available under the loan facility agreement (LFA) may be lower. This is because Slovakia decided not to participate in the LFA while Ireland and Portugal have stepped down from the facility as these two countries requested financial assistance themselves. This situation of these three countries reduced the facility by EUR 2.7 billion.

Source: Commission services and IMF.

**Table 2. Contributions by the euro-area Member States to disbursements to Greece so far
(EUR million)**

	BE	DE	IE	ES	FR	IT	CY	LU
May 2010	0.0	4,427.9	0.0	1,941.6	3,325.2	2,921.9	32.0	40.8
September 2010	758.8	1,495.9	347.4	656.0	1,123.4	987.2	10.8	13.8
January 2011	238.8	1,864.4	--	817.5	1,400.1	1,230.3	13.5	17.2
March 2011	530.0	611.8	--	1,814.4	3,107.4	2,730.5	29.9	38.2
	MT	NL	AT	PT	SI	SK	FI	Total
May 2010	14.8	932.5	454.0	409.3	0.0	--	0.0	14,500.0
September 2010	5.0	315.0	153.4	138.3	102.9	--	392.2	6,500.0
January 2011	6.2	392.6	191.2	172.3	32.4	--	123.4	6,500.0
March 2011	13.8	871.4	424.3	382.5	71.8	--	274.0	10,900.0

Source: Commission services.

- The maturity of loans granted by the euro area to Greece has been extended.** In order to alleviate the amortisation burden in the post-programme years and align the maturity of loans to Greece with those of Ireland, the euro-area Member States decided, in March 2011, to extend the maturity of bilateral loans to 7½ years, on average. Under the new terms, the maximum grace period of the euro-area loans is extended from 3 years to 4½ years, with the maximum maturity extended from 5 to 10 years. The redemption profile after the grace period remains quarterly. This decision also applies to the tranches already disbursed.
- The margin interest rate was reduced by 100 basis points.** The interest rate for the first three years of each tranche is the 3-month Euribor rate, plus a 200-basis points margin, instead of 300-basis points. From the third anniversary of each tranche, the margin increases by 100-basis points. The

reduced margin will be applied from the first interest payment date after the signature of the amended loan facility agreement. There will be no retroactive application of lower rates on interest already paid by Greece.

Box 1: A debate on the Greek debt restructuring

There is an intense public debate on the need for, and usefulness of, a restructuring of the Greek sovereign debt. The debate is very active among policymakers and media, and in academic circles. The main argument for debt restructuring relates to debt sustainability. The level of the Greek government debt, which is expected to peak just above 160 percent of GDP is considered by some commentators to be unsustainable and an indication that the Greek government would not be solvent. It has been argued that to be solvent, the Greek government debt should be substantially reduced.

Several options of debt restructuring have been mentioned in the debate. An extension of maturities, either coercive or voluntary, which keep the bonds' net present value, would not help to improve sustainability, though would relieve financing needs in specific years. Reducing the debt stock to, say 80 to 100 percent of GDP, would require a very large 'haircut,' irrespective of whether the debt held by the euro-area Member States and the ECB would be exempt of the restructuring, while the IMF loans have privileged creditor status.

Following restructuring, the sovereign debt market access would be impaired for a protracted period. In principle, sovereign debt is easier to roll-over and stabilise at a lower level. However, it is very unlikely that a lower debt level obtained by restructuring would be any easier to refinance, as experience shows that the markets' tolerance for any given debt level is likely to be substantially lower after restructuring. The interest rate at which Greece could access the markets after restructuring is likely to be well above the rate paid by countries with a similar debt ratio. Moreover, adverse impacts on the banking sector and financial transmission would likely weigh on economic growth, which is a key factor of debt sustainability. All this would contribute to the debt ratio to increase again, quickly eroding the initial gains of restructuring, and international assistance loans would still be necessary for a long period.

Greece's financial sector would be badly hit by restructuring. The Greek domestic banks currently hold around EUR 40 billion of Greek government bonds, while the domestic pension funds hold around EUR 27 billion. This exposure leaves the Greek financial sector particularly vulnerable to any reduction in the net present value of their holdings. The latest available data from Greek banks' funding plans suggest that a haircut of 40 percent on Greek government bonds would imply a system-wide capital shortage of between EUR 10 and 16.5 billion, depending on the required capital target. This would essentially wipe out the capital base of the banking system. Also, the solvency shock could be accompanied by a further liquidity shock, because banks would need to find alternative collateral to government securities for participating in Eurosystem refinancing operations, or because depositors would wish to move their savings out of the Greek banking system.

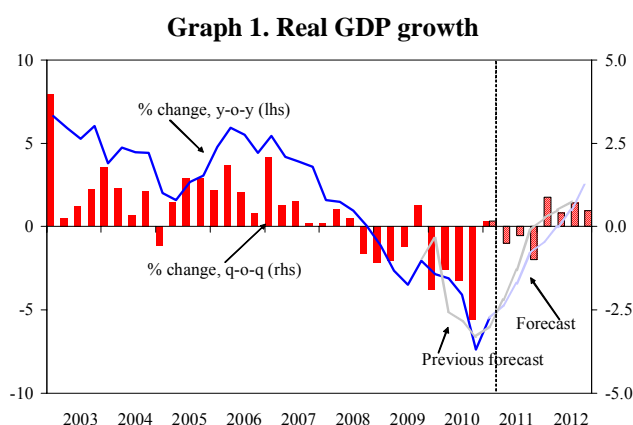
Debt restructuring in Greece would have a severe contagion impact on other EU sovereigns. Greece's restructuring would risk creating a permanent shift in investor sentiment and lead to self-fulfilling prophecies for other vulnerable Member States. Creditors would reduce the level of debt tolerance and demand structurally higher risk premia. Member States with high, but not obviously excessive, debt levels could find themselves facing multiple equilibria and a significant increase in risk perceptions by creditors could tip the balance into illiquidity, even without a change in the underlying fiscal position of the countries concerned.

Fiscal discipline and privatisation receipts will achieve sustainability. Experience from earlier consolidation episodes in EU countries demonstrates that sizable fiscal consolidation and long periods with large primary surpluses are feasible. Between 1990 and 1994, Greece managed to improve its primary balance by 9¼ percentage points of GDP; Denmark achieved a consolidation of 14 percentage points between 1982 and 1986. In the 1990s, several EU countries attained and maintained primary surpluses of at least 4 percent of GDP for several consecutive years. In Belgium, which was for several years the most indebted of all EU governments, primary surplus exceeded 5 percent

of GDP each year between 1997 and 2003. Although challenging, it is therefore not unrealistic to assume that Greece can achieve the fiscal consolidation commitments of the adjustment programme, with the overall deficit declining to 2½ percent of GDP in 2014 and further in 2015, and the primary balance to reach 6 percent of GDP. Moreover, the Greek privatisation plan, which aims at collecting EUR 50 billion over the next five years, will reduce the debt-to-GDP ratio by 20 points.

2. MACROECONOMIC DEVELOPMENTS

6. **The quarter of deepest contraction is likely to be behind us.** After contractions in economic activity of 3 to 4 percent (year-on-year, s. a.) in the second and third quarters of 2010, economic activity is estimated to have declined by 7½ percent in the last quarter of 2010. This is expected to have been the deepest contraction in this economic cycle. The available data for the first quarter of 2011 indicate that the recession remains severe (-5½ percent relative to the same quarter of 2010, s.a.) but the economy is giving signs of stabilising. Official statistics indicate that, on the first quarter 2011, economic activity actually expanded by ¼ of a percentage point relative to the last quarter of 2010. Although improvement is expected for the next quarters, real GDP growth in 2011 is projected to remain negative: -3¾ percent for the year as a whole.



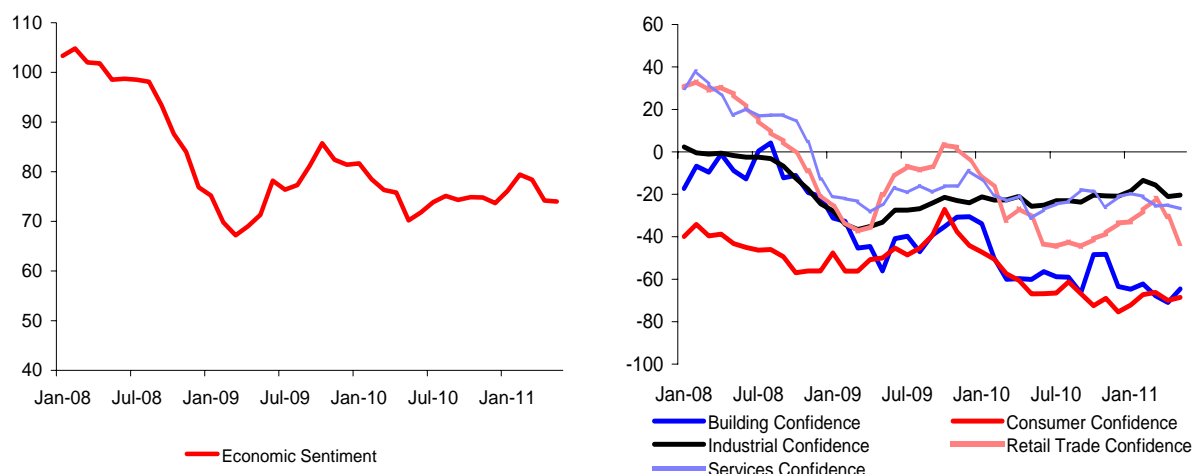
Source: ELSTAT and Commission services.

**Table 3. Macroeconomic projections
(Real GDP growth)**

	2011	2012
European Commission	-3.8	+0.6
OECD	-2.9	+0.6
Consensus Economics	-3.6	+0.2
NBG	-3.5	--
Piraeus Bank	-3 to -4	--
Alpha Bank	> -2.5	--
IOBE		
(Foundation for Economic and Industrial Research)	-3.2	--
KEPE		
(Centre for Planning and Economic Research)	-4.1	--

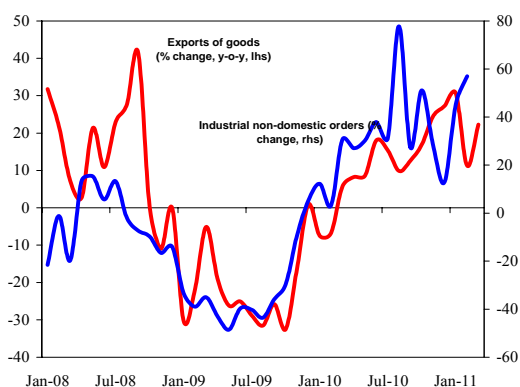
7. **Domestic demand remains depressed.** Private consumption fell by more than 4 percent in 2010, with a particularly strong contraction in the fourth quarter, consistent with a drop in consumer sentiment and a fall in credit to households. This resulted in a sharp deterioration in retail sales continuing through the first months of 2011. The outlook for private consumption remains negative, as unemployment, wage developments and inflation are weighing on households' disposable income. Both private and public investment has also fallen strongly: public investment as the result of fiscal austerity, while private investment suffered as result of depressed business sentiment. Capacity utilisation fell well below its historical average and the supply of credit was restrained.

Graph 2. Business and Consumer Surveys



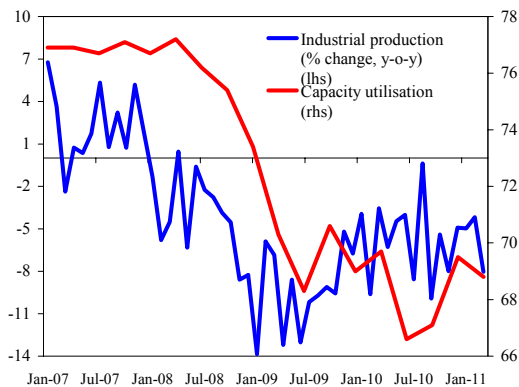
- 8. The external sector is recording promising results.** There is evidence of increasing dynamism in exports and for several consecutive months now, exports of goods have registered two-digit growth rates, although from a low base. This trend is expected to continue in the coming quarters as non-domestic industrial orders remain robust and well above domestic orders. It remains to be seen, however, whether the strength of exports reflects a successful rebalancing of the economy, and of Greek producers looking for new markets, or simply a short-lived boost relative to the low exports recorded in 2009 and first half of 2010. The surplus in service exports is increasing, although the recovery in shipping has so far been below expectations. Based on advanced bookings, the prospects for tourism for the summer are good. The fall in imports has been smaller than anticipated at the outset of the programme. Moreover, the improvements in trade balance and in the current account have been less than the real growth rates for export and imports would suggest, because of a deterioration in the terms of trade and, in particular, the increase in the prices of imported energy.

Graph 3. Exports and non-domestic industrial orders



Sources: EL.STAT and Bank of Greece.

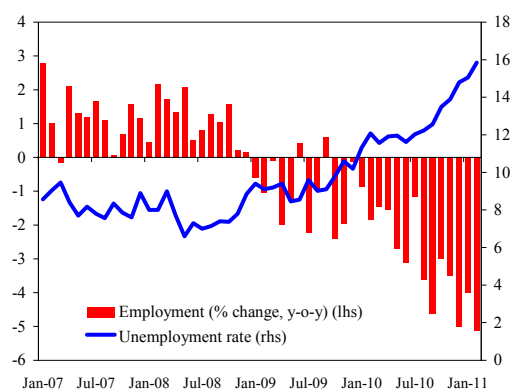
Graph 4. Industrial production and capacity



Sources: EL.STAT and European Commission

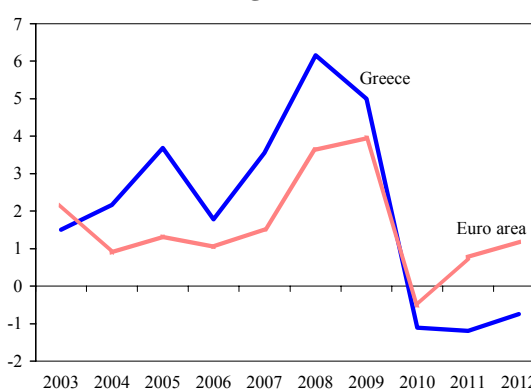
- 9. The adjustment in the labour market continues.** Total employment fell by 2 percent in 2010, and is projected to contract by more than 3 percent in 2011 before stabilising. The unemployment rate reached 11.5 percent in 2010 and will keep increasing to 15 percent in 2012. As a result there is a strong downward pressure on labour costs, in particular non basic-pay, like overtime pay and fringe benefits. Private sector wages contracted by -2.5 percent in the last quarter of 2010 and this developments is expected to continue, though the national collective agreement of July 2010 (for minimum wages, but which used to provide a guiding role for other wages) provides for zero growth rate until mid 2011, and an increase of 1.6 percent in July 2011. Moreover, firms are shifting to more flexible working arrangements, like part-time employment or intermittent jobs, while several collective agreements are not being renewed and the share of individual contracts is increasing.

Graph 5. Employment and unemployment rate



Source : EL.STAT (labour force survey).

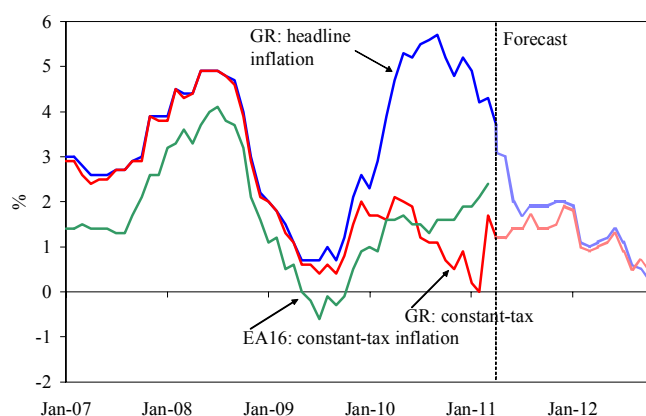
**Graph 6. Nominal unit labour cost
(annual growth rate)**



Source : EL.STAT and Eurostat.

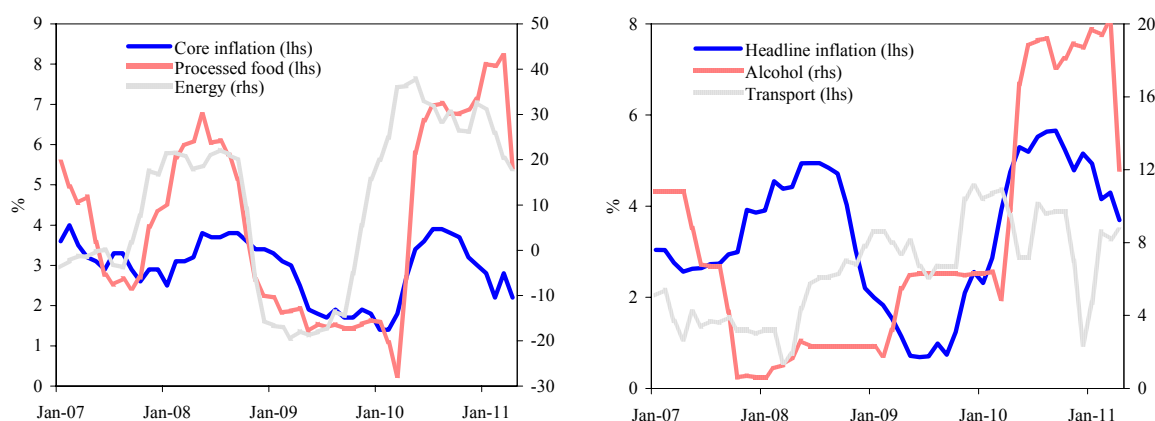
- 10. Inflation is declining.** The latest available statistics indicate that prices (HICP) increased by 3.1 percent (year-on-year) in May, down from 4.9 percent in January 2011. Constant-tax inflation rate was negative in January and February but increased again to above 1 percent in spring. For 2011 as a whole, the overall inflation rate is expected to be slightly below 3 percent. The total impact of indirect taxation increases on annual inflation is projected to be 1.7 points, well below a maximum of 4¾ percent in January. This means that constant-tax HICP, for 2011 as a whole, is projected to be 1¼ percent. Over the next months, further increases in excises and in the VAT rates for some services will temporarily push up inflation. For 2012 and subsequent years, the inflation outlook has been revised upwards compared to previous forecast, mostly due to higher commodity and oil prices. Headline inflation is now expected to remain close to 1 percent in 2012-15. This forecast does not yet fully reflect the impact of the ongoing structural reforms, which will contribute to higher productivity, strengthened competition in product markets and increased price flexibility. Disinflation could, therefore, be stronger than in the central scenario. However, there are also upward risks related to import prices.

Graph 7. HICP inflation developments and projections
(% change, y-o-y)



Source: EL.STAT.

Graph 8. HICP inflation main drivers developments (% change, y-o-y)



Source: EL.STAT.

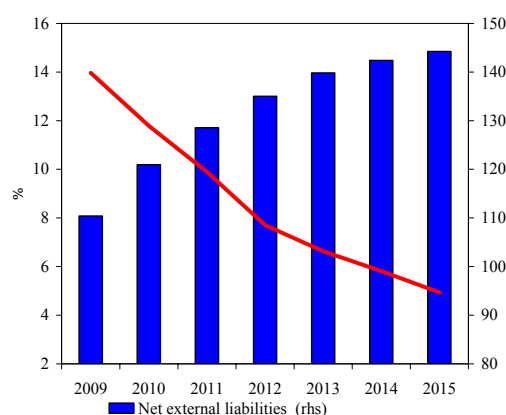
Source: EL.STAT.

11. The external deficit is narrowing, but remains high. The current account deficit is estimated to decline from 11¾ percent of GDP in 2010 to slightly below 10 percent in 2011 and to fall to 7¾ percent of GDP in 2012 and 6½ percent in 2013. The increasing deficit in the balance of primary incomes, which results from a large and still increasing net external debt, offsets part of the improvement in the balance of goods and services. The net external debt-to-GDP ratio is projected to reach 140 percent in 2012 and to stabilise thereafter.

12. The medium-term projections for economic activity remain on the whole unchanged. The dynamics of economic activity in 2012 have remained unchanged. However, weaker economic activity in 2011, on the back of additional fiscal consolidation measures, implies a smaller growth rate (0.6 percent) in 2012. The composition of demand is expected to continue shifting towards net exports and away from internal demand, as improving competitiveness drives up exports, while low wage growth and higher consumer prices will compress disposable income. Risks to the macroeconomic scenario for 2011 and 2012 are balanced. In particular, risks to net exports are on the upside, but less favourable employment could keep income and consumption at low levels.

13. The success of the programme and the orderly adjustment of the Greek economy are crucially dependent on a strong recovery from 2012 onwards. In 2013-15, the current projections, with growth rates of 2 to 2¾ percent are prudent. After three years of contraction in economic activity by more than 10 percent, and given the implementation of structural reforms and privatisation, the economy has the potential to rebound and record higher growth rates.

**Graph 9. Current account and net external liabilities
(percent of GDP)**



Source: EL-STAT and Commission services.

Table 4. Macroeconomic scenario: main features

	2010	2011	2012	2013	2014	2015
Real GDP (growth rate)	-4.5	-3.8	0.6	2.1	2.3	2.7
Domestic demand contribution*	-7.7	-6.6	-2.0	1.0	1.4	1.8
Net trade contribution	2.3	2.7	2.6	1.1	0.9	0.9
Employment (growth rate)	-2.1	-3.2	-0.3	0.9	0.7	0.8
Unemployment rate (percent of labour force)	11.5	14.5	15.0	14.5	14.0	13.6
Unit labour cost (growth rate)	-0.4	-1.8	-0.2	-0.3	-0.5	-0.9
HICP inflation	4.7	2.9	1.0	1.0	1.1	1.1
HICP inflation at constant taxes	1.4	1.3	0.9	1.0	1.1	1.1
Current account balance (percent of GDP)	-11.8	-9.9	-7.7	-6.6	-5.8	-4.9
Net borrowing vis-à-vis RoW (percent of GDP)	-10.1	-8.0	-5.6	-4.4	-3.4	-2.4
Net external liabilities (percent of GDP)	-129.5	-140.5	-144.3	-144.3	-143.1	-140.6

* Excluding change in inventories and net acquisition of valuables

Source : Commission services.

3. FINANCIAL MARKETS AND FINANCIAL SECTOR DEVELOPMENTS

- 14. Investors' views on Greece's sovereign debt remain negative.** Greek bond yields and spreads vis-à-vis German government papers indicate that financial markets consider Greece's medium and long-term debt particularly risky and believe that losses in net present value are likely. The market scepticism is related to doubts about the determination of Greek policymakers, and the ability of the Greek society, to endure the fiscal austerity that would be necessary for several years to durably reduce the debt ratio.

Graph 10. Yield spreads

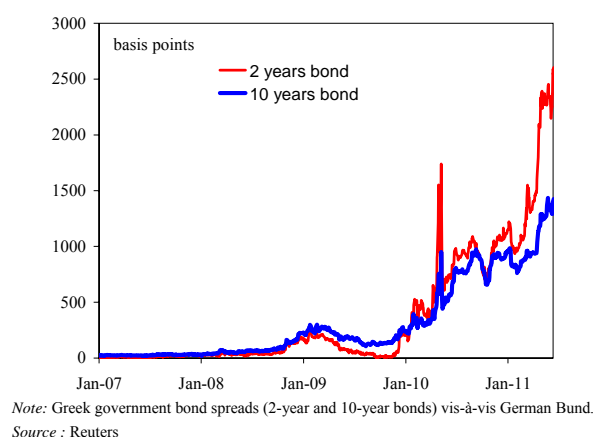


Table 5. Ratings

	Moody's		Fitch		Standard & Poor's	
	Rating	Effective	Rating	Effective	Rating	Effective
Sovereign	Caa1	1-Jun-11	B+	20-May-11	CCC	13-Jun-11
ATE	B3	3-Jun-11	B+	23-May-11	---	---
NBG	B3	3-Jun-11	B+	23-May-11	CCC	15-Jun-11
Eurobank	B3	3-Jun-11	B+	23-May-11	CCC	15-Jun-11
Alpha bank	B3	3-Jun-11	B+	23-May-11	CCC	15-Jun-11
Piraeus	B3	3-Jun-11	B+	23-May-11	CCC	15-Jun-11

Source: Bloomberg

- 15. Greece is unlikely to regain funding market access in 2012.** The economic adjustment programme agreed in May 2010 envisaged that Greece will return to markets for medium- or long-term financing in the course of the first quarter 2012 and roll-over part of its maturing debt. Greece would have to raise EUR 27 billion in 2012. As Greece's access to long-term market financing remains fully restricted, it is now rather unlikely that Greece will manage to raise such amounts in the market as early as next year.
- 16. Owing to successful capital increases in 2010, the average Tier 1 CAR (capital adequacy ration) of the banking system remains at 12.2 percent, although asset quality continued to deteriorate amid a weak economic environment.** Non-performing loans increased to 11 percent in 2010, up from 7¾ percent in 2009. Moreover, the rate of restructured loans in total loans has more than doubled, reaching 3.1 percent at end-2010. The loan-loss coverage ratios stood at 45½ percent as of December 2010. The corresponding increase in provisioning, coupled with trading losses, resulted in a loss for the banking system in 2010.

