

## International Monetary Fund

[Greece](#) and the IMF

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

**Press Release:**

[IMF Executive Board  
Completes Fifth  
Review Under Stand-  
By Arrangement for  
Greece and Approves  
€2.2 Billion  
Disbursement](#)  
December 5, 2011

November 30, 2011

The following item is a Letter of Intent of the government of Greece, which describes the policies that Greece intends to implement in the context of its request for financial support from the IMF. The document, which is the property of Greece, is being made available on the IMF website by agreement with the member as a service to users of the [IMF](#) website.

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## GREECE: LETTER OF INTENT

Athens, November 30, 2011

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

Dear Ms. Lagarde:

In the attached update to the Memoranda of Economic and Financial Policies (MEFPs) from 2010, February 28 and July 4 2011, we describe progress and policy steps towards meeting the objectives of the economic program of the Greek government, which is being supported by a Stand-By Arrangement.

We continue to make progress with our economic program:

- Concerning our fiscal targets, we have been working to build on the unprecedented fiscal adjustment we have realized since late 2009. However we have been fighting strong headwinds from the recession, and also some delays in putting in place measures. Unfortunately, due to these factors, we missed the end-September performance criterion on the primary cash balance for the general government by a small margin, and also the indicative target on non-accumulation of domestic arrears. However, we have implemented a package of measures to ensure that fiscal policy can be brought back on track, including the full second package of MTFS reforms due in August (a prior action for the review), and on this basis request a waiver of non-observance.
- Fiscal-institutional reforms have been advancing. A structural benchmark on articulating a medium-term strategic plan of revenue administration reforms was observed, and this will inform our strategy in this important area. A second benchmark on publishing three consecutive months of consistent arrears and consolidated general government fiscal reports was partially observed, with data published, but not drawn from commitment registers as anticipated.
- Our policy efforts to support financial system stability continue. Parliament has enacted new bank-resolution legislation that will allow timely and effective intervention and resolution consistent with EU Treaty rules and international sound practices (meeting a September 15 structural benchmark with a small delay).
- Regarding privatization, the Privatization Fund has been established and has become fully operational. While we were able to sign contracts for new concessions during

Q3, the quarterly quantitative performance criterion on cash privatization receipts for end-September was missed, owing to difficult market conditions and delays in preparations. We have prepared a new schedule of sales that will see a number of contracts signed during the remainder of 2011, and 2011 cash-revenue targets met with about a one-quarter delay. On this basis we request a waiver of non-observance.

- Regarding growth-enhancing structural reforms, since June, we have completed some legislative initiatives, including the passage of a law to simplify environmental licensing. As a prior action for the review, we enacted legislation to improve labor market flexibility. We are working to speed up implementation going forward.
- Finally, the external arrears of some local governments which were identified in July, and a small amount of arrears that accumulated subsequently, were fully cleared on August 30<sup>th</sup>. However, due to the post-July arrears, the continuous quantitative performance criterion on non-accumulation of external arrears was not met. Steps have been taken to ensure that such arrears will not arise again, including improvements to the monitoring of local government debt service payments. On the basis of the minor nature of the nonobservance and repayment of the arrears, we request a waiver of non-observance for this temporary issue.

Alongside our policy efforts, we have secured the financing necessary to support our policies during and beyond the program period. We are working to finalize a debt exchange with private financial institutions. Any remaining financing needs (to cover the government's cash flow needs over the medium term and improve the sustainability of public debt under the program's baseline assumptions) will be covered by the official sector, in line with the commitments received from our euro area partners at a July 21 summit. In parallel, the ECB is working with Greek banks on medium-term funding plans to ensure that they reduce their exposure to exceptional Eurosystem liquidity support at a pace consistent with the program's macroeconomic framework.

On this basis, we request completion of the fifth review under the Stand-By Arrangement, and the sixth purchase under this arrangement in the amount of SDR 1,922.4 million. We also request modification of the end-December performance criteria on the fiscal deficit, primary state spending, and privatization. We propose ceilings and floors for the existing performance criteria for end-March 2012. As detailed below, we propose new structural benchmarks to measure progress against our program objectives. These will apply to: measures to combat tax evasion, completion of a public expenditure review, enactment of tax reforms, completion of a capital needs assessment for the banking system, governance reforms for financial supervision agencies, reforms to reduce the labor tax wedge, and the screening and amending of laws on regulated professions (Table 2).

We believe that the policies set forth in the May 3, 2010 Letter of Intent and MEFP, and subsequent updates (including the one now attached), are adequate to achieve the objectives

under the program. We stand ready to take any corrective actions that may become appropriate for this purpose as circumstances change. We will consult with the Fund, as well as with the European Commission and ECB on the adoption of any such actions and in advance of revisions to the policies contained in this letter, in accordance with the Fund's policies on such consultations.