17. The Greek banking sector balance sheet contracted by 2.5 percent in 2010. Credit growth to the domestic private sector continued to slow in the first quarter of 2011, declining quarter-on-quarter by 1.1 percent for households and 0.6 percent for non-financial corporations. According to the Greek banks, this slow down in credit reflects a decline in credit demand due to the economic recession; an increase in banks' risk aversion, and banks' funding constraints. Nevertheless, with the economies picking up in South and Eastern Europe (SEE), the banks' balance sheets on the group level grew by 1.3 percent in 2010, while the funding gap vis-à-vis SEE subsidiaries decreased.

18. The banking sector liquidity position has tightened further. The rate of decline of deposits has stayed at 2010 levels, with domestic household and corporate deposits together declining by 4.7 percent in the first quarter of 2011, after an overall contraction in deposit of 13 percent in 2010. In the first quarter of 2011, this could be mostly explained by consumption smoothing and lack of working capital at corporate level, however, uneasiness caused by frequent market rumours also encouraged capital flight. Wholesale funding markets remain virtually closed for Greek banks and maturing debt cannot be rolled-over. Due to this, the reliance of Greek banks on Eurosystem peaked in early June 2011, after declining during the first quarter of 2011. Greek banks' ability to borrow from the Eurosystem is challenged by the gradual erosion of their pools of eligible collateral assets, due to credit rating downgrades, declines in asset valuations and the tightening of some Eurosystem collateral rules in January and March 2011. However, the suspension since May 2010 of the application of the minimum credit rating threshold in the collateral eligibility requirements for marketable debt instruments issued or guaranteed by the Greek State has enabled Greek banks to preserve the value of their collateral pools.

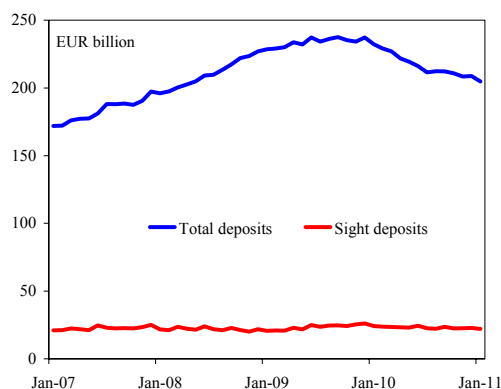
19. ATE Bank announced plans for a share capital increase of EUR 1 260 million. This is taking place through a rights issue and a concurrent redemption of the EUR 675 million of preference shares held by the State. The capital increase, which has been fully subscribed by the State and five underwriters, will take place by end-June 2011. On 23 May 2011, the European Commission, as competition authority, authorised the additional state recapitalisation and the restructuring plan of ATE. The bank's restructuring plan foresees:

- a reduction in balance sheet size by 25¾ percent (from the end-2009 level);
- a cost reduction by 25 percent;
- the sale of non-core subsidiaries and banking participations, and
- the run-off of certain portfolios.

ATE Bank remains committed to the asset quality reinforcement policy, by maintaining a coverage ratio above 50 percent throughout the duration of the restructuring plan.

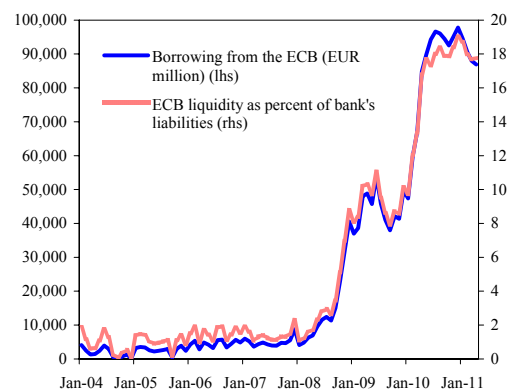
20. Legislation on unbundling HCLF (Hellenic Consignment and Loan Fund) was adopted in early-May 2011. The law stipulates the carve-out of the commercial activities into a separate entity. An implementing decree and additional commitments deemed necessary for compliance with State aid rules will further clarify the future tasks of the remaining activities of the HCLF, ensuring that these will not be in competition with commercial activities. A more detailed schedule for the commercial activities will also be elaborated specifying, inter alia, a detailed timetable for the steps necessary to fully dispose of the commercial activities.

Graph 11. Bank deposits



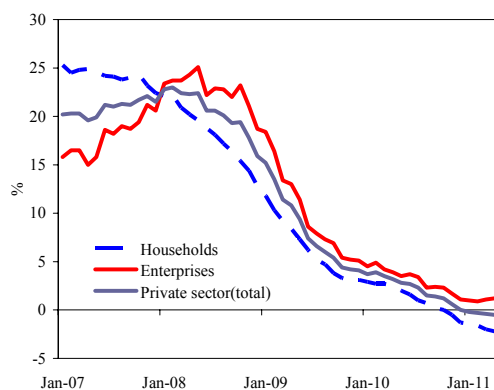
Source: Bank of Greece

Graph 12. Greek banks' borrowing from the Eurosystem



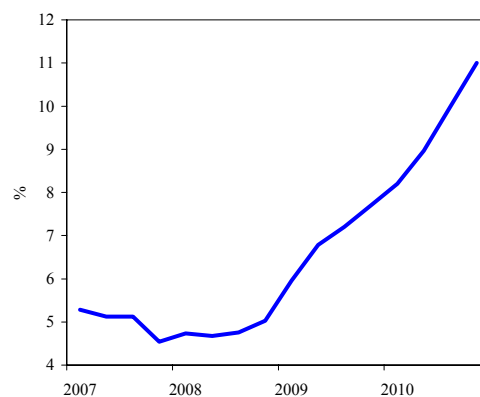
Source: IMF, IFS

Graph 13. Credit to private sector (percent change, y-o-y)



Source: Bank of Greece

Graph 14. Non-performing loans



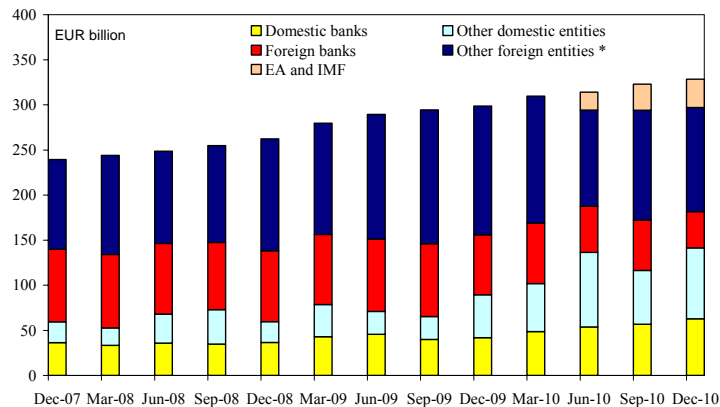
Source: Bank of Greece

Table 6. Banking sector soundness indicators

	basis	2007	2008	2009	2010
<i>Capital adequacy ratio</i>	consolidated	11.2	9.4	11.7	12.2
	<i>solo (1)</i>	12.7	10.7	13.2	13.7
Tier I ratio	consolidated	9.2	7.9	10.7	10.9
	<i>solo</i>	9.3	8.7	12.0	12.2
Return on assets (after tax)	consolidated	1.4	0.7	0.1	-0.3
	<i>solo</i>	1.0	0.2	-0.1	-0.6
Return on equity (after tax)	consolidated	17.8	10.0	2.3	-4.2
	<i>solo</i>	14.6	3.1	-1.7	-8.6
Loan to deposit ratio	consolidated	106.0	114.0	113.8	121.9
Non-performing loans (2)	<i>solo</i>	4.7	5.1	8.1	11.0
Coverage ratio (3)	<i>solo</i>	53.4	48.9	41.5	45.5

Notes: (1) at the level of the individual entity; (2) Non-performing loans as percentage of total gross loans; (3) provisions as percentage of non-performing loans.

Source: Bank of Greece

Graph 15. Holding of Greek government debt

Note: "Other foreign entities" includes ECB.
Source : Commission services.

21. The main challenge is to support banks' efforts to deleverage and restructure in an orderly manner without exacerbating the ongoing economic contraction. The Bank of Greece has committed to deal with potential weaknesses in each individual bank, if and when needed, so as to ensure financial stability in the system. Moreover, the authorities have committed to improving the legislation on financial institutions to allow timely and effective intervention and resolution consistent with EU law and international best practice. The mission stressed that there was a need to address the shortages of appropriately qualified experts in the Bank of Greece financial supervision arm.

22. The Hellenic Financial Stability Fund (HFSF) is available as a capital backstop. While the HFSF Board has been operating since October 2010, staffing has been proceeding more slowly than planned and is now expected to be completed by mid-2011. In the meantime, solutions have been specified to transfer staff from the Bank of Greece, or to outsource some tasks. In terms of funding, an amount of EUR 1.5 billion has been transferred to the HFSF for potential interventions. The remainder of the EUR 10 billion will be made available gradually on a dedicated government account. In the first quarter of 2011, the government transferred EUR 1 billion to this account. To estimate possible future recapitalisation needs, the Bank of Greece continues to assess bank solvency through regular exercises. Meanwhile, the Bank of Greece ensures that appropriate actions are taken to address capital shortages in some smaller banks whose capital base has fallen short of regulatory requirements. As regards the possibility of mergers for banks which are under restructuring, this will be done also in accordance with EU state aid rules and ensure that the bank's viability is not endangered.

23. The Bank of Greece is carefully monitoring liquidity developments in the banking sector. It has asked banks to establish the medium-term funding plans (MTFP) by end-June 2011 to improve the banking sector structural liquidity position and to reduce the reliance on the Eurosystem refinancing. By doing so, the Bank of Greece will ensure that the funding plans are consistent with the adjustment programme's macroeconomic and fiscal framework. Market volatility and further downgrades of the sovereign debt, however, have led to further enhancement of the liquidity cushion in the system. On 4 April 2011, the Commission, as competition authority, authorised an increase of the State guarantee scheme by EUR 30 billion. Banks' access to this additional amount is conditional on their MTFP being on track.

24. The efforts to strengthen the financial sector supervisory and regulatory framework must continue. The supervision of the insurance sector is being enhanced since the Bank of Greece took it

over in December 2010. It is undertaking a diagnostic assessment of insurance companies' solvency, reviewing the adequacy of existing policyholder guarantee schemes and participating in the EIOPA (European Insurance and Occupational Pensions Authority) stress tests.

4. PROGRAMME IMPLEMENTATION AND POLICY DISCUSSIONS

25. There have been significant hurdles in the implementation of the adjustment programme. There has been substantial progress in fiscal consolidation, but resilient tax evasion and weaknesses in expenditure control have continued to weigh on the adjustment. Adoption of legislation on several structural reforms has encountered resistance from specific interest groups. Moreover, there have been deficiencies in the prompt implementation of the legislated reforms given the complexity and scale of reforms which test the limits of the Greek administration. An increase in technical assistance provided to Greece by the European Commission, the IMF and euro-area partners could help overcoming those limits.

26. The government and the Greek society remain committed to the programme. Despite protests by vested interests, and some adjustment fatigue, there is evidence that large parts of the Greek society keep supporting the adjustment programme, including the measures liberalising and modernising the economy, and reduce the role of the state.

Table 7. Summary of compliance with conditionality for end-March 2011

	Overall assessment	Comments
Fiscal policy	Most criteria for January-March 2011 have been observed	The quantitative criteria on primary balance, primary spending and net guarantees granted by central government have been respected. The indicative criterion on non-accumulation of arrears to suppliers has not been respected. Data published by Eurostat in April confirmed that the ceiling for the ESA deficit for 2010 was exceeded by more than previously estimated. Projections indicate that without additional measures the quarterly criteria and the annual deficit ceiling would be missed.
Structural fiscal reforms	Largely observed	Several measures have been adopted in relation to the fight against tax evasion and public finance management, and restructuring of public enterprises. Moreover there has been progress in healthcare reform.
Financial sector policy	Largely observed	Government adopted an additional EUR 30 billion tranche of government guarantees on bank bonds. The legislation to change the status of state-owned bank employees has not been tabled.
Growth-enhancing structural reforms	Partially observed	Several growth-enhancing structural reforms have been adopted, though in some cases with delays compared to commitments. Moreover, some of these reforms contained some deficiencies that will have to be corrected.
Data provision	Largely observed	There has been a further improvement in the quality of available data. However, data on expenditure commitments, payments in arrears and on the accounts of sub-central entities is not yet fully satisfactory.

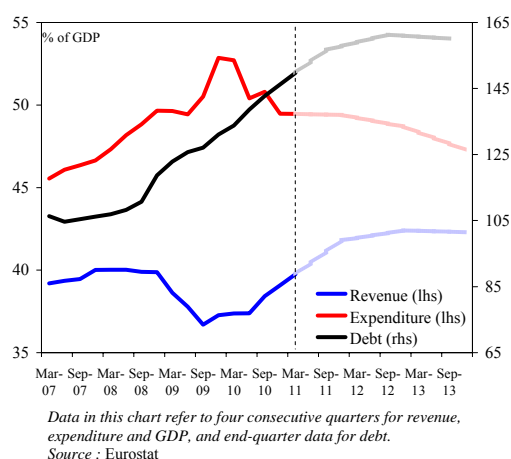
Source: European Commission.

4.1. FISCAL POLICY

4.1.1. Fiscal policy in 2010 and in the first quarter of 2011

27. The ESA-based 2010 general government deficit was 10½ percent of GDP. This was around 1 percentage point of GDP above the estimates of the November 2010 and February 2011 reviews. This was because of a more-severe-than-anticipated revenue shortfall -- including in 2010 taxes which are collected in January and February 2011 --, a worse-than-estimated balance of the social security sector and the accumulation of arrears in the other-than-state sectors.

**Graph 16. Government revenue, expenditure and debt
(% of GDP)**



28. The quantitative performance criteria for the first quarter 2011 have been met. The criterion on state primary spending for end-March 2011 was observed. The outcome was EUR 13 461 million against a ceiling of EUR 15 000 million. It should be noted that, compared to previous quarters, during which the ceiling for state primary spending was defined on a cash basis, data now include the change in the stock of arrears owed by the state. Therefore, an accumulation by the State of payments in arrears no longer improves the respective criterion. In the same period, the modified general government primary balance reached EUR -806 million, against a floor of EUR 2 billion. It was also the first time this criterion takes into account the accumulation of arrears. The central government debt and state guarantees criteria have also been respected.

**Table 8. Quarterly quantitative criteria
(EUR billion)**

	end-March 2011	
	data	criterion
General government* primary balance	0.81	-2.0 (floor)
State primary spending	13.46	15.0 (ceiling)
Central government debt	366.0	394.0
New guarantees granted by central government	0.1	1.0
Accumulation of arrears to suppliers since 1 Jan. 2011 (indicative criterion)	0.26	0.0

* Available general government data: it does not include data on most extra-budgetary funds and public enterprises, while local government and social security data are derived from the Bank of Greece's banking statistics. Data on public enterprises are expected to be included from September 2011 onwards.
Source: Commission services.

29. The indicative criterion on non-accumulation of domestic arrears was missed. Arrears owed by the state at the end of March amounted to EUR 1.1 billion (see Table 9). However if all government entities are considered (in particular social security funds, hospitals local authorities and other legal entities), the stock of arrears exceed EUR 6 billion.

**Table 9. Arrears
(EUR million)**

	31 Dec 2010	31 Jan 2011	28 Feb 2011	31 Mar 2011
Presidency of the Republic	0.00	0.00	0.00	0.00
Hellenic Parliament	0.00	0.00	0.00	0.00
Ministry of Interior, Decentralisation and e-Government	39.68	12.05	13.80	14.41
Ministry of Foreign Affairs	54.21	60.43	60.88	61.11
Ministry of National Defence	223.00	222.20	266.7	261.85
Ministry of Health and Social Solidarity	17.46	0.81	0.76	0.74
Ministry of Justice, Transparency and Civil Rights	5.93	7.90	9.12	12.23
Ministry of Education, Lifelong Learning and Religion	13.11	18.16	29.71	53.74
Ministry of Culture and Tourism	40.75	18.80	19.60	21.49
Ministry of Finance	1.19	2.46	3.29	2.91
Ministry of Agricultural Development and Food	15.58	24.15	8.43	67.08
Ministry of the Environment, Energy and Climate Change	15.52	11.94	19.41	20.21
Ministry of Labour and Social Security	1.20	0.01	0.02	0.23
Min. of Economic Development, Competitiveness and Shipping	47.81	26.72	35.51	34.31
Ministry of Infrastructure, Transport and Networks	257.40	286.78	330.11	407.10
Ministry of Maritime Affairs, Islands and Fisheries	0.00	20.60	22.68	23.28
Ministry of the Protection of the Citizen	51.66	54.60	64.32	56.85
Sec. General of Information / Communication	0.38	0.00	0.00	0.00
Sec. General of Prefectures / Decentralised Administrations	81.30	40.17	87.92	91.42
Total (State)	866.18	807.79	972.29	1128.94
Local government	590.4	486.8	522.5	700.0
Hospitals (*)	1514.2	1549.0	1727.1	1687.1
Social security	1999.6	2038.2	2103.1	2279.3
Other government entities	197.5	183.8	210.9	215.5
Total (General government)	5167.9	5065.5	5535.9	6010.9

All debts 90-days overdue are considered in arrears.

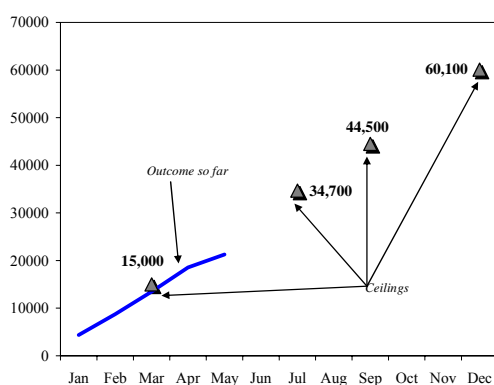
(*) Of which EUR 113 million incurred by end 2009.

Source: General Accounting Office.

30. Efforts against tax evasion should accelerate and start bearing fruit. While reforms in the tax collection services are gaining momentum, the results so far have not been satisfactory. The actions taken by the government mainly concern legislation to improve the efficiency of tax administration and controls, putting in place a project management arrangement and implementing an anti-evasion strategy to restore tax discipline and improve compliance. The relevant law, adopted by Parliament in March 2011, is part of the broader three-year strategy against tax evasion.

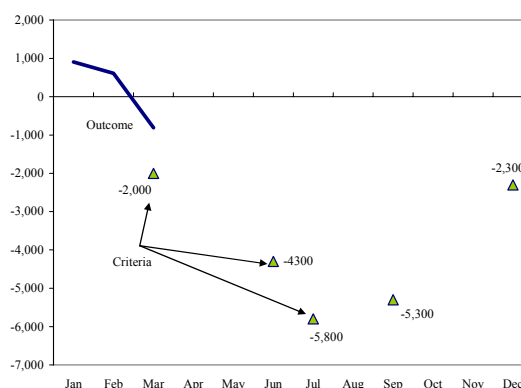
31. Expenditure management and commitment controls still need to be improved. While cash payments have been comfortably below the quarterly ceilings, the accumulation of arrears in and outside the state sectors is not yet fully under the control of the General Accounting Office. This mostly reflects weaknesses in the micro-management of the budget execution, delays in the availability of relevant data by other-than-state entities and a lack of mechanisms to monitor the spending commitments. While the government has started appointing financial accounting officers in every line ministry and public entity, the commitment registries are not fully operational.

**Graph 17. State primary payments - 2011
(cumulative, EUR million)**



Source: GAO and Commission services.

**Graph 18. Government primary balance – 2011
(cash basis, cumulative balance, EUR million)
Projections and quarterly criterion**



Source : GAO and Commission services.

Note: There is a break in the series, since data on state-owned enterprises are expected to enter the quarterly criterion from the third quarter of 2011 on.

Box 2: From cash accounts to ESA95 accounts

As in previous reports, this box provides estimates and forecasts on the difference between available cash figures and the ESA95 data.

Cash and accruals. The government accounts that are monitored with a monthly frequency, and on the basis of which compliance with quarterly performance criteria are assessed, are compiled on a cash basis. Although the data that are monitored with quarterly frequency now include state arrears to suppliers, the basic data are still compiled on a cash basis. The annual ESA accounts are compiled on an accrual basis, i.e. at the time of the underlying transactions.

Scope. The data available with high frequency cover only part of the general government sector. In particular, monthly data for state-owned enterprises that are classified in the government sector and for most extra-budgetary funds are not available, or are not yet of appropriate quality for continuous monitoring. Also the monthly local government and social security monthly data are compiled from banking statistics, which may limit their exhaustiveness. It is expected that data on state-owned enterprises and on extra-budgetary funds will become progressively available on a monthly basis. Thus, the differences in scope between the data series are expected to narrow progressively.

Table 1 shows forecasts for 2011 of the several variables that establish the link between the cash figures that are monitored monthly under the programme and the ESA accounts.

Table 1. From cash to ESA accounts – 2011
(EUR million)

	2011
Modified cash balance	-17,851
<i>% of GDP</i>	<i>-7.8</i>
ESA-cash adjustments	786
<i>% of GDP</i>	<i>0</i>
Taxes	-841
Direct taxes	-228
Indirect taxes	-613
Social security contributions	0
Tax refunds	0
Concessions (OTE, Athens Airport)	-500
Dividends of EETT	40
Accounts payable	242
Public hospitals	490
Military hospitals	0
State budget	416
Local governments	575
Social security funds	-1,239
Repayment of hospital debt	450
Called guarantees	-1,468
Military procurement	586
Interest	440
Single treasury account	200
EU funds	426
Payments by bonds	-420
Privatisation account	0
Lump-sum payment to CG retirees	-240
Re-classification of PEs	700
Extra-budgetary funds (excl. ELEGEP and ETERPS)	0
ELEGEP	-137
AKAGE	960
ETERPS	410
Other	-62
ESA95 balance	-17,065
<i>% of GDP</i>	<i>-7.6</i>
Fiscal gap	0
<i>% of GDP</i>	<i>0.0</i>
GDP	224,951

Source: Commission services.

Table 10. Deficit accounting: from the deficit in one year to the next

	EUR million		% of GDP	
	cumulative measures 2010-2014		cumulative measures 2010-2014	
2009 deficit	36150		15.4	
primary deficit drift in 2010	5777		2.5	
change in interest expenditure	266		0.1	
measures 1/	18000	18000	7.7	7.7
impact on ratio of nominal GDP growth	--		0.3	
2010 deficit	24193		10.5	
primary deficit drift in 2011	8340		3.7	
change in interest expenditure	2646		1.2	
measures 1/	18114	36114	8.1	16.1
impact on ratio of nominal GDP growth	--		0.2	
2011 deficit	17065		7.6	
primary deficit drift in 2012	1574		0.7	
change in interest expenditure	2640		1.2	
measures 1/	6363	42477	2.8	18.6
impact on ratio of nominal GDP growth	--		-0.1	
2012 deficit	14916		6.5	
primary deficit drift in 2013	-1181		-0.5	
change in interest expenditure	1524		0.6	
measures 1/	3860	46337	1.6	19.7
impact on ratio of nominal GDP growth	--		-0.2	
2013 deficit	11399		4.8	
primary deficit drift in 2014	-1055		-0.4	
change in interest expenditure	1762		0.7	
measures 1/	5721	52058	2.4	21.4
impact on ratio of nominal GDP growth	--		-0.2	
2014 deficit	6385		2.6	

1/ including carry-overs.

Deficit in year t equals deficit in year t-1 *plus* primary deficit drift in year t *plus* the increase in interest expenditure *minus* measures (and for the ratios: *plus* impact on ratio of nominal GDP).

4.1.2. Medium-term fiscal strategy (MTFS) 2011-15

32. Fiscal policy in 2011 is challenging. While the government has reaffirmed its commitment to the budgetary target of EUR 17 billion (or 7½ percent of GDP) in 2011, budget execution so far suffers from significant revenue shortfalls, which is only partly compensated by lower spending and delaying payments. Moreover, a number of measures in the 2011 budget have been less effective than planned. As a result, the quarterly performance criterion on the primary balance could be missed already in June. Moreover, without additional measures, while the ESA-based deficit for the year as a whole would be in excess of 10 percent of GDP, virtually the same of 2010.

33. The MTFS through 2015 aims at durably reducing the government deficit. The government has prepared a comprehensive set of durable measures to pursue the fiscal consolidation efforts and ensure the deficit is cut to 2½ percent of GDP in 2014 and further decline in 2015. This package of measures amounts to 10 percent of GDP through 2014, of which almost 3 percent of GDP are implemented in the second half of the current year to ensure the respect of the 2011 ceiling.

Table 11. Medium-term deficit ceilings

	2011	2011	2013	2014
Deficit ceilings (EUR million)	17 065	14 916	11 399	6 385
Indicative as percentage of GDP	7.6	6.5	4.9	2.6

34. The fiscal consolidation measures cover the whole range of government activity. Main areas include:

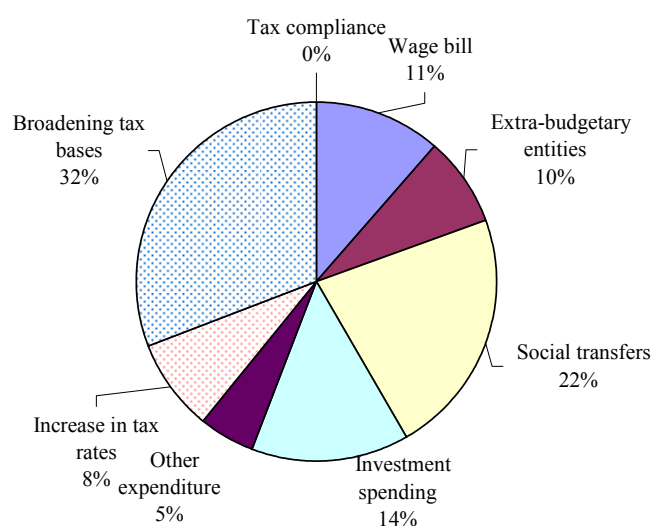
- **Cuts in the public sector wage bill.** The main measures are the implementation of the rule of 1 recruitment for 10 exits in 2011 (therefore stricter than the previously agreed 1-for-5 rule), an increase in the weekly working hours for public sector employees from 37½ to 40 hours and a reduction in overtime payments; the reduction in allowances in the context of a comprehensive wage grid reform; reduction in the number of contractual staff (by 50 percent in 2011 and additional 10 percent in 2012 and onwards); and a temporary freeze of automatic career progression. Moreover excess statutory staff will be transferred to a labour reserve paid on average at 60 percent of the base wage, or laid off. From 2010 to 2015, the total number of government employees is expected to be cut by 20 percent, from 727 thousand to 577 thousand.
- **Cuts in operational expenditure.** This will result from the implementation of e-procurement for all public procurement; rationalisation of energy expenses; reduction in administrative costs associated with National Strategic Reference Framework (ESPA); reduction in rental expenses following more efficient use of public property; reduction in telecommunication expenses; withholding of 7 percent of operational expenditure in the ordinary budget, across the board.
- **Cuts in extra-budgetary funds' expenses, the closure of entities and cuts in transfers to other entities.** The mandate, viability and expenses of all entities subsidized by the public sector will be re-assessed, and the government committed to continue the programme of closure; merger and downsizing of entities. Since the beginning of the adjustment programme, the government closed some 77 of these entities, and is expected to close a further 40 small entities, merge 25 more small entities, and to close, merge or downsize an additional 10 large entities with total current employment of 7 000 (including asset management companies; construction companies; and the public broadcasting company). Moreover, there will be a reduction in grants to entities outside general government by 40 percent.

- **Savings in state-owned enterprises following their restructuring.** This covers a reduction in personnel expenses; reduction in operational expenses and mergers and closure of enterprises, apart from the privatisation of some of them.
- **Cuts in operational defence-related expenditure** on top of the previously planned reduction in military equipment procurement.
- **Cuts in healthcare and pharmaceutical expenditure** through the streamlining of the hospital network (new ‘health map’) and associated reduction in hospitals expenses; a re-evaluation of the mandate and expenses of non-hospital supervised entities; the implementation of central procurement; reduction of average cost per case through case mixing; reduction in the services provided to the non-insured; introduction of charges for services provided to foreign citizens; new prices of medicines, the full implementation of e-prescription, among other measures.
- **Cuts in social benefits** through adjustment in supplementary pension schemes and subsequent freeze through 2015; a freeze in the base pensions; the reform of the disability pension system; a census of pensioners and cross-checking of personal data with full implementation of social security number and caps on pensions; cuts in the lump-sums paid on retirement; the review of social benefits in cash and in kind leading to the abolition of the least effective; an increase in the special contribution for pensioners whose monthly pension exceeds EUR 1 700; and an increase in the special contribution paid by pensioners below 60-years old, among other measures.
- **Permanent and temporary cuts in public investment.**
- **Cuts in other expenditure** through cuts in expenses by local government financed by state grants; reduction in subsidies to residents of remote areas.
- **Increases in local government revenue** through an increase in revenues from tolls, fees, rights and other revenue streams following the merging of local administrations; and an increase in local tax compliance.
- **Increases in tax rates and broadening of tax bases:** an increase in VAT rate on restaurants and bars from 13 to 23 percent from September 2011 on; increase in property taxes which have been much below the EU average, including a special levy on high-value real estate and increased fines on unauthorised buildings and settlement of planning infringements; reduction in tax exemptions/expenditures; changes in tax regime for tobacco products; excise on soft drinks, natural gas and liquefied gas; an increase in the vehicles tax; an emergency contributions on vehicle, motorbikes and pools; an increase in taxes on boats and yachts, and levies on credit cards and cheques.
- **Increases in social contributions** through the full implementation of a single unified payroll and insurance contribution payment method; an increase in contribution rates for farmers; the establishment of solidarity contribution for civil servants; the adjustment of unemployment contribution for private sector employees; the introduction of unemployment contribution for self-employed; and a contribution for unemployed paid the employees of the public sector, including state-owned enterprises, local government and other public entities.
- **Improvements in tax compliance are also expected to increase revenue.** Although the government has started to implement an action plan against tax evasion, no improvement in tax compliance has been considered in the projections through 2012 to reduce budgeting risks.

Table 12. Fiscal measures in MTF5

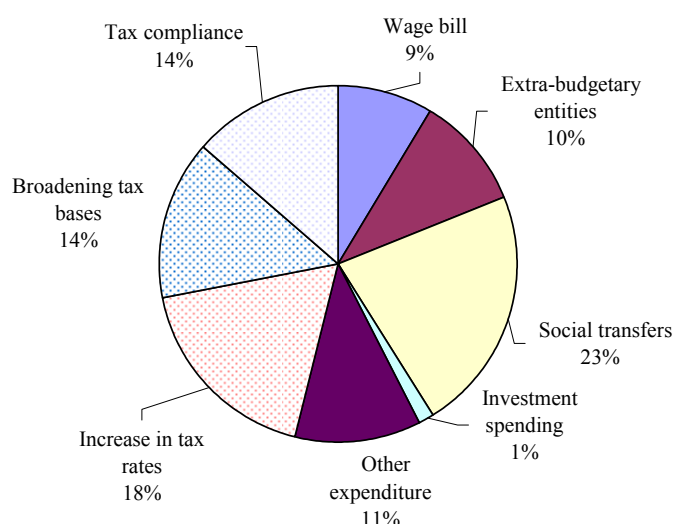
(cumulative impacts, % of GDP)	2011	2012	2013	2014
Total measures	3.0	6.1	8.1	10.5
Wage bill	0.3	0.6	0.8	0.9
Operational expenses	0.1	0.1	0.2	0.3
Extra-budgetary funds	0.2	0.3	0.4	0.5
State-owned enterprises	0.0	0.2	0.3	0.4
Defence expenditure	0.0	0.0	0.1	0.1
Health care	0.0	0.1	0.2	0.3
Pharmaceutical spending	0.1	0.3	0.4	0.5
Social benefits	0.5	1.1	1.5	1.9
Investment spending	0.4	0.2	0.2	0.2
Other expenditure	0.1	0.2	0.3	0.4
Tax compliance	0.0	0.0	0.7	1.4
Tax policy	1.2	2.9	3.1	3.6

Source: Commission services.

Graph 19. Fiscal measures in the medium-term fiscal strategy for 2011

Source: Commission services

Graph 20. Fiscal measures in the medium-term fiscal strategy through 2014



Source: Commission services

Table 13. Staffing plans

	Ordinary staff			Temporary staff	Total personnel	Elected officials (local governments)	Total staff
	Retirements	Recruitments	Total				
2010	53.210	4.062	647.894	58.260	706.154	21.286	727.440
2011	20.000	5.000	632.894	29.130	662.024	11.836	673.860
2012	26.600	4.000	610.294	26.217	636.511	11.836	648.347
2013	26.600	5.320	589.014	23.595	612.609	11.836	624.445
2014	26.600	5.320	567.734	21.236	588.970	11.836	600.806
2015	26.600	5.320	546.454	19.112	565.566	11.836	577.402
Total reduction 2010-2015			-101.440	-39.148	-140.588	-9.450	-150.038

Source: Greek Ministry of Finance

Box 3: Debt sustainability assessment

Sustainability, solvency and access to markets. The concepts of sustainability, solvency and ability to access, or return to, markets are often used interchangeably as if they were synonymous. Sustainability may be defined as the capacity of a government (or more generally of any entity) to continue current policies. In that sense, sustainability assessments consist fundamentally of extending a baseline scenario into the future to verify whether the debt stabilises, decreases or increases exponentially. Such a concept, however, is not the one that matters: what is relevant is to assess whether a government is able to effectively implement expenditure and revenue policies, and privatisation, which ensure the government debt enters a steadily declining path, under the projected growth and interest rates. If a government is able to implement the policies that reduce the debt-to-GDP ratio, then the government is solvent. Thus solvency depends on the political and social conditions which allow or not the implementation of the required policies.

Solvency does not necessary guarantee access to markets. If a government enters into a process of fiscal adjustment which improves its primary surplus and lead to a durable reduction in the debt ratio, it returns to a sustainable path and guarantees solvency. However, markets may take long before acknowledging such a process as credible. Therefore, a government that is solvent may not necessarily have access to markets. It is fundamental to help bridging the gap between the moment a country enters an adjustment process and the moment the markets recognise the change that international assistance loans like those provided by the euro-area Member States and IMF to Greece are necessary.

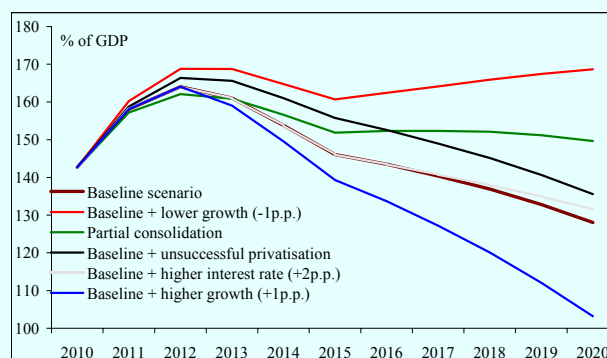
To ensure solvency and sustainability, Greece needs to adhere to its fiscal consolidation commitments. Debt projections based on the programme's fiscal targets and macro projections and assuming extended official financing until mid-2014, show that Greece's government debt will peak around 160 percent of GDP in 2012 and start declining gradually thereafter. Achieving primary surpluses rapidly is an absolute prerequisite for this development. Graph 1 shows the evolution of government debt if the primary surplus increased to 6 ½ percent of GDP until 2015 and was kept at that level (see Table 1 for the underlying macro assumptions). Past experiences of European countries such as Belgium suggest that this adjustment path, although ambitious, is feasible and politically and socially bearable.

Privatisation proceeds are also essential in bringing the debt ratio down significantly. The government's renewed commitment to implement its privatisation plan rigorously is incorporated in the baseline debt reduction scenario. According to the agreed frontloading, the government collects EUR 5 billion already in 2011, EUR 10 billion in 2012, EUR 7 billion in 2013, EUR 13 billion in 2014, and EUR 15 billion in 2015. These amounts are included in the debt projection's stock-flow adjustment and therefore contribute directly to debt reduction. This impact is also clearly visible in the steep downward debt trajectory over the period 2013-15 in Graph 1.

**Table 1. Debt sustainability assessment
(baseline scenario)**

Baseline scenario	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Gross debt ratio	142.7	156.7	161.3	160.1	153.0	145.3	142.6	139.5	136.0	131.9	127.1
<i>Changes in the ratio</i>	<i>15.6</i>	<i>14.0</i>	<i>4.5</i>	<i>-1.2</i>	<i>-7.0</i>	<i>-7.8</i>	<i>-2.6</i>	<i>-3.1</i>	<i>-3.5</i>	<i>-4.1</i>	<i>-4.8</i>
(1) Primary deficit	5.0	0.8	-1.3	-3.4	-6.1	-6.4	-6.4	-6.4	-6.4	-6.4	-6.4
(2) Snowball effect	8.0	9.7	5.6	3.6	3.5	4.2	3.8	3.3	2.9	2.3	1.6
<i>Interest expenditure</i>	<i>5.5</i>	<i>6.8</i>	<i>7.8</i>	<i>8.3</i>	<i>8.7</i>	<i>9.6</i>	<i>9.4</i>	<i>9.2</i>	<i>8.9</i>	<i>8.5</i>	<i>7.8</i>
<i>Growth effect</i>	<i>5.8</i>	<i>5.5</i>	<i>-0.9</i>	<i>-3.2</i>	<i>-3.5</i>	<i>-4.0</i>	<i>-4.1</i>	<i>-4.2</i>	<i>-4.1</i>	<i>-4.0</i>	<i>-3.8</i>
<i>Inflation effect</i>	<i>-3.3</i>	<i>-2.6</i>	<i>-1.4</i>	<i>-1.4</i>	<i>-1.6</i>	<i>-1.3</i>	<i>-1.6</i>	<i>-1.8</i>	<i>-1.9</i>	<i>-2.2</i>	<i>-2.3</i>
(3) Stock flow adjustment	2.6	3.5	0.2	-1.4	-4.5	-5.6	0.0	0.0	0.0	0.0	0.0
Key macroeconomic assumptions											
GDP growth (real)	-4.5	-3.8	0.6	2.1	2.3	2.7	2.9	3.0	3.0	3.0	3.0
Interest rate (real)	1.4	3.1	4.4	4.3	4.6	5.5	5.6	5.4	5.2	4.7	4.3
Inflation (GDP deflator)	2.6	1.5	0.7	1.0	1.0	0.9	1.1	1.3	1.4	1.7	1.8
Per memo											
GDP growth (nominal)	-1.9	-2.3	1.3	3.0	3.3	3.6	4.0	4.3	4.4	4.7	4.8
Overall deficit	10.5	7.6	6.5	4.9	2.6	3.2	3.0	2.8	2.5	2.1	1.4

**Graph 1. Debt sustainability assessment
(baseline and alternative scenarios)**



Sensitivity scenarios demonstrate the wide spectrum of possible outcomes. Debt dynamics are subject to a wide margin depending on policy choices and external factors. If only half of the yearly planned privatisation proceeds materialised, debt would peak in 2012/2013 at a higher level as compared to baseline. A scenario of partial consolidation assumes that the primary surplus is kept constant at 3 ½ percent, the level of 2013, resulting in a nearly stalled debt ratio after the end of the privatisation process. The debt trajectory is very sensitive to a change in the real GDP growth assumption, and thus to the successful implementation of growth-enhancing structural reforms. Higher growth would strongly accelerate debt reduction while lower growth would put the debt trajectory on a clearly unsustainable upward path. Finally, the sensitivity to the interest rate on new market debt is less pronounced.

The credibility of the consolidation process will facilitate access to markets. A number of elements will contribute to the credibility of the consolidation process. This includes sticking to the fiscal targets previously agreed for 2011; specifying and legislating in advance the measures that will contribute to the reduction in deficit over the period 2011-15; timely specification and execution of the privatisation plans; adoption of the second phase of the pension reform in the coming months; and adopting the growth-enhancing structural reforms which will facilitate the return of the Greek economy to potential growth by improving supply-side conditions of the economy and increasing internal competition and external competitiveness.

4.2. STRUCTURAL FISCAL REFORMS

4.2.1. Asset management and privatisation

35. The privatisation plan is a crucial instrument to support growth and fiscal sustainability. The plan of privatising EUR 50 billion of assets has the potential of cutting the debt ratio by more than 20 percentage points of GDP over the next five years and boost economic efficiency. The government's commitment to this process is now more credible and has the potential of substantially improving the market sentiment vis-à-vis Greece. The privatisation plan covers intermediate steps to be taken before shareholdings can be sold (unbundling, extension of concessions), as well as steps to be taken for the development of real estate. Assets to be sold have been identified with the aim of collecting at least EUR 5 billion by end-2011, and at least EUR 15 billion by end-2012. By end-2013, total privatisation proceeds may be in excess of EUR 20 billion.

36. The government is setting up a fund to accelerate privatisation. Experience shows that large privatisation plans are more effective when a single entity is in the lead of the whole process and takes full ownership of the assets to be privatised. The set-up where each ministry and a myriad of smaller entities manage and control government assets is less effective in extracting value from assets. The

government is establishing a privatisation fund with a credible governance structure. It will comprise an independent and depoliticised board of directors and an advisory board to allow it to benefit from international experience and technical expertise. In order to enhance transparency, the board may include two observers nominated by the Commission and the Eurogroup. Moreover, to strengthen the whole process, the mission agreed with the government establishing cumulative quarterly targets for privatisation proceeds.

Table 14: Privatisation plan

Date	Name	Participation to be sold	Type of Sale
2011	Q2 OTE	10.0%	share sale
	Q3 Thessaloniki Water (EYATH)	at least 40%	share sale of SPV
	Q3 Athens Intl Airport	100.0%	Concession
	Q3 OPAP	100.0%	Concession
	Q3 Thessaloniki Port	23.3%	share sale of SPV
	Q3 State Lotteries	100.0%	share sale of SPV
	Q4 Piraeus Port	23.1%	share sale of SPV
	Q4 Hellenic Defense Systems (EAS)	99.8%	share/asset sale
	Q4 Hellenic Postbank	34.0%	share sale
	Q4 Public Gas Company (DEPA)	55.0%	share sale
	Q4 Public Gas Company (DESFA)	31.0%	share sale
	Q4 Railway Operator (TRAINOSE)	100.0%	share sale
	Q4 Larco	55.2%	share sale
	Q4 Alpha bank	0.6%	share sale
	Q4 National Bank of Greece (NBG)	1.2%	share sale
	Q4 Hellenic Horse Racing (ODIE)	100.0%	share sale
	Q4 Mobile Telephony Licenses	100.0%	sale of rights
	Q4 Casino Mont Parnes	49.0%	share sale
	Q4 Hellenic Vehicle Industry (ELBO)	72.6%	share sale
	Q4 OPAP	34.0%	share sale
	Q4 Hellenikon 1	--	share sale of SPV
	Q4 Four Airbus Aircraft	100.0%	Sale
	Q4 Real Estate Assets 1 (incl. office space)	--	share sale of SPV
2012	Q1 Athens Intl Airport (AIA)	at least 21%	share sale of SPV
	Q1 Hellenic Petroleum (ELP)	35.5%	share sale
	Q1 Piraeus Bank	1.3%	share sale
	Q1 Hellenic Agricultural Bank (ATE)	at least 38.6% *	share sale
	Q1 Egnatia Odos Rd	100.0%	share sale of SPV
	Q1 Hellenic Post (ELTA)	at least 40%	share sale
	Q1 Ports 1	100.0%	share sale of SPV
	Q2 Athens Water (EYDAP)	27.3%	share sale of SPV
	Q2 Loan and Consignment Fund	100.0%	share sale of SPV
	Q2 Real Estate Assets 2	--	share sale of SPV
	Q3 Public Power Corporation	17.0%	share/asset sale
	Q3 Hellenic Motorways 1	100.0%	share sale of SPV
	Q3 Regional airports 1	100.0%	share sale of SPV
	Q4 Hellenikon 2	--	share sale of SPV
	Q4 Real Estate Assets 3	--	share sale of SPV
	Q4 Digital dividend 1	100.0%	sale of rights
	Q4 Thessaloniki Water (EYATH)	<i>tbd</i>	share sale of SPV
	Q4 Hellenic Goldmines 1	100.0%	share sale of SPV
2013	Q1 Offshore Gas Storage Fac.	100.0%	share sale of SPV
	Q2 Regional airports 2	100.0%	share sale of SPV
	Q2 Ports 2	100.0%	share sale of SPV
	Q3 Real Estate Assets 4	--	share sale of SPV
	Q3 Hellenic Goldmines 2	100.0%	share sale of SPV
	Q4 Digital dividend 2	100.0%	sale of rights
	Q4 Athens Water (EYDAP)	<i>tbd</i>	share sale of SPV
	Q4 Hellenic Motorways 2	100.0%	share sale of SPV
2014	Real Estate/Land	--	share sale of SPV
	Hellenic Motorways 3	100.0%	share sale of SPV
2015	Real Estate/Land	--	share sale of SPV
	Hellenic Motorways 4	100.0%	share sale of SPV

* On the basis of ATE sharecapital after the ongoing capital increase.

Table 15: Planned privatisation receipts

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

Box 4: Privatisation and sustainability**Privatisation improves sustainability through various channels.**

- First, privatisation receipts reduce debt issuance, as they partially or fully cover deficits, and contribute to redeem maturing debt. As a result, interest expenditure falls in a durable manner.
- Second, the privatisation of loss-making state-owned companies reduces subsidies, other transfers or state guarantees, and, therefore, reduces annual deficits and/or contingent liabilities. While in some cases privatisation may reduce property income (e.g. dividends), the overall effect is most often favourable. Moreover, in financially distressed economies, it is highly unlikely these potential losses exceed savings in interest expenditure.
- A third channel, which has been identified as relevant in countries that have embarked in large privatisation programmes, concerns an increase in efficiency of the companies and by extension in the competitiveness of the economy as whole. This is particularly valid where privatisation programmes contribute to attracting foreign direct investment.

The contribution of privatisation receipts to reduce debt may be enhanced through buybacks. Instead of using privatisation proceeds to redeem maturing debt, another option consists in redeeming in advance bonds that trade at discount. This has a number of advantages:

- Although buybacks would lead to an increase in market price – an effect that is by itself positive –, a discount would persist. In a scenario according to which debt is bought back at 60 percent of nominal value, for each EUR 1 of privatisation proceeds, debt declines EUR 1.6.

- Another advantage relates to the private sector involvement. Although buybacks would lead to an increase in market price, a deep discount would remain. Therefore, buy-backs would lead the private sector to record effective losses in a fully voluntary manner, as they accept to sell their bonds at a price below par. In contrast, if bonds are redeemed at maturity (or rolled over without a loss in present value), private investors will be reimbursed at par.

- A third advantage is linked to the return to markets. Greece is expected to roll-over EUR 15 billion in the second half of 2014 and EUR 20 billion in 2015. Buying back debt that matures in these years reduces substantially the debt that needs to be rolled over in the immediate post-programme years and will, therefore, ease return to funding markets.

However, using part of the privatisation receipts to finance debt buy-backs operation increases the needs of official financing. Moreover, any such operation would have to be organised in a manner that is not considered distressed exchange and creates a rating event.

4.2.2. Healthcare

37. The mission has welcomed the new law on structural changes to the health system. The law merges the largest four health insurance schemes into one national organisation for the provision of health services (EOPYY). Other schemes may also join. This is an important step towards pooling funding and health risks, more uniform contributions and services package, and increasing equity of financing and access to care. The new law also changes the rules on centralised procurement of medical goods and services, integrates IKA's hospital units into the National Health System (ESY) and indirectly reduces profit margins for pharmacies and wholesalers through a progressive rebate system from pharmacies. These measures can improve the system's governance resulting in savings of administrative and operational costs, increasing the government's bargaining power vis-à-vis healthcare suppliers and achieving higher quality of care for patients. The effective implementation of the law and other proposed measures in the coming months is crucial to reduce unnecessary expenditure, waste and fraud.

38. There has been progress in data collection and supply management. Important steps forward have been made regarding the collection of monthly data on NHS expenditure and activity and, to a lesser extent, data on health services expenditure by social security funds. Crucial steps have been taken to create a common coding system for all medical supplies. Seven central tenders have been launched to buy medical supplies for NHS facilities generating considerable savings.

39. However, there have been delays in policy implementation. Progress has been slower than planned in the use of e-prescription: the current pilot system by OAEE (the self-employees' scheme) is being only slowly extended to other schemes and the tender procedure for a comprehensive e-prescription system is yet to be launched. The publication of the price list and positive list of medicines has been postponed. Several hospitals still lack modern ICT systems while a tender for a fully integrated e-health system in all hospitals is still waiting to be launched. Preliminary data show that savings from the pharmacies' rebates is below target. The use of generics in NHS hospitals stands at 12½ percent, well below the 50 percent target, and this objective has encountered resistance among doctors. Prescription guidelines have been prepared, but not yet adopted. Work is still ongoing to define the uniform benefit package and common rules for contracting with providers under EOPYY. While the mission acknowledged that some delays are of a technical nature requiring additional time for the proper launching and implementation of procedures, strong opposition from vested interests can only be overcome with political decisiveness and coordinated efforts of several ministries.

40. Efforts should continue as there is still room for improvement, for example in terms of monitoring of activity and consumption of medical services, costing of medical goods and services and redesigning contracting schemes between social security and providers of care. In addition, the

effective application of centralised procurement for medical goods and services, including pharmaceuticals, and effective and timely charging of both residents and non-residents (e.g. tourists) is important to generate further savings and revenues to the system.

Box 5: Findings of the Taskforce of Independent Healthcare Experts

The taskforce of independent healthcare experts delivered its interim report in March 2011. The task force was created at the end of 2010. Its report reviews policies implemented so far and identifies areas for improvement. The reforms reviewed in the interim report relate to the National Organisation for the Provision of Health Services (EOPYY), National Health Service (ESY) hospitals and pharmaceuticals.

EOPYY consolidates the health branches of the four biggest funds – IKA, OAEE, OGA and OPAD* – covering 85 percent of population. It is due to start its operations in autumn 2011. This is an important step towards pooling funding and risks across a large population. Once it is established, the system of contributions rates will be simplified and made uniform, as will the package of benefits, therefore increasing equity in the access to health services.

Purchasing and payroll costs of hospitals decreased. The fall in purchasing costs by 11 percent in 2010 was mostly due to decreasing expenditure on supplies and pharmaceuticals, despite differences across hospitals and increasing expenditure on outsourced services. A further decrease of 8 percent is expected for 2011. Payroll costs also decreased.

In the following areas, scope for improvement was identified:

- **Convergence and effective collection of social contributions.** Contribution rates to EOPYY will not be the same for all groups, while the package of benefits is the same. Timely collection and reduction in contribution evasion is indispensable. A census of the total beneficiaries of care is needed.
- **Reduction of staff and ensuring their qualifications.** EOPYY administrative and managerial workforce will make up 10 percent of such staff from the originating social security funds which is a significant reduction. It will be crucial to ensure the right qualifications.
- **Reduction in healthcare staff contracted by EOPYY and the social security funds.** All physicians with a current contract with one of the four funds merging into EOPYY will be contracted under that previous contract. The number of physicians is excessive although a detailed list of all physicians contracted by the several funds is lacking. Contracts vary across funds. With the creation of EOPYY, consideration should be given to the genuine needs for medical staff in relation to the number of patients and their health needs, as is common practice in many EU countries. The number of doctors by specialty and the contract terms will need to be revised.
- **Purchasing of health services and monitoring of their consumption.** Common rules for the purchase of health services by EOPYY need to be finalised, with room to update treatment fees paid to private providers. On the NHS side, a mechanism to automatically record types of visits by specialty and for reason of attendance should be in place together with the new costing procedure. Strengthening monitoring and control through e-prescription and a better assessment of data should become a priority to generate significant savings in pharmaceutical and diagnostic expenditure, as the use of the e-prescription systems of OAEE (for medicines) and OPAD (for diagnostics) attest.
- **More accurate computation of hospital costs.** Unlike in the past, payroll costs for healthcare services should be included in the health budget in order to better reflect the full cost of service provision and to better adjust staff numbers to health needs. Moreover, payments by EOPYY and other social security funds to NHS providers should reflect the full costs of provision. The government has developed diagnostic-related groups (DRGs) as a new costing system.

- **Finalise hospital computerisation and data collection.** There has been a significant improvement generating financial and activity data. The government now gathers and monitors financial and operational data from hospitals and health centres on a monthly basis. However, some hospitals still lack modern ICT systems. Full computerisation of hospitals is a priority and more use could be made of the operational programmes co-funded by the EU structural funds.
- **Develop a plan for hospital reorganisation and evaluate hospital management and activity.** The government is due to present a plan for a large hospital reorganisation and joint management across and within hospitals in July 2011. Staff numbers should adjust to the new hospital network and the on-call system should be re-examined.
- **Pricing and prescription of medicines.** About 100 non-binding prescription guidelines are due to be published but binding prescription guidelines are also necessary. As with the negative list of non-reimbursed medicines, a positive list for reimbursed drugs and the associated reference price system must be implemented to generate additional savings. The new price list based on international prices should be released.
- **Ensure the collection of rebates from pharmacies and pharmaceutical companies.** The exclusion of the very expensive drugs from the rebates should be re-examined. The profit margin for pharmacies should be changed into a regressive or flat margin or mixed system to encourage the sales of generics. Only a small amount of past rebates has been collected from pharmaceutical companies. The recent law sets the rebate at 4 percent on the wholesale price, although it could be considered to go back to 3 percent of the retail price.

* These are, respectively the schemes for the private sector, self-employed, farmers and civil servants.

4.2.3. Pension reform

41. After the first phase of the pension reform in the summer 2010, a second phase is now being prepared. The 2010 reform simplified the highly fragmented pension system; enhanced transparency and fairness, postponed the retirement age and decreased the generosity of benefits. The new universally binding rules on entitlements, contributions, accumulation rules and indexation of pension rights apply to the main pension funds (IKA, OGA, OAEE, OPAD, and the Bank of Greece's scheme). The pension reform is applied *pro rata* to all current and future workers since the beginning of 2011. The new legislation includes a sustainability clause which stipulates that, if long-term projections to be run every 2 years by the National Actuarial Authority (NAA) show the rise in public pension expenditure between 2009 and 2060 to exceed 2.5 percentage points of GDP, then the pension system parameters will be changed to bring the increase of expenditure below the targeted threshold.

42. Long-term expenditure projections for the main funds are now available. These projections were prepared by the NAA. A comprehensive peer review covering all pension schemes is scheduled to take place in autumn 2011, in view of the Commission's 2012 Ageing Report. For this purpose, the NAA will provide revised pension projections covering all public pension schemes, based on new demographic projections (Europop 2010) by Eurostat and long-term macroeconomic assumptions agreed by the Ageing Working Group of the EU Economic Policy Committee.

43. Early retirement modalities and supplementary fund reforms will have to be specified. By July 2011, the government is expected to adopt a new, more restrictive, list of hazardous professions that allow early retirement. The objective is to reduce the percentage to 10 percent of employment in line with EU best practice. Moreover, in autumn 2011, the government is expected to table a draft legislative proposal to reform the auxiliary/supplementary funds which should come into force by January 2012.

Box 6. Budgetary effects of the pension reform

The pension reform has a large impact on long-term expenditure. Table 1 shows the impact of the parametric reform on pension expenditure as a share of GDP for the four major funds that were modelled by the NAA so far.* Without the reforms, pension expenditure by those funds was projected to increase by 4.4 percentage points of GDP between 2009 and 2060. Taking into account the reform of 2010, expenditure by those funds is projected to fall by 0.2 points of GDP over the same time period. A large proportion of the budgetary impact of the reform (but also of short-term containment measures, like the pension cuts decided last year) occurs already in the beginning of the projection period. The difference between the expenditure-to-GDP ratios of the post- and pre-reform projections by 2020 is of 2.4 percentage points, already in 2020.

**Table 1: Impact of the reform on pension expenditure
(percent of GDP)**

	Before reform						Increase between 2009-2060
	2009	2020	2030	2040	2050	2060	
IKA	3.6	4.0	4.8	6.2	7.0	7.2	3.5
OGA	1.9	1.5	1.0	0.8	0.6	0.5	-1.4
OAEE	1.1	1.6	2.1	2.5	2.7	2.7	1.6
Public sector	2.6	3.3	3.1	3.2	3.2	3.3	0.7
OGA uninsured	0.1	0.1	0.1	0.2	0.2	0.1	0.0
Total	9.4	10.6	11.2	12.8	13.6	13.8	4.4
	After reform						
	2009	2020	2030	2040	2050	2060	
IKA	3.6	3.1	3.2	4.0	4.9	4.7	1.1
OGA	1.9	1.4	0.9	0.6	0.5	0.3	-1.6
OAEE	1.1	1.3	1.6	1.8	1.9	2.0	0.9
Public sector	2.6	2.2	2.2	2.3	2.2	2.0	-0.6
OGA uninsured	0.1	0.1	0.1	0.1	0.1	0.1	0.0
Total	9.4	8.2	8.0	8.9	9.7	9.1	-0.2
	Difference (after-before)						
	2009	2020	2030	2040	2050	2060	
IKA	0.0	-0.9	-1.6	-2.2	-2.0	-2.4	-2.4
OGA	0.0	-0.1	-0.2	-0.2	-0.2	-0.1	-0.1
OAEE	0.0	-0.3	-0.5	-0.7	-0.7	-0.7	-0.7
Public sector	0.0	-1.0	-0.9	-0.8	-1.0	-1.3	-1.3
OGA uninsured	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total	-0.1	-2.4	-3.2	-3.9	-4.0	-4.6	-4.6

Source: National Actuarial Authority and own calculations.

The decomposition of pension expenditure changes shows that demography is the main driver of pension expenditure (i.e. the dependency-ratio effect) (see Tables 2 and 3). The contribution of the benefit-ratio effect is clearly negative both in the beginning (2009-20) and over the whole projection period (2009-60): this means that the parametric changes which reduce the generosity of the pension system have a significant impact on overall spending. The projected increase in employment, especially of older workers due to the substantial increase in retirement age, together with the decrease in the coverage ratio, benefit ratio and interaction ratio effects appear enough to reduce the pension expenditure-to-GDP ratio over the projection period. However, it is to be stressed that the current pension projections are partial, as they cover only about two-thirds of the overall public pension expenditure (13.9 percent of GDP in 2009).

Table 2: Decomposition of modelled pension expenditure changes in 2009-2060 (% of GDP)

	Change in pension exp. to GDP	After reform				
		Dependency ratio contribution	Coverage ratio contribution	Employment effect contribution	Benefit ratio contribution	Interaction effect
2009-2020	-1.1	1.6	-1.5	-0.2	-0.9	-0.1
2020-2030	-0.2	1.3	-0.7	-0.3	-0.4	-0.1
2030-2040	0.9	1.9	-0.6	-0.3	-0.1	-0.1
2040-2050	0.8	1.6	-0.2	-0.1	-0.4	-0.1
2050-2060	-0.5	0.0	0.2	0.0	-0.7	0.0
Total (2009-2060)	-0.2	6.4	-2.8	-1.0	-2.5	-0.3

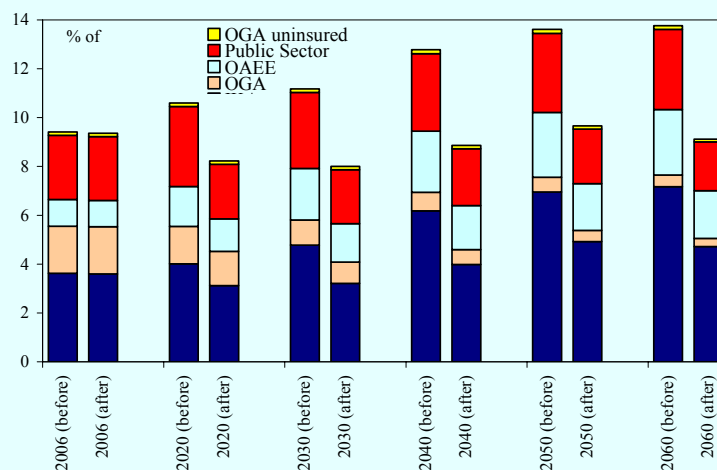
Source: National Actuarial Authority

Table 3: Decomposition of pension expenditure changes by fund in 2009-2060 (% of GDP)

	2009 level	Dependency ratio contribution	Coverage ratio contribution	Employment effect contribution	Benefit ratio contribution	Interaction effect	2060 level
After reform							
IKA	3.6	2.7	0.7	-0.4	-1.8	-0.1	4.7
OGA	1.9	0.8	-1.6	-0.1	-0.6	-0.1	0.3
OAEE	1.1	1.1	0.4	-0.2	-0.4	0.0	2.0
Public sector	2.6	1.8	-0.2	-0.3	-1.7	-0.1	2.0
Total	9.2	6.4	-2.8	-1.0	-2.5	-0.3	9.0

Source: National Actuarial Authority

Graph 1: Pension expenditure by main funds before and after the reform



Source: National Actuarial Authority.

* The NAA projection covers 95 percent of the insured population in the primary pension funds in 2010 and only about two thirds of the overall public pension expenditure in 2009 including the public sector which amounted to 13.94 percent of GDP (EUR 32.775 bn). Supplementary/auxiliary public pension funds are not included in the projections.

4.2.4. Public administration

44. There have been efforts to reform the public administration, but these need to be reinforced. A bloated and inefficient public sector has been often quoted as a main obstacle for a more dynamic economy. There has been progress in several fronts to increase the efficiency of the public administration: the extension of working hours in public administration, the planned overhaul of the

public remuneration grid and a shift to a performance-based system, and the more intensive use of electronic communication with the private sector.

45. Progress in public procurement is on track. The draft law on the Single Public Procurement Authority (SPPA) complies with the action plan agreed with the Commission in autumn 2010. The SPPA will be responsible for the coordination of public procurement policy and for monitoring the planning and the implementation of procurement procedures. However, on e-procurement, the mission noted that the government has accumulated delays in the preparation of the respective IT platform.

46. A law on better regulation is under preparation. The new law will strengthen the legal standing of the better regulation policy and provides for a consistent evaluation of the impacts of legislation. Impact assessments should evaluate the effects of the proposed legislation on competitiveness. Moreover, efforts to consolidate, codify and recast legislation will contribute to simplify the legal framework and reduce costs for business.

4.3. GROWTH-ENHANCING STRUCTURAL REFORMS

47. The Greek economy needs to achieve a profound change in the composition of its growth drivers. Production resources should shift away from domestic consumption to a significantly more investment and export-led growth pattern. Some signs of a re-composition are already visible, such as a strong fall in the contribution of private consumption and a rise in the contribution of net exports to GDP growth or a reduction in current account deficit. This reflects to a large extent the impact of the deep recession on consumer's purchasing power and increasing growth in Greece's main trading partners, rather than a domestically-generated increase in productivity. In order to ensure that Greece secures a new model for future growth, far-reaching structural reforms are necessary to make product, services and labour markets more flexible and reactive to underlying economic conditions. It is now important to implement reforms without delay so as to avoid the pitfalls of the past, when new legislation often remained ineffective due to a lack of implementation. Moreover, effective monitoring mechanisms need to be established so as to assess whether the effects of the reforms are in line with needs of the economy.

4.3.1. Labour market

48. New initiatives regarding working-time management, fixed-term contracts and temporary jobs for young people at subminima wages are under preparation. Changes in working-time management are expected to enhance the ability of Greek firms to adapt to changing production needs. Regarding fixed-term contracts, although the conditions for these contracts in Greece do not appear particularly strict, the costs for terminating fixed term contracts before their expiry are substantially higher than elsewhere in the EU. Moreover, there is the need to avoid firms' misuse of probationary periods (which are now longer than they used to be) as a substitute for short-term fixed-contracts to cope with temporary labour needs. Allowing companies to recruit less experienced staff on temporary contracts at subminima wages is an appropriate response to help reduce the rapid increase unemployment, particularly among young people.

49. The response to the December 2010 law on special-firm level collective agreements (SFLCA) has, so far, been disappointing. The law establishes the conditions and the procedure according to which employers and employees at a firm level can agree on remuneration conditions below those stipulated in sector agreements, with a view to preserving jobs and improving firms' competitiveness. So far only a few small companies with less than 100 employees have agreed SFLCAs. The mission argued that this is the result of some unhelpful features of the law. For example, many SFLCAs would

need to be agreed by sectoral trade unions (who may have a vested interest in sticking to the sectoral level agreements they helped to negotiate), since there are only a few firm-level trade unions in Greece. In this respect, the government is simplifying the procedure to establish firm-level trade unions. The mission has noted that the extension mechanism – the procedure according to which the government may extend to all companies the sectoral agreements – distorts bargaining incentives for employers and employees.

50. Firms are finding ways to overcome rigidities in labour market regulations. In particular, there appears to be a shift from collective bargaining to individual contracts with lower hours of work or pay. Moreover, collective agreements which reach their term are currently not extended or renegotiated. Although the mission acknowledged that these developments result in flexibility and may contribute to improve the competitive situation of firms, they may also result in an increase in undeclared work and increased flexibility in the context of more formal bargaining mechanisms would be preferable.

51. The fight against undeclared work needs to acquire more prominence. Until today, the Labour Inspectorate has been relatively ineffective in reducing undeclared work and social contribution evasion. There are ongoing efforts to strengthen the Inspectorate in these tasks and a law to reorganise the Inspectorate is under preparation and should be adopted shortly. Discussed measures include a labour card pilot project to be undertaken in the fight against undeclared work and social contribution evasion.

4.3.2 Regulated professions

52. The Government has taken some steps to lift restrictions in a number of regulated professions but the reform process is not yet complete. A new framework law repeals unwarranted restrictions on the access to and pursuit of more than one hundred professional activities, and specifically in relation to lawyers, notaries, engineers/architects and auditors (see Appendix for an overview). However the following further progress is necessary:

- amendment of the professions' regulations to make them fully compatible with the new law;
- screening of the statutes of the professional associations to identify and repeal provisions against EU law and competition rules;
- imposition of transparency requirements in the functioning of professional bodies;
- revision of the areas of reserve of activity of the main professions.

In addition, the mission argued that corrective action should be taken regarding the elimination of distortions to the price-setting mechanisms of lawyers and engineers as well as the provision of freedom of incorporation of law firms and to the opening of branches inside Greece.

Table 16. Indicative list of professions covered by the new law on regulated professions

Beautician Fashion Consultant Private Higher School of Dramatic Art Private Higher School of Dance Money-changer Baker Antique dealer Insurance Agent Insurance Consultant Mining Experts Employment Consultants Funeral Parlours Diagnostic Centers Dietician-Nutritionist Paramedic Ambulance Assistant Interpreter Diver Cameraman Recreational Sea Driving Instructor Candidates and Motorcycles Pawnbroker Public Use Passenger Taxis Health Visitor Trading business or younger Ancient Monuments Limousine Company Security firms Tourist Bus Company Recreational Dance Occupational therapist Newsboy Electrician Welders Sound engineer Sea Taxi Stoker Private VTCC Colleges Private Schools Tobacconist Recreational Diving Services Diving Workshop Construction, Repair, Import and Trade of Weapons Construction, Repair, Introduction ammunition, explosives, firecrackers, etc. Sanitary facilities for seagoing ships Locksmith	Social worker Hairdresser, barber Butcher Operation of Private Investigation Agencies Operation of private security firms Retail Trader Docker Accountant tax consultants Speech therapist Midwife Makeup artist Beekeeper Real Estate Professions Translator Lifeguard Shipping Agent Guide Carpenter Road passenger transport Ododontist Economist Dealer Visual Artists Certified Auditor Firework Radio-technician Trailers Production designer, costume designer Film Director Conservator of Antiquities, Art - Rehabilitation Recommendation Dental Society Gas Stations Technician Lift Technician Bakery - Pastry technician Cars - Vehicle technician Automation technician Broadcast Network technician Installations Refrigeration, Ventilation and Air Conditioning technician Photo Lab technician Applied Optics technician Thermal and Hydraulic Engineering Installation technician Mobile Telecommunications technician Construction machinery technician Sound Mixing Technician	Bike and Motorcycle Technician Measuring Instruments Technician Winding Electrical Machinery Technician Program Flow Technician Maintenance Works Painting Technician Vivliakou and Archival Material Maintenance Technician Technical maintenance and repair of agricultural machinery Systems Engineering Telecommunications and Information Transmission Industrial Film and Television Technician Pharmaceuticals, cosmetics and similar products technicians Colour Control Film technician Painting craftsman Heating craftsman Carburettor Craftsman Motorcycles and Scooters Craftsman Craftsman Hand and Foot Care Craftsman Sets Gas Appliances craftsman Exhaust system craftsman Digital tachographs craftsman Hydraulic technician Agro Services Sports Services Security Services Forestry Services Advertising Services Car Leasing Services Education and Inspection Services Construction Services Services Events, Exhibitions Certification Services Office Maintenance and Support Stevedore Care-giver Physiotherapist Marine Chemist Refrigerator Mechanic Psychologist Conservatories, Music Schools
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Source: Greek Ministry of Finance.

Note: This non-exhaustive list refers to professions other than those specifically regulated in the law (i.e., notaries, lawyers, architects/engineers and statutory auditors and explicitly excluded from the scope of the law (i.e., road haulier, pharmacists and geotechnical professions).

4.3.3 Energy and transport

53. Progress in energy-related issues has been unsatisfactory. The government has not started implementing the plan to give competitors of the Public Power Corporation effective control over 40 percent of the lignite fired capacity, as previously required. Moreover, the transposition of the so-called ‘third energy liberalisation package’ is experiencing delays, while other planned structural

reform measures depend on the prompt and correct transposition of the said liberalisation package. In addition, the government has so far failed to present a plan to guarantee fair and transparent access to the hydro capacity.

54. Regarding transport, the liberalisation of occasional passenger transport is expected shortly.

The mission argued that this reform has a great potential to strengthen a main industry of Greece: tourism. As of today, there are only 6 thousand licences in total in tourist coaches; with the opening of the market, licences will be cheaper and easier to obtain. This reform follows other transport-related initiatives previously adopted in relation to road freight transport and the restructuring of the railways and urban transport in Athens.

4.3.4 Education

55. The government intends to rationalise and increase the efficiency and quality of the education system.

The education indicators of Greece lag behind the EU average. Attainment rates are low, and quality issue lead a large number of students to enrol in complementary private classes or, for university students, studying abroad. In the primary and secondary sector, far-reaching reforms are currently being implemented including a revision of curricula, the introduction of teacher evaluation, recurrent training for teachers, an upgrading and extension of all-day schools, improving the quality of technical and vocational education and a reduction in the high drop-out-rates. The reform also includes the closure and merger of establishments. This will involve around 30 percent of schools: around 2 000 small schools have already been closed. As for higher education, a law to be adopted shortly envisages changes such as the introduction of governing boards that include non-academic managers; a higher financial autonomy and responsibility of universities; mergers of institutions; student vouchers; and an internationalisation of curricula. The government has established an independent taskforce under the OECD's guidance to propose specific policy measures aimed at improving the efficiency and the effectiveness of the sector. The taskforce is expected to present its report by end-June.

4.3.5 Other reforms

56. Progress in the implementation of the Services Directive has been encouraging although important pieces of legislation are still pending.

Several legislative changes have been adopted to eliminate requirements in the retail sector for retail stores, outdoor trade, open air markets; the tourism sector and the education sector. However, the mission argued that legislation is incomplete regarding real estate agents, commercial representatives and exhibitions and trade fairs; employment agencies; the wholesale sector, as well as for the cross-border provision of services in the retail sector. Regarding the 'point of single contact' (PSC), 43 additional procedures have been made available online and several others should be added soon. Nevertheless, work still remains to be done for the online completion of procedures, as well for the recognition of professional qualifications.

57. One-stop-shop services to start up companies are operational since April 2011.

As of the beginning of May 2011, 59 chambers of commerce and around 1 900 notaries offer one-stop-shop services with the purpose of creating a company and a total of 200 new firms have been created under the new system. The government claims that the time needed to start a business has been reduced from 38 days to 1 day, and costs have been cut by 62 percent for limited liability companies. The mission was of the view that next steps should focus on further expansion of the functions of the one-stop shops to include business licensing and services for a wider range of legal forms of companies and improving the interconnectivity of one stops shops with other institutions, such as the commercial registry.

58. An action plan for 'business-friendly Greece' intends to boost entrepreneurial activity and remove the obstacles to entrepreneurship and innovation.

Many measures address long standing

issues, such as the actions to operationalise the spatial planning and land use frameworks, the simplification of the Code of Books and Records (in the area of taxation), the removal of restrictions to the transport of empty containers and of non-hazardous waste, the modernization of the regulatory framework of service stations and the reduction of costly company publication requirements.

59. On R&D, progress has been limited. The government has produced a short progress report on actions in the field of R&D. However, an in-depth evaluation of R&D and innovation activities in Greece and a strategic action plan to enhance the quality and the synergies between public and private R&D and innovation is pending.

60. Meeting the structural funds payment claims targets for 2011 will be challenging. The mission argued that the government should take measures to accelerate the implementation of already approved projects, increase flexibility of managing authorities in transferring of resources between codes within the same priority axis and reinforce the capacity of the entities involved in the implementation of the NSRF.

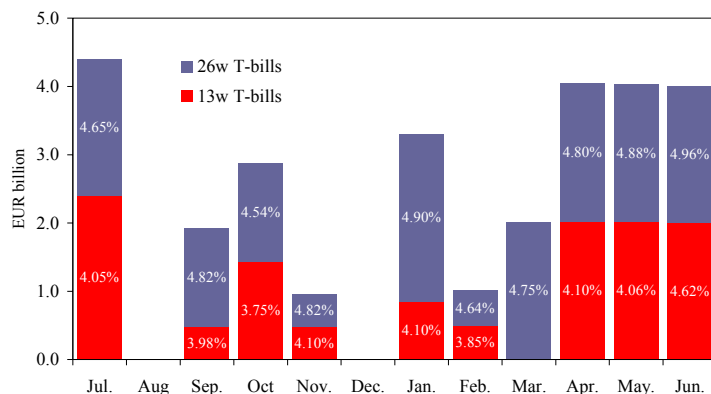
4.4. FISCAL FINANCING AND TREASURY MANAGEMENT

4.4.1. Recent developments

61. The Treasury bill issuances have accelerated in 2011. T-bill auctions have been organised every month since the start of the year. Issuances per month increased to an average of EUR 2.9 billion over the first five month of 2011 compared to EUR 1.6 billion, on average, in the second half 2010. The need to increase T-bill issuances was mostly related to liquidity management, including a need to roll-over maturing short-term debt, and lately also to preparation for delayed disbursements of the euro-area and IMF loans.

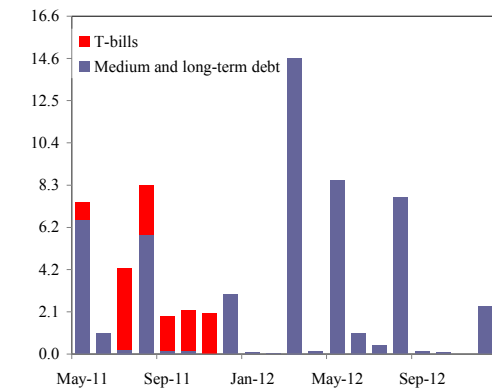
62. The yields of T-bill auctions have remained broadly stable despite tensions in the secondary market. 3-month T-bills were issued in the primary market with an average yield of 4 percent and 6-month Treasury bills with an average yield of 4.8 percent, both marginally up compared to the second half of 2010. The main buyers of the short-term Greek securities were domestic financial players although foreign banks, particularly primary dealers, continued to keep their presence in the auctions.

Graph 21. T-bill auctions since May 2010
(amounts and yields)



Source : PDMA

Graph 22. Maturing debt
EUR billion



Source : GAO

63. Greece has also been issuing short- and medium-term debt to settle arrears with suppliers.

Between December 2010 and early June 2011, the Treasury has issued EUR 5.9 billion of bonds. These bonds were offered as a mean of payment to pharmaceutical companies and other suppliers. The majority of re-openings were done in December 2010 (EUR 1.8 billion) and January 2011 (EUR 3.4 billion), followed by smaller amounts issued in the subsequent months (February: EUR 0.6 billion, March: EUR 0.13 billion). Most of these bonds will mature in December 2011, December 2012 and December 2013.

64. Greece has redeemed the largest share of its medium- and long-term debt maturing in 2011.

In January-May, Greece repaid EUR 18 billion of its medium- and long-term debt. Going forward, the largest bond redemption will take place in August (EUR 5.9 billion) followed by December (EUR 2.9 billion). More than half of the latter redemption relates to a bonds issued at the end of 2010.

Box 7. Interest rates charged to Greece on the financial assistance loans

The interest rate charged to Greece by the euro-area Member States is variable. According to the Loan Facility Agreement, the interest rate is based on the three-month Euribor rate plus a margin. The margin was initially set to 300 basis points for the period up to and including the third anniversary from the disbursement date of each euro area loan tranche. A margin of 400 basis points was set to be applied for subsequent interest periods.

The euro-area Member States have decided to lower the interest rate on loans to Greece. The margin is reduced by 100 basis points, that is, to 200 basis points for the interest periods up to and including the third anniversary and to 300 basis points for the subsequent interest periods. This decision concerns only future interest payments and does not apply retroactively to interest payments already made by Greece. This reduction leads to around EUR 5.4 billion (2¼ percent of GDP) savings for Greece for the period until mid-2013.

So far, Greece has made four interest payments with relatively low interest rates. Interest for euro-area loans is paid every quarter, notably on 15 March, 15 June, 15 September and 15 December regardless of the date of disbursements. The rates charged so far in each of the interest payment dates were as follows:

- 15 June 2010: 3.423%
- 15 September 2010: 3.719%
- 15 December 2010: 3.879%
- 15 March 2011: 4.026%

The IMF lending rate to Greece is also variable. The lending rate is tied to the IMF's market-related interest rate, known as the basic rate of charge, which is itself linked to the SDR interest rate. Large loans, such as the loan to Greece, carry a surcharge of 200 basis points, paid on the amount of credit outstanding above 300 percent of quota. After three years, this surcharge rises to 300 basis points.

Both the euro-area and the IMF charge a 50 basis points up-front service fee on top of the interest charges, to cover operational costs. This fee is calculated on the principal amount of each loan tranche and deducted from each disbursement.

Box 8. Financing needs of the Greek government

This box provides information on the financing needs of the Greek government. Information is provided for the next two years (the horizon of the ongoing adjustment programme), and extends the information through mid-2014 (the horizon of a potential new three-year programme that started now).

The financing needs of the Greek government through mid 2013 are in excess of EUR 127 billion and amount to EUR 172 billion until 2014. This amount covers maturing bonds and loans; maturing instalments of the IMF loan from the third quarter of 2013 on; the budget deficits and, other needs, such strengthening the cash buffers, reducing of T-bill outstanding stock, increasing the share capital of HFSF; clearance of arrears; maturing debt of public enterprises. The loans granted by the euro-area Member States have a grace period of 4½ years, which meant that their reimbursement will only start at the beginning of 2015.

Financing needs will have to be covered through several means. The amounts not yet disbursed by the Greek loan facility organised by the euro-area Member States, and the IMF's stand-by arrangement amount to EUR 57 billion. The planned privatisation proceeds will also cover a substantial part of the needs. Until mid 2014, privatisation proceeds are expected to be close to EUR 30 billion. Moreover, private sector involvement, according to which bond holders would voluntarily agree to roll over a share of the bonds that mature in this period would decrease the need of additional official loans.

Table 1. Financing needs of the Greek government

Total financing needs		Market debt amortisation			IMF loan	Deficit	Other financing needs						
		Total	Bonds	Loans			Total	Public enterprises	Adjustment to cash	Settlement of arrears	Cash buffer	HFSF	Reducing outstanding T bills
Q3 2011	23,260	6,447	6,194	253		6,484	10,329	43	424	1,362		2,000	6,500
Q4 2011	13,022	3,099	2,914	185		2,348	7,576	152	424		2,500	1,500	3,000
Q1 2012	21,860	14,679	14,528	151		3,729	3,452	52	151	999	1,250	1,000	
Q2 2012	15,886	9,708	8,570	1,138		3,729	2,449	48	151		1,250	1,000	
Q3 2012	15,789	8,275	8,043	232		3,729	3,785	635	151	999	1,000	1,000	
Q4 2012	8,616	2,422	2,118	304		3,729	2,465	314	151		1,000	1,000	
Q1 2013	10,808	6,125	5,975	150		2,850	1,833	284	158	891	500		
Q2 2013	18,207	13,316	11,722	1,594		2,850	2,041	492	158	891	500		
Sub-total	127,447	64,071	60,064	4,007		29,448	33,928	2,019	1,766	5,143	8,000	7,500	9,500
Q3 2013	11,654	7,406	6,679	727	682	2,850	717	59	158		500		
Q4 2013	7,214	1,994	1,885	109	988	2,850	1,382	724	158		500		
Q1 2014	8,745	4,897	4,722	175	1295	1,596	957	391	66		500		
Q2 2014	17,095	13,067	12,311	756	1806	1,596	625	60	66		500		
Total	172,155	91,435	85,661	5,774	4,772	38,340	37,609	3,253	2,213	5,143	10,000	7,500	9,500

4.5. TECHNICAL ASSISTANCE

65. Given administrative capacity constraints, the government has been facing challenges in implementing its reform agenda. The mission discussed the need to establish a formal project-management framework, in particular for the growth-enhancing structural reforms. It recommended that project managers are nominated for each initiative to be carried out in the various areas (labour market reform, product and service market reform, fast tracking investment, etc.) and that an internal

committee is mandated to develop, utilise, and publish on the government's website result-oriented indicators for each of the key structural reform initiatives, on a regular basis.

66. The mission discussed the potential for technical assistance. Technical assistance by the Commission and the IMF has been useful in a number of areas like statistics, absorption of structural funds, land registry, and taxation, public finance management and financial sector reforms. The government has shown interest in further strengthening technical assistance in specific areas, which would be provided by Member States, in cooperation with the Commission and the IMF. Although there is no final or complete list for technical assistance areas, the government has shown interest in specific technical expertise on the following issues: privatisation, healthcare and social security (e.g. e-procurement, e-prescription, and IT systems); state enterprise reforms (e.g. performance reviews); fiscal management reforms (e.g. administrative reorganization and budget monitoring systems); and taxation reforms (e.g. anti-corruption reforms and audit techniques); regulatory authorities and growth enhancing structural reforms. There is now a need to discuss how a large-scale technical assistance programme would be coordinated or financed.

Appendix:**Table 1: New law on regulated professions: main changes**

	Regulation before law 3919/2011	Law 3919/2011
Notaries	<ul style="list-style-type: none"> Pro-rata fees set by default at 1% of the declared value of the contract. 	<ul style="list-style-type: none"> Pro-rata fees calculated based on a regressive scale - to be determined by ministerial decision. This could lead to a reduction in notaries' fees. Maximum fees for transactions exceeding a threshold – to be determined by ministerial decision. This allows agreements on fees that are below statutory-maximum fees for these transactions.
	<ul style="list-style-type: none"> Limits on the number of notaries (<i>numerus clausus</i>) 	<ul style="list-style-type: none"> No change, but the law provides for an increase in the number of notaries between 10% to 20% – to be implemented by Presidential Decree within six months of the date on which the present law enters into force.
	<ul style="list-style-type: none"> Restrictions to multidisciplinary activities: notaries are not allowed to participate in inter-professional firms. Geographical restrictions: notaries are allowed to practice within a specific area to which they have been appointed. Complete ban on advertising: Greek notaries are prohibited to advertise their services through any means of mass communication. Mandatory membership in a regional notary association. 	<ul style="list-style-type: none"> No change. The law provides that existing restrictions or prohibitions on advertising shall be repealed or amended by presidential decree issues at the proposal of the Minister of Justice, Transparency and Human Rights.
Lawyers	<ul style="list-style-type: none"> Compulsory minimum fees: fees are determined by agreement reached between the lawyers and their clients but this may not be <i>below</i> the lower minimum limits contained in the Lawyers' Code; otherwise the agreement governing a lower fee is null and void. 	<ul style="list-style-type: none"> The law sets the principle of free negotiation of fees between lawyers and their clients if and only if this is done in writing. In the absence of a valid written agreement, legal fees apply: <ul style="list-style-type: none"> For the provision of legal services relating to the conduct of a trial under the voluntary procedure. For the award of court costs. For fees for the court lawyer appointed to provide legal assistance or legal aid. For fees regulated in several articles of the Code of Lawyers. Nevertheless, the new system of legal fees and reference amounts will act as a focal point setting a fee level that is applied by the majority of practitioners, with no incentive for lawyers or engineers to charge less than that.
	<ul style="list-style-type: none"> Geographical restrictions: Greek lawyers are allowed to practice within a specific area only (corresponding to the district of the law society of which they are a member). 	<ul style="list-style-type: none"> The law lifts geographical restrictions: lawyers are entitled to practice in the district of the law society of which they are a member and in the districts of other law societies.
	<ul style="list-style-type: none"> For law firms: two or more lawyers can start-up a law firm provided that they belong to the same law society (this – and other provisions- rule out chains of law firms other than in Athens and Piraeus). 	<ul style="list-style-type: none"> For law firms: unchanged, though the law makes clear that branches cannot be opened in Greece but only abroad.
	<ul style="list-style-type: none"> Restrictions to multidisciplinary activities: Greek lawyers are allowed to participate in intra-professional firms only –i.e., this bans the possibility of firms offering accountant, tax advice and legal services at the same time. 	
	<ul style="list-style-type: none"> Advertising restrictions: Greek advocates are prohibited to advertise their services through any means such as newspapers or any other mass media. 	<ul style="list-style-type: none"> This restriction is expected to be lifted – subject to deontology principles – though this has not yet taken place.
	<ul style="list-style-type: none"> Mandatory membership in a regional lawyer association. 	

	Regulation before law 3919/2011	Law 3919/2011
Engineers/ architects	<ul style="list-style-type: none"> Compulsory minimum fees not subject to contractual amendment – otherwise the agreement on a lower fee is null and void. 	<ul style="list-style-type: none"> The law sets the principle of free negotiation of fees between engineers and architects and their clients if and only if this is done in writing. In the absence of a valid written agreement, legal fees apply. However, the new system of legal fees will act as a focal point setting a fee level that is applied by the majority of practitioners, with no incentive to charge less than that. In addition, “in case of unusual low fee for a written agreement, the Technical Chamber can ask the written justification of the engineer with all the details it considers necessary. If the written explanation is not considered sufficient, the Technical Chamber may exercise disciplinary measures.” This provision puts extra disincentives for engineers to offer services below the legal fees.
	<ul style="list-style-type: none"> Clients are not entitled to pay fees directly to professionals. 8% of the legal price for the voluntary withdrawal of the profession of non graduates. 	<ul style="list-style-type: none"> The law enables clients to pay directly the fees to the architects/engineers –and not through the Technical Chamber of Greece (TCG). Removal of this payment to the TCG.
	Mandatory membership in the Technical Chamber of Greece.	
	Reserve of activity: The Law provides the areas for audit work to be awarded solely to chartered accountants.	
Auditors	<ul style="list-style-type: none"> Minimum hourly rates for statutory auditors. 	<ul style="list-style-type: none"> The law repeals the provision governing minimum hourly rates as well as the provision that an ordinary audit will be undertaken only if the fee for the audit in question does not exceed one-tenth of the revenue generated by the company over the previous 12-month financial year.
	<ul style="list-style-type: none"> Minimum hours needed to conduct a statutory audit and maximum annual working hours applicable to individual auditors to ensure quality of auditing service. 	<ul style="list-style-type: none"> The audit fee will be set by free agreement between the parties based on the number of hours allowed for the audit to be carried out by the statutory auditor or audit firm. However, this arrangement continues to contain two restrictions on competition: i) minimum hours to be spent by an auditor on a given audit; ii) maximum number of hours worked a year by statutory auditors. The law however, introduces a two-year sunset clause to remove both minimum and maximum hours.

Table 2: Overview of the SPPA (Single Public Procurement Authority) draft law

	Current situation (i.e., before the SPPA law)	After entry into force of the law creating the SPPA
Policy, strategy and coordination function	Decentralized system: various central bodies –mainly ministries– conduct their own procurement policy, implement it and supervise it.	<ul style="list-style-type: none"> • Creation of a Single Public Procurement Authority (SPPA) to supervise and coordinate the actions relating to public procurement law and policy of all public law entities falling under the central administration • SPPA takes part in the collective bodies of central government with competences on public procurement • SPPA can call <i>ad hoc</i> coordination meetings between representatives of the competent Ministries and set up inter-service working groups with representatives from Ministries with competences on public procurement. • SPPA guides the national strategy in the field of public procurement and ensures its compliance with European and national legislation.
Regulation function	Complexity of and extent of secondary national procurement legislation, which hampers the effectiveness of the overall procurement system.	<ul style="list-style-type: none"> • SPPA submits proposals to harmonize national law with EU legislation, to simplify, codify and consolidate regulations, as well as to rationalize administrative practices to ensure efficient and effective tendering and awarding procedures.
Advisory functions	Not available	<ul style="list-style-type: none"> • SPPA issues its opinion on public procurement draft legislation and participates in the draft-legislating committees on any public procurement legal act. The relevant bodies take the opinion of the SPPA into account. • SPPA delivers its consent before a decision is issued by a contracting authority to revert to the negotiated procedure for the award of public contracts. • SPPA gives guidance to contracting authorities to ensure legality of procedures for the award and performance of public contracts.
Monitoring and control functions	Supervisory ministries do not have a common approach regarding the organization of tendering procedures. This results in <ul style="list-style-type: none"> ○ different practices applied to the various forms of tendering procedures - open, restricted and negotiated. ○ different ways of setting selection criteria. ○ different ways of setting the technical specifications for the provision of similar goods or services. ○ Divergent and non-consistent practices regarding the application of selection and award criteria by evaluation committees, which are non compliant with EU Directives. 	<ul style="list-style-type: none"> • SPPA develops and publishes binding regulations or provides guidelines on the application of public procurement rules for public law entities and contracting authorities. • SPPA issues binding standard tender and contract documents, after consultation of the competent public law bodies. Regulations authorizing other bodies to issue standard tender and contract documents cease to exist. • SPPA monitors, supervises and measures the effectiveness of the public procurement system (i.e., Ministries, contracting authorities, inspection and other public entities). • SPPA looks for information about tender documents, the award and post-award performance of a public contract, and performs random <i>ex-officio</i> controls. If the SPPA detects irregularities, contracting authorities cannot continue the tendering procedure without the SPPA's "prior consent". • SPPA supervises public procurement controlling entities. • SPPA can intervene before the competent courts on its own initiative or upon the court's request during review proceedings of award and performance of public contracts
Publication functions	Not available	<ul style="list-style-type: none"> • SPPA submits to Parliament an annual report with an overview of its activities and proposals to improve the regulatory framework and public procurement administrative procedures.
Other functions	Not available	<ul style="list-style-type: none"> • SPPA is the central point of communication of the Greek authorities with the EU institutions on infringements of EU procurement law. • SPPA maintains a National Database for Public Procurement with information on the regulatory framework of public procurement and on on-going procurement procedures.

Table 3: Progress made in sectoral changes to regulations in retail, private education and tourism: Overview

Abolished requirements	<ul style="list-style-type: none"> • Greek permanent residence for salespeople in organized street markets. • Salespeople in organized street markets are allowed to sell products of one category only. • Ambulant traders must be permanent residents in Greece. • Family members of an ambulant trader must be unemployed/ should not exercise any other profession. • Participation of potential competitive parties in the licensing procedure of ambulant traders. • Economic test for retail stores. • Itinerant trade is only allowed in cities with less than 20,000 inhabitants. • Quantitative restrictions for petrol stations, LPG, compressed natural gas and mixed stations. 	<ul style="list-style-type: none"> • The provider of private tutoring centre services must take a specific legal form. • Restriction on multidisciplinary activities for private tutoring centres and for institutions of vocational training. • Conditions of reciprocity for private institutions of vocational training. • Restriction that the director of a higher private dance school / higher private school of dramatic art cannot live more than 40 km away from the school. • Quota of operating higher private dance schools / higher private schools of dramatic art. • The same person cannot be a director of more than one higher school of dramatic art. 	<ul style="list-style-type: none"> • Fixed minimum tariffs for tourism accommodation. • Application of specific contractual agreements between the provider and the recipient of tourism services. • Restrictions to cross-border provision of services for tourist enterprises established in another MS (via a prior declaration). • Simplification of the authorisation procedures for tourist enterprises (for rent a car/moto companies; tourist agencies, theme parks, conference centres, accommodation providers, golf courses, ski resorts, sports and training centres, car race centres).
Pending (regulations to be amended)	<ul style="list-style-type: none"> • Legislation providing for the cross border provision of services in organized street markets, for ambulant traders (itinerant/standing) and for providers of exhibitions and of trade fair services. • Requirement that no exhibitions are allowed in Greece during the Thessaloniki International fair (15 days in September). • Requirement that the provider of exhibitions and of trade fair services cannot exercise other professions. 	<ul style="list-style-type: none"> • Requirement that traders of modern monuments must be located in a city with a competent service of the ministry of Culture. • Joint Ministerial Decisions for various authorisation procedures / licensing through the PSC, covering music schools, auctioneers of ancient monuments, etc. 	
Requirements kept	<ul style="list-style-type: none"> • 90% of licenses issued for salespeople in organized street markets are for agricultural products. • Salespeople in organized street markets can only get one license. • Licensed salespeople in organized street markets cannot exercise any other profession. • Ambulant traders cannot be legal persons. • Quotas on the number of licences for ambulant traders and maximum number of new licenses issued per year. • Quotas on the number of licenses issued for ambulant traders in Sunday markets and holiday fairs. • Ambulant traders cannot exercise any other activity. • Licenses may be required for large stores for environmental and urban planning reasons. 	<ul style="list-style-type: none"> • The same person is allowed to establish a maximum two dance schools for amateurs / higher dance schools. • The same person cannot be a director in more than one higher private dance school; the same person can be a director in maximum two dance schools for amateurs (only if these are located in the same district). • The same person cannot be a director in many music schools. • The same person can establish maximum two higher schools of dramatic art. • Traders of modern monuments and antiquarians cannot be art collectors at the same time. • Auctioneers of works of art cannot be active or retired civil servants who work / have worked on the protection of monuments. 	

Annex 1: Assessment of compliance with required action for the fourth review

Table A-1: Fiscal consolidation

Actions in the Memorandum of understanding on specific policy conditionality (MoU) (actions by end-March 2011)	Comments
Government rigorously implements the budget for 2011 in line with this Memorandum.	
The Ministry of Finance ensures tight supervision of expenditure commitments by the government departments, including extrabudgetary funds, the public investment budget, social security funds and hospitals, local governments and public enterprises, and effective tax collection, to secure the attainment of the programme quantitative criteria (Article 1 (2 and 3) of Council Decision 2010/320/EU, as amended, and Table 2 of the MEFP).	Partly observed. The quarterly performance criteria have been observed. However, the indicative criterion on accumulation of arrears has been failed.
The Ministry of Finance releases 1/14 of the annual budgetary appropriation (excluding wages, pensions and interest) per month to each ministry. The remaining budgetary appropriations will not be released before September 2011, and may be cancelled by the Ministry of Finance, according to the need to respect the government deficit ceiling.	
Government clears payment arrears accumulated in 2010 and reduces those of previous years.	Not observed. Although some of the arrears accumulated in previous years have been settled, new arrears have been accumulated

Medium-term budgetary planning

Government prepares a medium-term budgetary strategy paper which identifies permanent fiscal consolidation measures of at least 8 percent of GDP, (some of which have already been identified in May 2010), plus a contingency reserve that will ensure the achievement of deficit targets up to 2014, and that the debt-to-GDP ratio is put on a sustainable downward path.

The strategy paper will be published for public consultation before end-March, adopted by the Council of Ministers by mid-April and voted by Parliament by mid-May. It will be the basis for preparing the 2012 budget.

The medium-term strategy paper includes, in particular:

- prudent macroeconomic forecasts;
- baseline revenue and expenditure projections for the state and for the other government entities;
- a description of permanent fiscal measures, their timing and quantification;
- annual spending ceilings for each ministry and fiscal targets for other government entities through 2014;
- post-measures fiscal projections for general government in line with the deficit and debt targets;
- longer-term debt projections based on prudent macroeconomic projections, stable primary surpluses from 2014 on, and privatisation plans

The medium-term strategy will be articulated with the ongoing healthcare and pension reforms and with specific sectoral plans. The sectoral plans (draft plans to be available by end-March), will cover in particular:

- state-owned enterprises;
- extrabudgetary funds (legal entities of the public sector and earmarked accounts);
- tax policy reforms;
- public wage bill;
- public administration;
- social spending;
- public investment;
- military spending.

Each sectoral plan will be managed by interministerial taskforces to be appointed by end February.

Observed, albeit with delay.

The MTFS has been prepared and is expected to be voted in Parliament by end-June.

Table A-2: Structural fiscal reforms

Actions in the Memorandum of understanding on specific policy conditionality (MoU) (actions by end-March 2011)	Comments
Revenue administration reforms	
Government launches an anti-tax evasion plan. The plan includes quantitative performance indicators to hold revenue administration accountable.	Largely observed.
Government adopts legislation to streamline the administrative tax dispute and judicial appeal processes, centralises filing enforcement and debt collection, indirect audit methods and tax return processing, and adopts the required acts and procedures to better address misconduct, corruption and poor performance of tax officials, including prosecution in cases of breach of duty and a more flexible recruitment process to appoint and promote good performers (based on principles of meritocracy, objectivity and transparency).	The final draft of the law adopted by Parliament was amended, compared with the draft presented during the previous review mission. Some of the features of the initial draft (such as the indirect audit methods) were left outside the law.
Government starts publishing monthly reports of the five anti-tax evasion taskforces, including a set of progress indicators.	Observed. The first report was published in April 2011
Public financial management reforms	
To strengthen expenditure control, Government :	Partly observed.
adopts an act specifying the qualification and responsibilities of accounting officers to be appointed in all line ministries and major government entities with the responsibility to ensure sound financial controls	
appoints financial accounting officers	
accelerates the process of establishing commitment registries. It will make operational registries covering the whole general government (except the smallest entities).	

<i>Public sector wages and human resource management</i>	
Government presents a detailed action plan with a timeline to complete and implement the simplified remuneration system. This plan will be based on the results of the report published by the Ministry of Finance and the Single Payment Authority.	Partially observed. There is a report on public wages describing the situation in relation to public employment and public wages. The report does not contain policy options or a timeline for streamline remuneration grids.
Government prepares a medium-term human resource plan for the period up to 2014 in line with the rule of 1 recruitment for 5 exits. The plan will include tighter rules for temporary staff, cancellation of vacant job post and reallocation of qualified staff to priority areas.	Observed.
Government starts publishing monthly data on staff movements (entries, exits, transfers among entities) of the several government departments.	Partially observed. Some data have been made public but not on a streamlined and timely basis. Government plans to start publication of monthly data in June.
<i>To complete the pension reform</i>	
The National Actuarial Authority (NAA) submits comprehensive long-term projections of pension expenditure up to 2060 under the adopted reform. The projection will be peer-reviewed and validated by the EU Economic Policy Committee and the European Commission, IMF and ECB staff. The projections shall encompass the main supplementary (auxiliary) schemes, based on comprehensive set of data collected and elaborated by the NAA.	Largely observed. The long-term projections submitted to the EU Economic Policy Committee (Ageing Working Group) for peer-review and validation cover the four major pension funds, accounting for 9.4 percent of GDP in 2009 in expenditure, or 2/3 of the total pension expenditure in that year (13,9 percent of GDP) and 93 percent of the total active insured population as well as 93 percent of the total pensioners in Greece. The projections do not cover the auxiliary funds, welfare funds, a few Public Corporation Funds and the Marine fund.
<i>Asset management</i>	
Government starts compiling the inventory of state-owned assets, including stakes in quoted and non-quoted enterprises, and commercially viable real estate and land. Government provides an interim report – including a first list of assets – and describes steps taken to ensure that the first part of the inventory will be ready by June 2011.	Observed. The compilation of the asset inventory has started.

Government appoints financial advisors for the formation of real estate and land portfolios, and the structuring of the associated privatisation transactions.	Observed. Financial advisors have been appointed for a number of planned privatisations.
Proceeds from privatisation are to be used to redeem debt and do not substitute fiscal consolidation efforts.	Observed. The MTFS does not include any sale of assets in the list of deficit-reducing measures, as the respective proceeds will be used to redeem debt.
<i>Fighting waste in public enterprises</i>	
With the aim of fighting waste and mismanagement in state-owned companies, Government adopted an act by end 2010 that:	Observed Urban transport tariffs have increased by 30 percent. The relevant law has been adopted by Parliament, with several important elements missing, such as a proper impact assessment and therefore a quantification of the plan. Implementation is underway.
Cuts primary remuneration in public enterprises by at least 10 percent at company level (applicable from January 2011 on)	
Limits secondary remuneration to 10 percent of primary remuneration at company level (applicable from January 2011 on)	
Establishes a ceiling for gross earnings of EUR 4 000 per month (12 payments per year) (applicable from January 2011 on)	
Increases urban transport tariffs by at least 30 percent	
Establishes actions that reduce operating expenditure in public companies between 15 to 25 percent, according to the specific needs of enterprises.	
These measures should be immediately effective and yield annual fiscal savings of at least EUR 800 million compared to 2010.	Ongoing.
Government publishes an action plan for restructuring state-owned enterprises and other public entities leading to the closure of non-viable enterprises and extra-budgetary funds that have outlived their original purpose.	

In particular, Government adopts and starts implementing a legal act and a business plan for the restructuring of the Athens transport network (OASA). The objective is to make the company economically viable. Subsidies shall not exceed 40 percent of operational cost in conformity with EU practices. The plan includes cuts in operational expenditure of the company and tariff increases. It includes a fiscal impact analysis and sensitivity analysis and includes monitoring and enforcement mechanisms (including performance indicators and predefining correcting mechanisms in case of deviation from the plan). The required legal act is adopted by end February 2011, while restructuring starts to be effective by end March 2011.	Observed. Law 3920/2011 was adopted on 22 February 2011.
Government publishes monthly information on the accounts of public enterprises classified in general government with a lag of three weeks, based on the central registry for public enterprises.	Observed.
Government revises the framework law (Law 3429/2005) on state-owned corporate governance, with the aim of adopting management in accordance with international best practices. The new framework law requires auditing of the companies accounts at least with semi annual frequency (quarterly frequency for at least the ten largest state-owned enterprises by turnover) and the strengthening of enterprises' internal controlling, strengthens rules on asset management and introduces more flexibility in working practices.	Observed.
When restructuring state-owned enterprises, or preparing them for privatisation, specific attention will be given to timely clear state aid issues.	Ongoing.

Local administration

Government monitors the implementation of the recently adopted acts on the restructuring of local government, the no-deficit rule (at least until 2014) and the transfers paid to local government. It continues the implementation of legislation reforming public administration and reorganising local government with the aim of reducing costs and increasing revenue by at least EUR 1 500 million in 2013, of which at least EUR 500 million in 2011 and additional EUR 500 million in 2012.

Not observed.

The government is monitoring the implementation of the acts on restructuring regional and local governments.

However, in the financial planning for 2011 and in the MTFs, no substantial saving is now considered.

To modernise the health care system

Building on important reforms already undertaken over the recent months, in particular the move towards the integration of the primary healthcare, changes in the supplies system and progress in hospital computerisation, 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.

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

Ongoing.

Government passed Law 3918/2011 on "Structural changes to the health systems and other provisions" which introduces important changes in system governance and in the way certain services are purchased (e.g. a new health procurement system) and regulated (pharmacies).

More specifically, the following measures are implemented by end March 2011:	
<i>Governance</i>	
Government implements the provisions of Article 31 and 32 of Law 3863/2010. In particular, the Health Benefit Coordination Council (SYSPY):	Observed. The Law 3918/2011 merges the health insurance function of the 4 biggest funds – IKA-ETAM, OGA, OPAD and OAEE, creating the National Health Services Organisation (EOPYY) for the purchasing of health services for those insured under those funds. It is due to start operations by beginning of September 2011. Contribution rates have been adjusted, notably for state employees and state pensioners. The work of the SYSPY is ongoing notably preparing for change. To be further checked. With the creation of the EOPYY it is likely that until the end of the year many different contracts will remain.
establishes new criteria and terms for the conclusions of contracts by social security funds (including OPAD) with all healthcare providers, and all other actions envisaged in Article 32 with the aim of achieving the targeted reduction in spending;	
initiates joint purchase of medical services and goods to achieve substantial expenditure reduction (of at least 25 percent compared to 2010) through price-volume agreements.	

<i>Comprehensive E-prescribing</i>	
Government takes all necessary measures in order to extend in a cost-effective way the e-prescribing of medicines, diagnostics and doctors' referrals to all social security funds, health centres and hospitals. To this extent, in compliance with EU procurement rules, Government speeds up and finalises the necessary tendering procedures to implement a comprehensive and uniform health care information system (e-health system).	Partially observed. According to the Government, e-prescribing is currently used by all pharmacies and around half of doctors contracted with the social security funds.
Each social security fund together with SYSPY establishes a process to regularly assess the information obtained through the e-prescribing system and produces regular reports (at least on a six-monthly basis) to be transmitted to the competent authorities in the Ministry of Labour, Ministry of Health, Ministry of Finance and ELSTAT. Monitoring and assessment is done through a dedicated common unit under SYSPY. On the basis of the information available and the assessment conducted, a yearly report is published and feedback is provided to each physician. Sanctions and penalties will be enforced as a follow up to the assessment.	
<i>Hospital computerisation and monitoring system</i>	
Government (Ministry of Health) completes the programme of hospital computerisation. In particular, building on the web-based platform esy.net, it finalises the process of centralisation of information. The Ministry of Health creates a dedicated service/unit to collect and scrutinise data and produce monthly and annual reports. A copy of these reports is transmitted to the competent authority in the Ministry of Finance. Government takes measures to ensure the integration and consolidation of hospitals' IT systems.	Ongoing. In February 2011, about 20 hospitals did not have a modern ICT system. For the others, the Ministry of Health had created a web platform ESY.net which act as was a system to integrate information (financial, administrative and activity information) from all hospitals. This information is gathered monthly and sent to Ministries of Health and of Finance. The Ministry of Health had identified a number of priorities for further updating hospitals ICT systems but to our knowledge, no tendering procedure has been launched.

Government takes measures to improve the accounting, book keeping (of medical supplies) and billing systems, through:	<p>Ongoing.</p> <p>132 hospitals have now moved to the double-entry accrual accounting system for monthly expenses and revenues. 119 hospitals produced balance sheets for 2009 and 121 for 2010 but some have not yet done so.</p> <p>In February, EKEVYL and EPI had created a common coding system for all medical supplies to be used by NHS hospitals together with a web platform to monitor the requests by hospitals.</p> <p>The process of modernising ICT systems in view of a fully integrated and automated system is ongoing.</p>
finalising the introduction of double-entry accrual accounting systems in all hospitals	
the use of the uniform coding system and a common registry 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	
the calculation of stocks and flows of medical supplies in all the hospitals using the uniform coding system for medical supplies	
the timely invoicing of treatment costs (no later than 2 months) to Greek social security funds, other EU Member States and private health insurers for the treatment of non-nationals/ non-residents	
the use of e-prescribing for all medical acts (medicines, referrals, diagnostics, surgery) in all NHS facilities	
<i>Increasing use of generic medicines</i>	
Government takes measures to ensure that at least 50 percent of the volume of medicines used by public hospitals by end of 2011 is composed of generics with price below that of similar branded products and off-patent medicines, in particular by making compulsory that all public hospitals procure pharmaceutical products by active substance.	<p>Ongoing.</p> <p>In December 2010 a circular required a quarterly report (October - November - December 2010) of the cost of drug consumption from all hospitals including the volume and cost with generics. Another circular sets the goal to increase the share of generics in NHS hospitals to 50 percent by 2011. The share of generics is so far 12.4% of total.</p>

<i>Pricing of medicines</i>	
Government	Observed. The Law 3918/2011 moved the responsibility of pricing medicines from the General Secretary of Trade to the Ministry of Health, Directorate of Drugs and Pharmacies, although not to EOF. The new department under the Directorate of Drugs and Pharmacies is to be staffed by 9 people. To be in operation by 1 st April 2011. It is not clear how this department and a new Drug Price Committee (consultative) relate to EOF. The Law 3918/2011 also reduces the net (excluding VAT) profit margin of pharmacies from about 23.5 to 20% on average through a system of rebates which changes with pharmacies volumes of sales to social security funds. Currently operational.
moves the responsibility of pricing medicines to EOF and all other aspects of pharmaceutical policy to the Ministry of Health, to rationalise licensing, pricing and reimbursement systems for medicines	
under the new law, reduces the profit margin of pharmacies on retail prices directly to 15-20 percent, or indirectly by establishing a system of rebates for pharmacies with sales above a designated threshold	
reduces the profit margin of wholesale companies distributing pharmaceuticals by at least one third	
updates and publishes the complete price list for the medicines in the market, using the new pricing mechanism. Continue to regularly update it on a quarterly basis	
lifts the caps to the price reductions used when the price list was first introduced	
<i>Prescribing and monitoring</i>	
Government	Ongoing. Several guidelines were under preparation in February. Some should have been finalised and published by now. About 100 should were expected to have been filed for approval by end of April 2011. Need to check their status. Need to check if the reference price system has now been launched and the positive list published. It was being finalised in February. We have not received any information on this. The positive list is expected by end-June.
publishes the prescription guidelines for physicians defined by EOF on the basis of international prescription guidelines	
publishes the new positive list of reimbursed medicines using the new reference price system developed by EOF	

<i>Accounting and control</i>	
By end February, Government starts publishing monthly data on healthcare expenditure for at the least the main social security funds (IKA, OAEE, OGA and OPAD) with a lag of three weeks after the end of the respective month	<p>Partially observed</p> <p>According to the taskforce report since October 2010, social security funds have been working on a monthly breakdown of expenditure per fund.</p>
<i>Taskforce</i>	
The independent task force of health policy experts created at the end of 2010 produces, in cooperation with the European Commission, the ECB and the IMF, an interim policy report with initial indications on the necessary revisions to the policies implemented recently and the improvements for the years to come. To accomplish this, the taskforce has access to all necessary information on health-related issues from the relevant ministries and government agencies and health funds upon request and through dedicated fact-finding meetings. It receives adequate administrative support.	<p>Observed</p> <p>Interim report on policy implementation was submitted.</p>

Table A-3: Financial sector regulation and supervision

Actions in the Memorandum of understanding on specific policy conditionality (MoU) (actions by end-March 2011)	Comments
<p>Government transfers, by end February, EUR 1 000 million to a dedicated government account opened by the General Accounting Office. Funds from this account are regularly released to the Hellenic Financial Stability Fund to ensure the latter keeps a cash balance of EUR 1 500 million and if programme reviews of bank capital suggest that the resources are necessary. The release of the funds is subject to agreement by the European Commission, ECB and IMF staffs.</p> <p>Government puts forward for parliamentary adoption a new tranche of government guarantees for uncovered bank bonds. This tranche will amount to EUR 30 billion. The guarantee tranche is subject to approval by the European Commission.</p> <p>Government tables legislation with the aim of unbundling the core consignment activity of the Loan and Consignment Fund from deposit-taking and loan distribution activities.</p>	<p>Observed.</p>
<p>FSF is adequately staffed.</p>	
<p>Government tables legislation that places all registered banks' employees under the same private sector status, regardless of the bank ownership.</p> <p>To support banks in their effort to restructure operations, Government takes steps to limit bonuses and to eliminate the so called 'balance-sheet premium,' or other equivalent measures.</p>	
<p>The Bank of Greece commits to reduce remuneration of its staff in light of the overall effort of fiscal consolidation.</p>	<p>Partially observed.</p> <p>Top management is adequately staffed. The number of lower level employees are, however, still not adequate.</p> <p>Not observed.</p> <p>A reduction of about 4 percent in the wage bill – with no individual wage cuts was achieved by the Bank of Greece in 2010.</p>

Table A-4: Other structural reforms

Actions in the Memorandum of understanding on specific policy conditionality (MoU) (actions by end-March 2011)	Comments
<i>To strengthen labour market institutions:</i>	
Government reforms legislation on fixed-term contracts and on working-time management.	Ongoing. Provisions on working-time management and fixed-term contracts are expected to be adopted shortly. There have been administrative actions accelerating the establishment of firm-level trade unions.
Government simplifies the procedure for the creation of firm-level trade unions.	
<i>To reform and modernise public administration</i>	
<i>Public procurement</i>	
Government adopts legislation establishing the Single Public Procurement Authority with the mandate, objectives, competences, powers and schedule for entry into force in line with the Action Plan agreed with the European Commission in November 2010. Government transmitted the draft law to the Commission for review and an assessment of compliance with the Action Plan.	Ongoing. The draft law on the Single Public Procurement Authority is in compliance with the Action plan agreed between the Commission and Greece in autumn 2010.

Government launches the development of an e-procurement IT platform and sets intermediate milestones in line with the Action Plan. This includes: testing a pilot version, availability of all functionalities for all contracts and phasing-in of the mandatory use of e-procurement system for supplies, services and works contracts.	<p>Not observed.</p> <p>The contract to provide an e-procurement platform has not been signed.</p>
<i>Better Regulation</i>	
Government adopts measures needed to implement the 'Better Regulation agenda', covering in particular the areas of codification, impact assessment, the reduction of administrative burdens and the 'Better Regulation' structure.	<p>Ongoing.</p> <p>The draft law, which has been transmitted to the Commission services, aims at strengthening the legal standing of the better regulation policy and provides for a consistent evaluation of the impacts of legislation. Approval by Parliament is expected in July 2011.</p>
<i>To improve the business environment and enhance competition in open markets</i>	
<i>Regulated professions</i>	
Government adopts legislation to remove unjustified or disproportionate restrictions to competition, business and trade in restricted professions including:	<p>Partially observed.</p> <p>The reform was adopted by Law 3919/2011.</p> <p>However, the Greek government should take steps in the next few months to ensure effective implementation / correct deficiencies in the law.</p>
the legal profession, to remove unnecessary restrictions on fixed minimum tariffs, the effective ban on advertising, territorial restrictions on where lawyers can practice	
the notary profession, to reduce fixed tariffs and increase the number of notaries	
the pharmacy profession, to permit incorporation, increase operating hours and reduce the minimum population criterion for opening new pharmacies; (voted in February)	
architects and engineers, covering fixed minimum tariffs	
auditing services, covering fixed tariffs, minimum hours per case and maximum annual working hours. ¹	

¹ Government establishes a two-year sunset clause for minimum and maximum working hours.

It publishes the opinion of the Hellenic Competition Commission on this legislation.	Observed.
Government screens the statutes of the professional chambers to identify rules on access to, and exercise of, the profession, and on pricing, that are against the new law on restricted professions and EU law. The necessary changes to these statutes are adopted by June.	Not observed.
Government takes measures ensuring that providers of services are not subject to requirements which oblige them to exercise a given specific activity exclusively, or which restrict the exercise jointly or in partnership of different activities, except in the circumstances and under the conditions set in the Services Directive.	
Government takes measures to remove complete prohibitions on commercial communications by the regulated professions and to ensure that professional rules on commercial communications are non-discriminatory, justified by an overriding reason relating to the public interest and proportionate.	
<i>Recognition of professional qualifications</i>	
Government continues to take all necessary measures to ensure the effective implementation of EU rules on recognition of professional qualifications, including compliance with ECJ rulings (inter alia, related to franchised diplomas). It updates information on the number of pending applications for recognition of professional qualifications, and sends it to the Commission.	Ongoing. The Government has submitted to the Commission services information on the number of pending applications for recognition.

<i>Sectoral growth drivers</i>	
Government publishes a report analysing the potential contribution of the tourism sector to growth and jobs. It should identify legislative, administrative and other obstacles hindering competition and market entry to the realisation of sector potential.	Ongoing. The studies have been outsourced to a consultancy. Publication is foreseen for July.
Government publishes a report analysing the potential contribution of the retail sector to price flexibility, growth and jobs. It should identify legislative, administrative and other obstacles hindering competition and market entry to the realisation of sector potential.	
<i>Competition policy</i>	
Government finalises the adoption of a law modifying the existing institutional framework of the Hellenic Competition Commission (HCC). It ensures the HCC's independence, effectiveness and accountability, and warrants continuity in the operation of the HCC board. The new law abolishes the notification system for all agreements falling within the scope of Article 1 of Law 703/1977, grants the HCC the power to reject complaints and to prioritize cases effectively and establishes reasonable deadlines for the investigation and issuance of decisions.	Observed.
<i>Investment and licensing laws</i>	
Government adopts all presidential decrees and ministerial decisions necessary for the implementation of the law on aid for private investment to promote economic growth, entrepreneurship and regional cohesion, and ensures accordance with the fiscal consolidation requirements	Largely observed. Law on environmental licensing expected to be adopted by Parliament by end-July.
Government ensures the acceleration of the environmental licensing by committing the authorising authority to proceed with the approval procedure after a specified time period.	

<i>Commercial and land registry</i>	
Government makes General Commercial Registry (GEMI) and one-stop shops for business start-ups operational.	Observed.
Government provides sufficient resources for accelerating the completion of the land registry, with a view to tendering cadastral projects for additional 4 million rights by December 2011, completing the works for the large urban centres by 2015 and completing the overall project by 2020.	Ongoing.
<i>Business-friendly Greece</i>	
Government starts implementing the measures identified by the action plan for a business-friendly Greece according to the timetable for the removal of the 30 most important remaining restrictions to business activity, investment and innovation.	Ongoing.

<i>Export and R&D promotion</i>	<p>Not observed.</p> <p>The National Council for Research and Development has been established and convenes on a regular basis, according to Government.</p>
Government pursues an up-to-date and in-depth evaluation of all R&D and ongoing innovation actions, including in various operational programmes, and presents an 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).	
Government finalises the creation of an external advisory council, to consider how to foster innovation, strengthen links between public research and Greek industries and the development of regional industrial clusters.	
Government presents an action plan with a view to abolishing the requirement of registration with the exporter's registry of the chamber of commerce for obtaining a certificate of origin by September 2011.	
<i>Services directive</i>	<p>Ongoing.</p>
Government ensures that the point of single contact (PSC) distinguishes between procedures applicable to service providers established in Greece and those applicable to cross-border providers (in particular for the regulated professions).	
Government:	
ensures adequate links between the PSC and other relevant authorities (including professional associations)	
allows the online completion of procedures covering at least, the procedures in the distribution services, tourism, education and construction sectors as well as in food and beverage services, services of the regulated professions – including the recognition of professional qualifications –, real estate services, and business services.	

Government completes the adoption of changes to existing (sectoral) legislation in key services sectors such as tourism, retail and private education services. New acts should:	Ongoing.	
facilitate establishment by: - abolishing or amending requirements which are prohibited by the Services Directive; and - significantly reducing requirements, including those relating to quantitative and territorial restrictions, legal form requirements, shareholding requirements, fixed minimum and/or maximum tariffs and restrictions to multidisciplinary activities; facilitate the provision of cross-border services, so that providers of cross-border services are required to comply with specific requirements of the Greek Law 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.		
<i>Energy</i>		
Government commences implementation of plan for opening up lignite-fired electricity generation to third parties.		Not observed.
Government presents detailed plans for ensuring a maximum market opening as regards the non-interconnected system.		Ongoing / not observed.
Government commences implementation of its commitment to award the hydro reserves management to an independent body.	The government has so far failed to present a plan to guarantee fair and transparent access to the hydro capacity.	

<p>Government starts to implement the mechanism to ensure that the energy component of regulated tariffs reflects, gradually and at the latest by June 2013, wholesale market prices, except for vulnerable consumers.</p>	<p>Ongoing.</p> <p>Legislation to gradually remove regulated prices has been adopted. However, the government has also to establish a link between wholesale and retail market prices.</p>
<p>In order to ensure that network activities are unbundled from supply activities as foreseen in the second and third energy liberalisation packages, the following measures are implemented:</p> <p>Government adopts a Decision on the modalities of unbundling of the transmission system operator in line with the third energy liberalization package, ensuring timely management appointments, and adopts necessary legislation to ensure the creation of fully unbundled electricity and gas transmission system operators by March 2012.</p> <p>Government ensures the creation and effective operation of an independent Distribution System Operator, in line with the second and third energy liberalisation packages.</p>	<p>Ongoing.</p> <p>Legislation is expected to be passed in July 2011</p>
<p>Government transfers to the Regulatory Authority for Energy (RAE) all regulatory powers assigned to EU energy regulators in the third energy liberalisation package (licensing, network access, network charges, market monitoring, etc).</p>	<p>Ongoing.</p>
<p>Government adopts measures to ensure the independence of RAE (impartial and transparent nomination of board, management authority with regard to budget and personnel, etc. in line with the third energy liberalisation package).</p>	<p>Ongoing.</p> <p>Government expects the law to be adopted by Parliament in July.</p>

<i>Transport</i>	
Government adopts a new regulatory framework to facilitate the conclusion of concession agreements for regional airports. The new regulatory framework should contribute to the development of the tourism sector and be mindful of preventing anticompetitive practices and foresee appropriate oversight of the allocation and operation of concessions, in full respect of state aid rules.	<p>Partially observed.</p> <p>Law 3913/2011 was adopted on 16 February 2011.</p> <p>Compatibility with state aid rules is being scrutinised.</p>
Government adopts a law that removes the current restrictions on the provision of services for occasional passenger transport by buses, coaches and limousines and which guarantees that any operator that meets clearly specified criteria related to professional capacity has unlimited access to the market. The cost for granting and renewing of licenses shall not exceed the administrative costs related to the licensing procedure and shall be levied in proportion to the number of vehicles licensed. The method for calculating the fees must be transparent and objective and shall not lead to over recovery of costs incurred.	<p>Ongoing.</p> <p>A draft act is being prepared and is expected to be submitted to Parliament shortly.</p>
<i>To upgrade the education system</i>	
Government establishes, by end February 2011, an independent taskforce on education policy with the purpose of indicating specific policy measures aimed at increasing the efficiency and effectiveness of the public education system (primary, secondary and higher education) and reach a more efficient use of resources.	<p>Partially observed. Although the taskforce has been established, there has been no consultation with EC/IMF/ECB.</p>

To raise the absorption rates of structural and cohesion funds

Government adopts legislation to shorten deadlines and simplify procedures on contract award and land expropriations (including the deadlines needed for the relevant legal proceedings).

Not observed.

Government carries out an evaluation the time-saving effects of the legislation
on contract awards and land expropriation,
on permits by the Central Archaeological Council in Athens,
on environmental licensing (see below 'business environment').

Ongoing.

Government submits a timetable for the preparation, selection and implementation of different types of projects (including scenarios of legal proceedings), derived from the above legislation. The timetable will serve as a benchmark for monitoring of projects.

Observed.

Annex 2: Macroeconomic forecast

Detailed macroeconomic forecasts (annual)

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

<i>Annual % change</i>	2009	2010	2011	2012	2013	2014	2015
1. Private consumption expenditure	-2,2	-4,5	-4,8	-1,2	1,1	1,2	1,4
2. Government consumption expenditure	10,3	-6,5	-8,4	-5,0	-1,0	-0,3	0,3
3. Gross fixed capital formation	-11,2	-16,5	-8,9	-1,5	2,7	4,0	5,0
4. Final domestic demand	-1,9	-6,8	-6,0	-1,9	1,0	1,4	1,8
5. Change in inventories + net acquisitions of valuables	-0,9	0,0	0,2	0,2	0,1	0,1	0,1
6. Domestic demand	-4,0	-6,1	-5,9	-1,9	0,9	1,4	1,8
7. Exports of goods and services	-20,1	3,8	6,4	6,7	6,5	6,6	6,8
7a. - of which goods	-18,0	4,8	4,7	5,2	6,2	6,2	7,0
7b. - of which services	-21,6	3,1	7,8	7,8	6,8	6,8	6,7
8. Final demand	-6,9	-4,6	-3,9	-0,3	2,0	2,4	2,8
9. Imports of goods and services	-18,6	-4,8	-4,2	-3,2	1,8	2,9	3,3
9a. - of which goods	-18,5	-8,4	-4,0	-3,0	1,6	2,9	3,5
9b. - of which services	-18,9	10,2	-4,7	-3,8	2,7	2,7	2,7
10. Gross domestic product at market prices	-2,4	-4,5	-3,8	0,6	2,1	2,3	2,7
<i>Contribution to change in GDP</i>							
11. Final domestic demand	-2,1	-7,7	-6,6	-2,0	1,0	1,4	1,8
12. Change in inventories + net acq. of valuables	-2,5	0,9	0,2	0,0	-0,1	0,0	0,0
13. External balance of goods and services	2,2	2,3	2,7	2,6	1,1	0,9	0,9

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

<i>Annual % change</i>	2009	2010	2011	2012	2013	2014	2015
1. Private consumption expenditure	-1,1	0,1	-2,1	-0,2	2,2	2,2	2,3
2. Government consumption expenditure	12,6	-13,4	-9,3	-4,1	0,0	0,7	1,3
3. Gross fixed capital formation	-11,3	-15,7	-8,1	-0,1	0,0	5,9	6,6
4. Final domestic demand	-0,6	-4,9	-4,1	-0,8	0,0	2,5	2,8
5. Change in inventories + net acquisition of valuables	-2,7	-4,1	-4,1	-0,8	2,1	2,5	2,7
6. Domestic demand	-2,7	-4,1	-4,1	-0,8	2,1	2,5	2,7
7. Exports of goods and services	-20,2	8,9	8,6	7,8	8,5	8,5	8,8
7a. - of which, goods	-18,9	11,8	7,8	6,5	8,2	8,1	8,9
7a. - of which, services	-21,2	6,9	9,2	8,8	8,8	8,7	8,7
8. Final demand	-5,7	-2,2	-2,1	0,7	3,3	3,7	4,0
9. Imports of goods and services	-19,1	-2,6	-1,3	-1,2	4,1	5,2	5,5
9a. - of which goods	-20,2	-6,0	-0,7	-1,0	3,9	5,3	5,7
9a. - of which, services	-13,9	12,9	-3,5	-1,9	4,7	4,7	4,6
10. Gross domestic product at market prices	-0,8	-2,1	-2,3	1,3	3,1	3,3	3,6
11. - of which, external balance of goods and services							
12. Balance of primary income with rest of the world	0,5	0,0	-0,1	-0,1	0,0	0,0	0,0
13. Gross national income	-0,3	-2,1	-2,4	1,3	3,1	3,3	3,6
14. Compensation of employees	2,6	-5,7	-4,7	0,2	0,4	0,5	0,4
15. Gross operating surplus and mixed income	-1,0	-1,5	-2,3	1,6	5,5	5,7	6,0
16. Gross value added at basic prices	0,5	-3,3	-3,3	1,0	3,5	3,7	3,9
16a. - of which, labour costs, including self-employed	2,9	-5,5	-4,9	-0,2	1,0	1,0	1,0
17. Taxes net of subsidies	-10,0	9,6	5,4	3,0	0,6	0,6	0,6
18. - taxes on products	-9,8	9,6	5,4	3,0	0,6	0,6	0,6
19. - subsidies on products	76,7	22,4	2,6	2,6	2,6	2,6	2,6
20. Gross domestic product at market prices	-0,8	-2,1	-2,3	1,3	3,1	3,3	3,6

Table A3: COSTS AND PRICES

<i>% change in implicit price deflator</i>	2009	2010	2011	2012	2013	2014	2015
1. Private consumption expenditure	1,1	4,7	2,8	1,0	1,1	1,0	0,9
2. Government consumption expenditure	2,0	-7,4	-1,0	1,0	1,1	1,0	1,0
3. Gross fixed capital formation	-0,2	1,0	1,0	1,3	1,7	1,8	1,6
3a. - of which, construction	0,3	0,6	2,3	1,5	1,6	1,7	1,7
3b. - of which, equipment	-0,6	1,4	1,8	1,4	2,0	1,8	1,4
4. Final domestic demand	1,3	2,1	2,1	1,1	1,2	1,1	1,0
	-	-	-	-	-	-	-
6. Domestic demand	1,4	2,1	1,9	1,1	1,2	1,1	0,9
7. Exports of goods and services	-0,2	4,9	2,1	1,1	1,9	1,8	1,8
7a. - of which, goods	-1,1	6,7	3,0	1,2	1,9	1,8	1,8
7b. - of which, services	0,5	3,7	1,3	0,9	1,9	1,8	1,8
8. Final demand	1,3	2,5	1,9	1,1	1,3	1,3	1,1
9. Imports of goods and services	-0,7	2,4	3,0	2,1	2,2	2,2	2,1
9a. - of which, goods	-2,1	2,6	3,4	2,1	2,2	2,3	2,1
9a. - of which, services	6,2	2,4	1,3	2,0	1,9	2,0	1,9
10. Gross domestic product at market prices	1,6	2,6	1,5	0,7	1,1	1,0	0,9
11. Terms of trade of goods and services	0,4	2,4	-0,9	-1,0	-0,3	-0,4	-0,3
11a. - of which, terms of trade of goods	1,0	4,0	-0,4	-0,9	-0,4	-0,5	-0,3
11b. - of which, terms of trade of services	-5,3	1,3	0,0	-1,1	-0,1	-0,1	-0,1
12. HICP	1,3	4,7	2,9	1,0	1,0	1,1	1,1
12. -at constant taxes	1,1	1,4	1,3	0,9	1,0	1,1	1,1

Table A4: LABOUR MARKET AND LABOUR COST

<i>Annual % change</i>	2009	2010	2011	2012	2013	2014	2015
1. Gross value added at 1995 basic prices	-1,4	-5,2	-3,2	0,0	1,3	1,5	1,9
2. Employment ('000)	-0,7	-2,1	-3,2	-0,3	0,9	0,7	0,8
3. GVA per occupied person	-0,7	-3,2	0,0	0,3	0,4	0,8	1,1
4. Compensation of employees (per employee)	3,6	-3,5	-1,8	0,1	0,1	0,3	0,2
5. Unit labour costs (1995=100)	4,3	-0,4	-1,8	-0,2	-0,3	-0,5	-0,9
6. Total population	0,4	0,2	0,2	0,2	0,2	0,2	0,2
7. Population of working age (15-64 years)	0,1	0,5	0,4	0,4	0,4	0,4	0,4
8. Total labour force	1,1	0,6	0,2	0,2	0,2	0,2	0,2
	-0,7	-2,1	-3,2	-0,3	0,9	0,7	0,8
11. Total employment	-0,7	-2,1	-3,2	-0,3	0,9	0,7	0,8
11a. - of which, employees	-0,9	-2,3	-3,0	0,1	0,3	0,2	0,2
11b. - of which, self-employed	-0,3	-1,7	-3,5	-1,0	2,0	1,8	1,8
13. Unemployment	24,4	27,3	26,6	3,4	-3,2	-2,6	-3,0
9. Calculated unemployment rate (%)	9,1	11,5	14,5	15,0	14,5	14,0	13,6

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

<i>levels</i>	2009	2010	2011	2012	2013	2014	2015
1. Private consumption expenditure	172,7	172,8	169,2	168,9	172,6	176,4	180,5
2. Government consumption expenditure	48,4	41,9	38,0	36,5	36,5	36,8	37,2
3. Gross fixed capital formation	40,2	33,9	31,1	31,1	32,5	34,4	36,7
4. Final domestic demand (1+2+3)	261,3	248,6	238,4	236,5	241,6	247,6	254,4
5. Change in inventories + net acquisition of valuables as % of GDP							
6. Domestic demand (4+5)	260,3	249,7	239,4	237,5	242,5	248,6	255,4
7. Exports of goods and services	44,3	48,2	52,4	56,5	61,3	66,5	72,3
7a. - of which, goods	18,5	20,7	22,3	23,8	25,7	27,8	30,3
7a. - of which, services	25,8	27,5	30,1	32,7	35,6	38,7	42,0
8. Final demand (6+7)	304,6	297,9	291,8	294,0	303,8	315,1	327,8
9. Imports of goods and services	69,5	67,7	66,8	66,1	68,7	72,3	76,2
9a. - of which goods	56,8	53,4	53,0	52,5	54,6	57,4	60,7
9a. - of which, services	12,7	14,3	13,8	13,5	14,2	14,9	15,5
10. Gross domestic product at market prices (8-9)	235,1	230,2	225,0	227,9	235,1	242,9	251,5
11. - of which, external balance of goods and services							
12. Balance of primary income with rest of the world	-6,4	-6,3	-6,5	-6,7	-6,9	-7,1	-7,3
13. Gross national income at market prices (10+12)	228,6	223,9	218,4	221,2	228,2	235,8	244,2
14. Compensation of employees	88,6	83,5	79,6	79,7	80,0	80,4	80,7
15. Gross operating surplus and mixed income	123,8	121,8	119,0	120,9	127,6	134,9	143,0
16. Gross value added at basic prices (14 + 15)	212,4	205,4	198,6	200,6	207,6	215,2	223,7
16a. - of which, labour costs, including self-employed	136,3	128,8	122,4	122,2	123,4	124,6	125,9
17. Taxes net of subsidies (18-19)	25,6	28,0	29,5	30,4	30,6	30,8	31,0
18. - taxes on products	25,7	28,1	29,6	30,5	30,7	30,9	31,1
19. - subsidies on products	0,1	0,1	0,1	0,1	0,1	0,1	0,1
20. Gross domestic product at market prices (16 + 17)	235,1	230,2	225,0	227,9	235,1	242,9	251,5

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

<i>levels</i>	2009	2010	2011	2012	2013	2014	2015
1. Gross value added at 1995 basic prices	160,7	152,4	147,5	147,5	149,4	151,6	154,5
2. Employment ('000)	4762,7	4662,9	4515,1	4502,2	4540,9	4574,0	4610,0
3. GVA per occupied person (1:2)	33,7	32,7	32,7	32,8	32,9	33,2	33,5
4. Compensation of employees (per employee)	28,6	27,6	27,1	27,1	27,2	27,3	27,3
5. Unit labour costs (4:3) (1995=100)	84,8	84,5	83,0	82,9	82,6	82,2	81,5
6. Total population	11287,8	11310,1	11332,7	11355,4	11378,1	11400,9	11423,7
7. Population of working age (15-64 years)	7542,0	7583,4	7610,0	7636,7	7663,4	7690,3	7717,2
8. Total labour force	5238,8	5268,8	5281,9	5295,1	5308,4	5321,6	5334,9
9. Calculated activity rate (%) (8:7)	69,5	69,5	69,4	69,3	69,3	69,2	69,1
10. Total employment	4762,7	4662,9	4515,1	4502,2	4540,9	4574,0	4610,0
11. Total employment	4762,7	4662,9	4515,1	4502,2	4540,9	4574,0	4610,0
11a. - of which, employees	3096,0	3024,6	2934,2	2937,1	2944,5	2948,9	2955,7
11b. - of which, self-employed	1666,7	1638,2	1580,9	1565,1	1596,4	1625,1	1654,4
12. Calculated employment rate (11:7)	63,1	61,5	59,3	59,0	59,3	59,5	59,7
13. Unemployment (8 - 11)	476,1	605,9	766,8	792,9	767,5	747,6	724,9
13a. Calculated unemployment rate (%) (13:8)	9,1	11,5	14,5	15,0	14,5	14,0	13,6

Table B3: EXTERNAL BALANCE

<i>levels</i>	2009	2010	2011	2012	2013	2014	2015
1. Exports of goods (fob)	18,5	20,7	22,3	23,8	25,7	27,8	30,3
2. Imports of goods (fob)	56,8	53,4	53,0	52,5	54,6	57,4	60,7
3. Trade balance (goods, fob/fob) (1-2)	-38,3	-32,7	-30,7	-28,7	-28,8	-29,6	-30,4
<i>3a. p.m. (3) as % of GDP</i>	<i>-16,3</i>	<i>-14,2</i>	<i>-13,6</i>	<i>-12,6</i>	<i>-12,3</i>	<i>-12,2</i>	<i>-12,1</i>
4. Exports of services (a)	25,8	27,5	30,1	32,7	35,6	38,7	42,0
5. Imports of services (a)	12,7	14,3	13,8	13,5	14,2	14,9	15,5
6. Services balance (a) (4-5)	13,1	13,2	16,3	19,2	21,4	23,8	26,5
<i>6a. p.m. 6 as % of GDP</i>	<i>5,6</i>	<i>5,7</i>	<i>7,2</i>	<i>8,4</i>	<i>9,1</i>	<i>9,8</i>	<i>10,5</i>
7. External balance of goods & services (3+6)	-25,2	-19,5	-14,4	-9,6	-7,4	-5,8	-3,9
<i>7a. p.m. 7 as % of GDP</i>	<i>-10,7</i>	<i>-8,5</i>	<i>-6,4</i>	<i>-4,2</i>	<i>-3,2</i>	<i>-2,4</i>	<i>-1,5</i>
8. Balance of primary incomes and current Transfers	-7,6	-7,6	-7,8	-8,0	-8,2	-8,3	-8,5
<i>8a. - of which, balance of primary income</i>	<i>-6,4</i>	<i>-6,3</i>	<i>-6,5</i>	<i>-6,7</i>	<i>-6,9</i>	<i>-7,1</i>	<i>-7,3</i>
<i>8b. - of which, net current Transfers</i>	<i>-1,2</i>	<i>-1,3</i>	<i>-1,3</i>	<i>-1,3</i>	<i>-1,2</i>	<i>-1,2</i>	<i>-1,2</i>
<i>8c. p.m. 8 as % of GDP</i>	<i>-3,2</i>	<i>-3,3</i>	<i>-3,5</i>	<i>-3,5</i>	<i>-3,5</i>	<i>-3,4</i>	<i>-3,4</i>
9. Current external balance (7+8)	-32,8	-27,1	-22,2	-17,5	-15,6	-14,1	-12,4
<i>9a. p.m. 9 as % of GDP</i>	<i>-14,0</i>	<i>-11,8</i>	<i>-9,9</i>	<i>-7,7</i>	<i>-6,6</i>	<i>-5,8</i>	<i>-4,9</i>
10. Net capital transactions	2,5	3,9	4,3	4,8	5,2	5,8	6,3
11. Net lending (+)/ net borrowing (-) (9+10)	-30,3	-23,3	-18,0	-12,8	-10,3	-8,3	-6,1
<i>11a. p.m. 11 as % of GDP</i>	<i>-12,9</i>	<i>-10,1</i>	<i>-8,0</i>	<i>-5,6</i>	<i>-4,4</i>	<i>-3,4</i>	<i>-2,4</i>

C1: FISCAL ACCOUNTS AND FORECAST

	2009	2010	2011	2012	2013	2014
<i>Levels (in EUR billion)</i>						
Total revenue	87.7	89.9	93.4	96.8	99.6	103.5
Indirect taxes	26.1	28.6	31.7	33.3	34.1	35.2
Direct taxes	19.0	17.4	17.2	19.4	20.7	22.1
Social contributions	29.5	29.7	29.2	29.0	29.7	31.4
Sales	4.8	4.6	4.6	4.6	4.8	4.9
Other current resources	5.1	5.0	6.8	6.1	5.9	6.0
Capital transfers received	3.2	4.6	3.8	4.4	4.4	3.9
Total expenditure	124.2	113.9	110.4	111.7	111.0	109.9
Intermediate consumption	17.2	13.3	11.6	12.5	12.2	12.0
Compensation of employees	30.6	27.2	25.4	23.7	22.1	20.4
Social transfers other than in kind	48.8	47.4	45.8	45.1	43.9	42.2
Interest	12.3	12.6	15.2	17.9	19.4	21.2
Subsidies	0.1	0.1	0.1	0.1	0.1	0.1
Other current expenditure	3.6	3.9	3.7	3.3	3.5	3.4
Gross fixed capital formation	7.1	6.4	4.9	6.1	6.5	6.6
Other capital expenditure	4.4	3.0	3.7	3.0	3.3	4.0
General Government balance	-36.3	-24.2	-17.1	-14.9	-11.4	-6.4
Primary balance	-24.1	-11.4	-1.8	3.0	8.0	14.8
<i>% GDP</i>						
Total revenue	37.3	39.1	41.5	42.5	42.4	42.6
Indirect taxes	11.1	12.4	14.1	14.6	14.5	14.5
Direct taxes	8.1	7.6	7.7	8.5	8.8	9.1
Social contributions	12.5	12.9	13.0	12.7	12.7	12.9
Sales	2.0	2.0	2.0	2.0	2.0	2.0
Other current resources	2.2	2.2	3.0	2.7	2.5	2.5
Capital transfers received	1.4	2.0	1.7	1.9	1.9	1.6
Total expenditure	52.8	49.5	49.1	49.0	47.2	45.2
Intermediate consumption	7.3	5.8	5.2	5.5	5.2	5.0
Compensation of employees	13.0	11.8	11.3	10.4	9.4	8.4
Social transfers other than in kind	20.8	20.6	20.4	19.8	18.7	17.4
Interest	5.2	5.5	6.8	7.8	8.3	8.7
Subsidies	0.0	0.0	0.0	0.0	0.0	0.0
Other current expenditure	1.5	1.7	1.6	1.4	1.5	1.4
Gross fixed capital formation	3.0	2.8	2.2	2.7	2.7	2.7
Other capital expenditure	1.9	1.3	1.7	1.3	1.4	1.7
General Government balance	-15.4	-10.5	-7.6	-6.5	-4.8	-2.6
Primary balance	-10.3	-4.9	-0.8	1.3	3.4	6.1

Note: This table reflects the quantification of measures prepared during the mission. The Parliament process to vote the MTFS and the respective implementation bill was still ongoing at the moment these projections were prepared. In case Parliament changed the main parameters of some measures, adjustment to this table may be necessary.

C2: GROSS DEBT

	2009	2010	2011	2012	2013	2014
<i>levels (EUR billion)</i>						
Government deficit (level)	-36.3	-24.2	-17.1	-14.9	-11.4	-6.4
Gross debt (level)*	298.7	328.6	352.6	367.5	376.2	371.6
Change in gross debt	36.4	29.9	24.0	14.9	8.7	-4.6
Stock-flow adjustment	-0.3	5.9	7.8	0.5	-3.2	-11.0
<i>% GDP</i>						
Gross debt ratio	127.1	142.7	156.7	161.3	160.1	153.0
Change in the ratio	16.5	15.7	14.0	4.5	-1.2	-7.0
<i>Contributions:</i>						
Primary balance (+ is a deficit)	10.2	5.0	0.8	-1.3	-3.4	-6.1
“Snow-ball” effect	6.4	8.0	9.7	5.6	3.6	3.5
Of which:						
Interest expenditure	5.2	5.5	6.8	7.8	8.3	8.7
Real growth effect	2.6	5.8	5.5	-0.9	-3.2	-3.5
Inflation effect	-1.5	-3.3	-2.6	-1.4	-1.4	-1.6
Stock-flow adjustment	-0.1	2.6	3.5	0.2	-1.4	-4.5

Note: This gross debt projection takes into account, the planned deficit and privatisation receipts, but also the settlement of arrears, the planned increase in the sharecapital of the Hellenic Financial Stability Fund and accumulation of cash buffers.

Annex 3: Statement by the European Commission, the ECB and IMF on the Fourth Review Mission to Greece

Staff teams from the European Commission (EC), European Central Bank (ECB), and International Monetary Fund (IMF) have concluded a mission to Greece to discuss recent economic developments and policies needed to keep the country's economic program on track. The mission has reached staff-level agreement with the authorities on a set of economic and financial policies needed to meet program objectives. Strict implementation of these will help to restore fiscal sustainability, safeguard financial sector stability, and boost competitiveness to create the conditions for sustained growth and employment.

Overall, significant progress, in particular in the area of fiscal consolidation, has been achieved during the first year of the adjustment program. However, reinvigoration of fiscal and broader structural reforms is necessary to further reduce the deficit and achieve the critical mass of reforms needed to improve the business climate and pave the way for sustainable economic recovery.

Regarding the **outlook**, the recession in 2010 was slightly more pronounced than what was anticipated. But there have been encouraging signs recently, in particular a notable pick-up in exports. Unit labour costs are set to decline further, supporting the strong export dynamics, and inflation is on a declining trend. We expect the economy to stabilize at the turn of the year.

In the **fiscal area**, further sustained deficit reduction will require comprehensive fiscal structural reforms. The government has committed to an ambitious medium-term fiscal strategy that will enable it to maintain its 2011 and medium-term fiscal targets. This strategy includes a significant downsizing of public sector employment, restructuring or closure of public entities, and rationalization in entitlements, while protecting vulnerable groups. On the revenue side, the government will reduce tax exemptions, raise property taxation, and step up efforts to fight tax evasion.

The government is committed to significantly accelerate its **privatization** program. To this effect it will create a professionally and independently managed privatization fund, and has drawn up a comprehensive list of assets for privatization with the aim of realizing revenues of EUR 50 billion by the end of 2015. The government will assess progress against intermediate quarterly and annual targets.

In the **financial sector**, liquidity remains tight, but policies are in place to ensure adequate liquidity provision for the banking system. The banking sector remains fundamentally sound and the authorities are increasing capital requirements to further strengthen capital buffers, giving priority to private market-based solutions. However, the Financial Stability Fund is available as a backstop for viable banks that cannot raise capital in the private market.

Further progress has been made with **structural reforms**. Legislation to modernize public administration, reform healthcare, improve the functioning of the labor market, remove barriers to setting up and operating a business and liberalize transportation and energy has already been passed or is underway. The government will continue to push ahead in these areas, with a particular emphasis in coming months on growth-drivers such as reviving the tourist industry and removing administrative barriers to exports. To make sure that the reform frameworks are effective as soon as possible, the authorities will strengthen the process of implementation, including through technical assistance from the IMF, EU Member States, and the European Commission, and put monitoring mechanisms in place.

Building on the agreed comprehensive policy package, discussions on the financing modalities for Greece's economic program are expected to take place over the next few weeks. Once this process is concluded and following approval of the IMF's Executive Board and the Eurogroup, the next tranche will become available, most likely, in early July.

3 June 2011

Athens, 2 July 2011

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

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

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

Dear Messers. Juncker, Rehn and Trichet,

In the attached update to the Memorandum of Economic and Financial Policies (MEFP) and the Memorandum of Understanding on Specific Economic Policy Conditionality (MoU) from 3 May, 6 August, 22 November 2010 and 23 February 2011, we describe progress and policy steps towards meeting the objectives of the economic programme of the Greek government which is being supported by financial assistance provided by the euro-area Member States in the context of the loan facility agreement.

We continue to make progress with our economic program:

- Quarterly quantitative performance criteria for end-March have been met, along with the continuous criterion on external arrears for end-June. Information on other end-June performance criteria is not yet available. However, regarding our end-March indicative target on the accumulation of new domestic arrears by the general government, was again exceeded. The deep recession and associated revenue slump has complicated the achievement of fiscal targets, but we will take appropriate measures to overcome this challenge, as laid out in the attached MEFP and MoU.
- Fiscal-structural reforms have been moving forward. A comprehensive medium-term fiscal strategy has been approved by parliament as well as first-stage legislation to implement policy reforms, in each case as a prior action for this review. Parliament has also approved a detailed time-bound privatization plan (a prior action for the review), and a law establishing a privatization agency has been passed: also a prior action for the review. A structural benchmark on appointing financial accounting officers in line ministries and general government entities, and a benchmark covering an actuarial study on the main supplementary pension funds were observed with delay. Earlier end-December benchmarks covering a study on public employment and

compensation, and on improving the statistical reporting to Elstat are now fully implemented.

- Our policy efforts to support financial system stability continue. In March we submitted legislation to parliament allowing for the unbundling of the commercial activities of the HLCF and authorizing a new EUR 30 billion tranche of government guarantees for uncovered bank bonds. The legislation was passed in May. Furthermore, banks have submitted draft medium-term funding plans to the ECB and Bank of Greece, and the Bank of Greece has issued guidance to banks to refine the plans in line with the program's macroeconomic framework.

To support these efforts with an appropriate level of financing, we have defined a strategy to achieve substantial and credible contributions from the private sector and we aim to finalize their contributions by the time of the Fifth Review. In parallel, the ECB is working with Greek banks on medium-term funding plans to ensure that they reduce their exposure to exceptional Eurosystem liquidity support at a pace consistent with the program's macroeconomic framework.

On this basis, we request the disbursement of the fifth instalment of financial assistance by the euro-area Member States, pooled by the European Commission, in the amount of EUR 8 700 million.

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

This letter is being copied to Mr Lipsky.

Evangelos Venizelos

Deputy Prime Minister
Minister of Finance

George Provopoulos

Governor of the Bank of Greece

GREECE—MEMORANDUM OF ECONOMIC AND FINANCIAL POLICIES

The Economic Outlook

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

Fiscal Policy

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

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

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

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

Expenditure adjustments:

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

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

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

Reforms to social security

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

- **Supplementary pension funds.** Reforms will be adopted during Q3 2011 and implemented beginning in January 2012. The aim will be to eliminate imbalances, introduce a stricter link between benefits and contributions to guarantee the sustainability of all funds, and reduce the number of funds substantially.
- **Arduous professions.** The government will revise the list to reduce workers in arduous professions to less than 10 percent of total employees, with the list to be effective from July 2011.
- **Disability pensions.** The government will revise the definition of disability and its application by end-August. To reduce spending for disability pensions, now 14½ percent of overall pension spending to 10 percent, we will issue a regulation by end-August 2011 requiring the (re)certification of disabilities, and we will also make operational a central evaluation office.
- **Lump sum pensions.** Lump sum pensions for civil servants and public enterprise employees will be cut by at least 10 percent. By end-September studies of other lump sum pensions will be completed to identify where they are out of line with contributions. Adjustments to link these lump sum amounts with contributions will be made by end-year.
- **Health sector reforms (0.7 percent of GDP).** Over the past year, the government has designed a new institutional structure for the health sector merging different health funds, curtailing pharmaceutical spending, and introducing tighter accounting and spending controls in hospitals. Measures in these areas will continue to generate savings in the next three years. To build on these reforms, a task force will produce a report by September 2011 defining policies and quantitative targets in specific areas, including service provision, pharmaceutical spending, financing, governance of the health system, and accounting systems. On this basis, the government will adopt a time bound action plan to map out the next steps by end-November 2011.

Revenue increases

- **The elimination of tax exemptions and special regimes (2.8 percent of GDP).** To make the tax system fairer, simpler, and easier to administer, we are significantly scaling back preferential tax regimes. We have: (i) broadened the personal income tax base (by introducing a ceiling for the use of some tax credits and income deductions, reducing the tax free threshold, removing invoice-based tax refunds under the personal income tax, and introducing a special low rate solidarity charge on individual income, including currently exempt income); (ii) increased some reduced VAT rates on non basic items; (iii) widened the property tax base and raise rates (to bring revenues closer to the European average); and (iv) reduced expenditure on tax benefits for investment and for heating oil (in the latter case to come fully into effect

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

- **Stronger enforcement of tax laws** (1½ percent of GDP through 2014). As discussed below, in the context of a comprehensive program of revenue administration reform, we will increase tax audits, boost debt collection, prosecute tax offenders, and use presumptive tax methods to capture undeclared tax bases. Projected gains are assumed to largely arise later in the forecast period, recognizing the uncertainty with respect to their precise timing and amount.

Reforms to state enterprises

- **Improvements in the operating performance of state enterprises** (0.4 percent of GDP). A benchmarking exercise to best international practices, by sector, has provided guidance on areas where companies' operations can be rationalized and where tariffs can be increased. Using these benchmarks, companies have been instructed to update their business plans by end-July 2011 with specific actions to achieve potential savings.

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

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

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

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

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

Financial sector policies

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

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

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

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

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

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

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

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

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

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

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

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

Privatization

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

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

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

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

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

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

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

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

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

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

Structural reform policies

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

External financing

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

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

Technical assistance

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

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

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

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

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

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

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

4/ Indicative targets.

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

6/ Cumulatively from January 1, 2011.

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

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

Annex I. The MTFS Implementation Bill

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

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

Annex III. Greece--Privatization Plan

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

GREECE

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

(fourth update)

2 July 2011

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

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

The authorities commit to consult with the European Commission, the ECB and the IMF staff on adoption of policies falling within the scope of this Memorandum allowing sufficient time for review. They will also provide them with all requested information for monitoring progress during programme's implementation. Government provides a quarterly report in line with Article 4 of the Council Decision.

1 FISCAL CONSOLIDATION

Achieving 2011 fiscal target

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

Medium-term fiscal strategy

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

The MTFS includes, in particular:

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

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

Budget implementation

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

The Ministry of Finance ensures tight supervision of expenditure commitments by the government departments, including extra-budgetary funds, the public investment budget, social security funds and hospitals, local governments and state-owned enterprises, and effective tax collection, to secure the attainment of the programme quantitative criteria (Article 1 (2 and 3) of Council Decision 2010/320/EU, as amended, and Table 2 of the MEFP). **[continuous]**

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

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

2 STRUCTURAL FISCAL REFORMS

2.1 Asset management and privatisation

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

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

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

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

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

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

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

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

2.2 Fighting waste in public enterprises and other public entities

Legislation to close, merge and downsize non-viable entities will be tabled by the government **[July 2011]** and adopted by Parliament. **[mid-August 2011]** Among other, the legislation will relate to large entities which will be closed with functions transferred accordingly, merged or

substantially downsized: KED¹, ETA², ODDY,³ National Youth Institute, EOMEX⁴, IGME,⁵ (closure), OSK⁶, DEPANOM⁷, THEMIS⁸, ETHYAGE,⁹ DIMITRA¹⁰ (merger), ERT¹¹ (downsizing). [Q3-2011]

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

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

2.3 Tax reform and revenue administration reforms

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

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

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

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

¹ Real estate manager.

² Tourism-related real estate manager.

³ Mobile public property.

⁴ Organisation for SME support.

⁵ Institute of Geological and Mining Studies.

⁶ School-building organisation.

⁷ Hospital-building organisation.

⁸ Court- and prison-building organisation.

⁹ Agriculture Research Institute.

¹⁰ Agriculture Research

¹¹ Public broadcasting corporation.

To advance the reforms of revenue administration, Government will

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

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

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

2.4 Public financial management reforms

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

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

2.5 To modernise public administration

Functional reviews

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

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

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

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

Public sector wages and human resource management

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

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

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

Public procurement

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

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

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

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

Government issues decisions

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

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

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

2.6 To complete the pension reform

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

and the European Commission, ECB, and IMF staff. For the remaining supplementary schemes, the same procedure is followed. **[Q3-2011]**

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

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

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

The reform of the secondary/supplementary schemes is designed in consultation with European Commission, ECB and IMF staff, and its estimated impact on long-term sustainability is validated by the EU Economic Policy Committee. The parameters of the new secondary notional defined-contribution system ensure long-term actuarial balance, as assessed by the NAA. [legislation: **Q3-2011**; implementation: **Q1-2012**]

Government identifies the schemes for which lump sums paid on retirement are out of line with contributions paid, **[Q3-2011]** and adjusts the payments. **[Q4-2011]**

The reform contributes to achieve the overarching target of reducing the overall (basic, contributory, supplementary and any other related scheme, including lump sums at retirement) increase of public sector pension spending, over the period 2009-60, to under 2.5 percentage points of GDP. If the projections by the NAA show that, even after the reforms of the supplementary schemes, the projected increase in the total public pension expenditure exceeds the limit of 2.5 percentage points of GDP over 2009-60, Government revises also the main parameters of the pension system provided by Law 3863/2010. **[Q4-2011]**

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

Government implements the reform of the secondary/supplementary pension schemes, by merging funds and starting the calculation of benefits on the basis of the new notional defined-contribution system. Government freezes nominal supplementary pensions and reduces the

replacement rates for accrued rights in funds with deficits, based on the actuarial study prepared by the NAA. In case the actuarial study is not ready, replacement rates are reduced, starting from 1 January 2012, to avoid deficits. All funds set up a computerised system of individual pension accounts. **[Q1-2012]**

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

2.7 To modernise the health care system

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

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

More specifically, the following measures are implemented:

Governance

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

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

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

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

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

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

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

Pricing of medicines and medical services

Government

- collects the rebates from pharmacies with sales above a designated threshold against the payment due to pharmacies; it continues to do so on a monthly basis;
- publishes the complete price list for the medicines in the market, using a new pricing mechanism based on the three EU countries with the lowest prices. The list will be updated on a quarterly basis.
- lifts the caps to the price reductions used when the price list was first introduced. [Q2-2011]

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

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

Prescribing and monitoring

Government

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

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

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

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

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

Increasing use of generic medicines

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

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

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

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

NHS (ESY) service provision

A plan for the reorganisation and restructuring is prepared for the short and medium term with a view to reducing existing inefficiencies, utilising economies of scale and scope, and improving quality of care for patients.

The aim is to reduce hospital costs by at least 10 percent in 2011 and by an additional 5 percent in 2012 in addition to the previous year. This is to be achieved through:

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

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

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

Wages and human resource management in the health care sector

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

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

Accounting and control

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

By **Q2-2011**, Government starts publishing the monthly report with analysis and description of detailed data on healthcare expenditure by all

social security funds with a lag of three weeks after the end of the respective month.

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

Hospital computerisation and monitoring system

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

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

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

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

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

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

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

Centralised procurement

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

Independent task force of health policy experts

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

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

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

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

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

3 FINANCIAL SECTOR REGULATION AND SUPERVISION

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

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

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

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

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

Following ongoing initiatives at the EU level, the government will improve the legislation on financial institutions to allow timely and effective intervention and resolution consistent with EU Treaty and international sound practices. Legislation will be tabled by **mid-August 2011** and will be enacted by Parliament by **mid-September 2011**.

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

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

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

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

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

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

4 GROWTH-ENHANCING STRUCTURAL REFORMS

4.1 To strengthen labour market institutions

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

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

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

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

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

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

Regulated professions

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

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

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

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

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

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

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

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

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

- the list of professions falling under the scope of the law;
- the list of professions exempted from the lifting of restrictions by Presidential Decree and the justifications for such exemptions;
- an assessment of whether further measures are needed on the rules on access to, and exercise of the profession and on pricing to align Greek legislation with EU law and competition rules;

- a timetable to screen existing legislation and to adopt the necessary changes to the existing specific regulations of the professions (i.e., Presidential Decrees, Ministerial Decisions and Circulars) to make them fully compatible with chapter A of Law 3919/2011, EU law and competition rules. **[July 2011]**

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

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

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

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

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

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

- abolish provisions of the regulations of the professional chambers on access to, and exercise of, the profession and on pricing, that are against Law 3919/2011 and EU law including competition rules (see requirement for Q2 2011).
- ensure that providers of services are not subject to requirements which oblige them to exercise a given specific activity exclusively, or which restrict the exercise jointly or in partnership of different activities, except in the circumstances and under the conditions set in the Services Directive.
- remove complete prohibitions on commercial communications by the regulated professions and to ensure that professional rules on commercial communications are non-discriminatory, justified by an overriding reason relating to the public interest and proportionate.
- reinforce transparency in the functioning of professional bodies (see requirement for Q3-2011).
- set up contributions of lawyers and engineers to their professional associations that reflect the operating costs of the services provided by those associations.
- simplify the requirements reserving certain activities to the legal and engineering professions that are not justified or proportionate.
- tackle any other issues identified in the assessment of the implementation of Law 3919/2011 carried out by the government in Q3-2011. **[Q4-2011]**

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

Recognition of professional qualifications

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

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

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

Services Directive

Government completes the adoption of changes to existing sectoral legislation in key services sectors such as retail (e.g. open air markets and outdoor trade), wholesale (e.g. central markets), agriculture (e.g. veterinary services), employment (employment agencies), and technical services. Government specifies, for any remaining services sector, a timetable for adopting sectoral regulations by **end-2011** that ensures full compliance with the requirements of the Services Directive. New regulations should:

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

Government ensures

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

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

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

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

Sectoral growth drivers

Government publishes reports which analyse

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

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

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

Business environment

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

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

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

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

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

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

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

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

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

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

Government introduces legislation to mitigate tax obstacles to mergers and acquisitions such as the non-transfer of accumulated losses, together with the company and the complex computation of 'excessive benefit' (Law 3522/2006, Article 11) in the transfer of private limited companies. **[Q3-2011]**

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

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

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

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

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

Transport

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

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

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

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

are economically viable, Government launches an effective transaction strategy leading to their privatisation. **[Q4-2011]**

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

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

Energy

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

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

To ensure that network activities are unbundled from supply activities,

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

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

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

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

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

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

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

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

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

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

R&D and innovation

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

Better regulation

Government adopts legislation to improve regulatory governance covering in particular:

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

On impact assessments, legislation provides that

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

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

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

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

4.3 To raise the absorption rates of structural and cohesion funds

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

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

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

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

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

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

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

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

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

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

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

4.4 To upgrade the education system

The independent taskforce on education publishes a detailed blueprint for improvement of the efficiency and effectiveness in the use of resources in the public education system. This blueprint includes concrete policy

recommendations that the Ministry of Education takes into account for implementation. [Q2-2011]

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

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

4.5 To reform the judicial system

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

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

Specifically, Government:

- establishes a work plan for the clearance of the backlog of tax cases in all administrative tribunals and administrative courts of appeal by the end of July 2013, which provides for semi-annual intermediate targets for reducing the backlog by at least 15% by end-2011, 50% by end-July 2012 and 80% by end-2012; [Q2-2011]
- conducts, jointly with an external body of experts, a study of the backlog of cases in all remaining courts, including the Supreme Court and the Supreme Administrative Court, with data available by end-March 2012 and analysis by end-June 2012. [Q2-2011]
- introduces flanking measures for the bill on the rationalisation and improvement of the administration of civil justice promoting the wide-spread use of e-filing, e-signature and e-tracking of the status of individual cases; [Q3-2011]
- puts in place implementing rules for Law 3898/2010 on mediation in civil and commercial matters; [Q3-2011]
- improves alternative dispute resolution for out-of-court settlement and actively promotes pre-trial conciliation, mediation, and arbitration; [Q3-2011]
- identifies dormant cases; [Q3-2011]

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

professions, to review the Code of Civil Procedure to bring it in line with international best practices on, *inter alia*, (i) case management, including the possibility of removing dormant cases from court registers, (ii) the execution of decisions and orders to pay, in particular small claims cases with a view to reducing the role of the judge in these procedures, and (iii) enforcing statutory deadlines for court processes, in particular for injunction procedures and debt enforcement and insolvency cases; [Q2-2012]

- Government evaluates the backlog reduction plan of tax cases in all administrative tribunals established in Q2-2011 and takes remedial action in case of deviations to achieve full clearance of the backlog by end-July 2013; [Q3-2012]
- By end-August 2012, Government presents, based on the study conducted jointly with an external body of experts, an action plan with specific targets for a reduction of the backlog of the cases of the remaining courts of at least 50 per cent by end-July 2013 and starts implementing the action plan. [Q3-2012]
- The taskforce on the review of the Code of Civil Procedure makes specific recommendations on (i) case management, (ii) the reduction of the role of the judge in the execution of decisions and orders to pay and (iii) on enforcing statutory deadlines for court processes. [Q4-2012]

5 TECHNICAL ASSISTANCE AND REFORM MONITORING

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

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

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

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

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

- **Cuts in operational defense-related expenditure by at least EUR 133 million in 2013 and additional EUR 133 million in 2014 and EUR 134 million in 2015**, on top of the reduction in military equipment procurement (deliveries) of EUR 830 million from 2010 to 2015.
- **Cuts in healthcare and pharmaceutical expenditure by at least EUR 310 million in 2011, and additional EUR 697 million in 2012, EUR 349 million in 2013, EUR 303 million in 2014 and EUR 463 million in 2015**, through the implementation of a new 'health map' and associated reduction in hospitals expenses; a re-evaluation of mandate and expenses of non-hospital supervised entities; the implementation of central procurement system; reduction of average cost per case through case mixing; reduction in the services provided to the non-insured (gate-keeping function); introduction of charges for services provided to foreign citizens; the operation of the National Organization for Primary Healthcare (EOPI); the scanning by IKA of hand-written prescriptions; the expansion of the list of pharmaceuticals that do not require prescriptions; new prices of medicines; the establishment of insurance price by social security sector and the full implementation of e-prescription.
- **Cuts in social benefits by at least EUR 1 188 million in 2011, and additional EUR 1 230 million in 2012, EUR 1 025 million in 2013, EUR 1 010 million in 2014 and EUR 700 million in 2015**, through an adjustment in supplementary pension schemes and subsequent freeze through 2015; a freeze in the base pensions; the reform of the disability pension system; a census of pensioners and cross-checking of personal data with full implementation of social security number and upper cap on pensions; a rationalization of criteria for pensioners (EKAS); a rationalisation of benefits and beneficiaries of OEE-OEK and OAED; cuts in the lump-sums paid on retirement; the cross-checking of personal data from introduction of ceilings for employers who can join OAED schemes; a reduction in the core pension of OGA and in the lower pension thresholds of other social security funds and tightening of criteria based on the permanent residence; reduction in expenses on social benefits though cross-checking of data; uniform regulation of health benefits for all social security funds; uniform contracts with private hospitals and medical centres; the review of social benefits in cash and in kind leading to the abolition of the least effective; an increase in the special pensioner contribution (Law 3863/2010) for pensioners whose monthly pension exceeds EUR 1 700; an increase in the special social contribution paid by pensioners below 60 years old with monthly pensions above EUR 1 700; the introduction of special tiered contribution for supplementary pensions above EUR 300 per month and reduction in transfers to NAT (sailors' pension scheme) and the OTE pension scheme with concomitant reduction in pension expenditure or increase in contributions from beneficiaries.
- **Cuts in state transfers to local governments by at least EUR 150 million in 2011, and additional EUR 355 million in 2012, EUR 345 million in 2013, EUR 350 million in 2014 and EUR 305 in 2015**. These reductions will be achieved primarily through cuts in expenses of local government equal to at least EUR 150 in 2011, and additional EUR 250 million in 2012, EUR 175 million in 2013, EUR 170 million in 2014 and EUR 160 in 2015. Additionally, local governments' own revenue will rise by at least EUR 105 million in 2012 and additional EUR 170 million in 2013, EUR 130 million in 2014 and EUR 145 million in 2015, through an increase in revenues from tolls, fees, rights and other revenue streams following the merging of local

administrations, and an increase in local tax compliance following the introduction of a local tax clearance certificate requirement.

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

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

Annex 2: Terms of reference for the privatisation fund

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

Governance.

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

Transparency.

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

Asset Transfer and Management.

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

Mandate.

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

Operations.

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

Limits on borrowing.

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

Annex 3: Planned privatisation proceeds

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

Annex 4. Provision of data

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

To be provided by the Ministry of Finance

<p>Preliminary monthly data on the state budget execution (including breakdown by main categories of revenue and expenditure and by line ministry).</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>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 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>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>

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

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. ¹²	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.

¹²

All forms of debt instruments and capital, as well as net deposits provided to subsidiaries abroad.

To be provided by the Hellenic Financial Stability Fund

Detailed report on the balance sheet of the Financial Stability Fund with indication and explanation of changes in the accounts.	Weekly, next working day.
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GREECE: TECHNICAL MEMORANDUM OF UNDERSTANDING

1. This Technical Memorandum of Understanding (TMU) sets out the understandings regarding the definitions of the indicators subject to quantitative targets (performance criteria and indicative targets), specified in the tables annexed to the Memorandum of Economic and Financial Policies. It also describes the methods to be used in assessing the program performance and the information requirements to ensure adequate monitoring of the targets. We will consult with the Fund, European Commission and ECB before modifying measures contained in this letter, or adopting new measures that would deviate from the goals of the program, and provide the European Commission, ECB and the Fund with the necessary information for program monitoring.
2. For program purposes, all foreign currency-related assets, liabilities, and flows will be evaluated at “program exchange rates” as defined below, with the exception of the items affecting government fiscal balances, which will be measured at current exchange rates. The program exchange rates are those that prevailed on May 31, 2011. In particular, the exchange rates for the purposes of the program are set $\text{€}1 = 1.4385 \text{ U.S. dollar}$, $\text{€}1 = 116.30 \text{ Japanese yen}$, $\text{€}1.1128 = 1 \text{ SDR}$.

General Government

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

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

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

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

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

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

5. **Definition:** The modified general government primary cash balance (MGGPCB) is defined as the modified general government cash balance (MGGCB) minus interest payments by the state budget. The MGGCB is defined as the sum of the cash balances of the ordinary state budget, the cash balance of the public investment budget, minus the change in stock of arrears from line ministries, the change in net financial assets of local government, the change in net financial assets of social security funds minus the change in the stock of arrears of public hospitals, the change in net financial assets of ETERPS, the change in net financial assets of reclassified public enterprises (RPEs) minus guarantees called to entities within the general government and the spending by the National Wealth Fund. Privatization receipts, as defined below and the proceeds from the sale of land and buildings will be excluded from cash receipts. Net lending operations by the state budget will be recorded as cash expenditures.

- **The cash balance of the ordinary state budget.** The cash balance of the ordinary state budget will be measured from above the line, based on ordinary budget revenues (recurrent revenue plus non-recurrent revenue, including NATO revenues, minus tax refunds) minus ordinary budget expenditures (ordinary budget expenditures will exclude amortization payments but include salaries and pensions; grants to social security funds, medical care and social protection; operational and other expenditure; returned resources; payments in exchange of claims of insurance fund for the personnel working in the Public Electricity Company; the reserve, interest payments; transfers for the settlement of past debt, payments for military equipment procurement on a cash basis; NATO expenses, capital transfers to social security funds or other entities by bonds; and called guarantees where the state or central government assumes payments on behalf of entities outside of the general government) of the ordinary state budget as published monthly on the official website of the General Accounting Office of the Ministry of Finance, and in line with the corresponding line items established in the ordinary state budget.
- **The cash balance of the public investment budget.** The cash balance of the public investment budget will be measured from above the line, based on investment budget revenues minus investment budget expenditures of the investment state budget as published monthly on the official website of the General Accounting Office of the Ministry of Finance, and in line with the corresponding line items established in the investment state budget.

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

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

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

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

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

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

6. **Other provisions.**

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

7. **Supporting material.**

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

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

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

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

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

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

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

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

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

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

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

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

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

15. **Definition.** The ceiling on the new central government guarantees shall include new guarantees granted by the state, as well as new guarantees granted by any other entity that is classified under ESA95 under central government, but exclude guarantees to entities whose debt is covered under the ceiling on the stock of central government debt as defined in paragraph 13 and 14. The ceiling shall exclude guarantees to support banks and exclude guarantees related to EIB financed loans. New guarantees are guarantees extended during

the current fiscal year. The latter shall include also guarantees for which the maturity is being extended beyond the initial contractual provisions.

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

F. Non-Accumulation of External Debt Payment Arrears by the General Government (Continuous Performance Criterion)

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

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

G. Floor on Privatization Proceeds (Performance Criterion)

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

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

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

H. Overall Monitoring and Reporting Requirements

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

II. MONITORING OF STRUCTURAL BENCHMARKS

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

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

To meet the end-July 2011 benchmark, three consecutive months of reports will need to be published.

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

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

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

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

1. Single public wage scale bill:

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

2. Pension adjustment bill:

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

3. Closing non essential public entities and other miscellaneous legislation

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