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

\_\_\_\_\_  
/s/

Evangelos Venizelos

Deputy Prime Minister and Minister of Finance  
of Greece

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/s/

George Provopoulos

Governor of the Bank

## GREECE: MEMORANDUM OF ECONOMIC AND FINANCIAL POLICIES

### The Economic Outlook

1. **The recession has continued to deepen, necessitating an adjustment of the macroeconomic framework for our program.** Recent short-term economic indicators and provisional GDP data for the second quarter indicate that the economy has not been able to sustain the encouraging performance during the first three months of 2011. The adjustment in the private sector has accelerated, with economic activity constrained by the implementation of needed fiscal austerity measures, tightening credit conditions, delays in structural reforms, and a weakening external environment. Real GDP is now projected to decline by 5½ percent in 2011 and a further 2½–3 percent in 2012. With a deeper recession, we have also adjusted downward our forecasts for inflation and the GDP deflator—cumulatively about 2 percentage points less through 2014. Taking into account both of these factors, nominal GDP in 2014 is now projected to be 8 percentage points lower than projected at the time of the 4<sup>th</sup> review.

2. **We expect economic activity to turn around in early 2013.** Greece's competitiveness is gradually improving. Unit labor costs have dropped by about 4 percent on average during the 6 months ending June 2011, and will decline further as labor market adjustment gathers momentum. Merchandise exports and tourism receipts are growing. While currently still too small to compensate for the fall in domestic demand, net exports are expected to continue contributing significantly to the economic recovery going forward, as structural reforms drive improvements in competitiveness. Eventually, this should provide a source of sustained growth in output and employment through investment in the tradables sector.

3. **We have modified program policies to cope with the changing macro outlook.** Fiscal policies have been strengthened to secure attainment of program targets; additional support mechanisms and a stronger resolution framework have been put in place toward securing financial stability; the path to meet the end-program privatization target has been recalibrated due to delays in the preparation of assets and difficult market conditions; and the effort to make structural reforms effective will be reinforced. All of these changes, and the revised financing strategy to support it, are discussed in what follows.

### Fiscal Policies

4. **The government's priority remains to secure a sustainable fiscal position.** This will require not only steady progress in reducing the fiscal deficit and debt, but also a revival of growth and confidence. The challenge the Government faces is to find a pace that can strike the right balance between these multiple and potentially conflicting objectives. In this review, we have recalibrated the quarterly fiscal target (given the impact of the recession), identified necessary actions to keep the MTFS on track, and firmed up the required fiscal measures.

5. **The government remains committed to achieving an overall general government deficit below 3 percent of GDP by 2014.** This would be consistent with a primary surplus of 5 percent of GDP. For 2011, the significantly deteriorated macro outlook, delays in the implementation of fiscal measures, and the limited time remaining within year for corrective actions have placed a constraint on what we can feasibly achieve. We expect to achieve the 2012–13 targets and will implement the measures necessary to this end (discussed below). With 2012 measures to be implemented in Q4 2011, their initial impact will allow us to achieve an overall balance of 8½–9 percent of GDP in 2011, somewhat above the €17.1 billion or 7¾ percent of GDP target, but still 1½–2 percent of GDP better than in 2010, despite a much deeper recession.

6. **The government will enact the fiscal measures necessary to ensure that program fiscal targets for 2012–14 are met:**

- **Implementation of MTFS reforms.** As a **prior action** for the review, the government will complete key actions to implement the various measures approved in the context of the first MTFS reform bill and anticipated in the second set of reforms bills (Annex I). These actions will include:
  - **Reform of the public sector wage grid.** The reform will reduce wages for standard employees on average by 17 percent (those under special wage regimes will be excluded). This will be done by limiting allowances and more closely aligning wages across ministries, and keeping the entry wage in line with private sector norms. Incentives will be provided via a capped one-off bonus of 3 percent per year and a special bonus for employees involved with the collection and control of public finances. Promotions will be strictly controlled and subject to a performance evaluation. This new scheme will be phased in over two years. Wages in state-owned enterprises and other public entities under private law will be aligned accordingly. The reform will be reviewed by external compensation consultants by September 2012 to identify any issues of design that become evident during implementation.
  - **Closure/merger of extra-budgetary funds.** Ministerial decisions should cover the closure or merger of the 11 identified large entities (KED, ETA, ODDY, National Youth Institute, EOMEX, IGME, OSK, DEPANOM, THEMIS, ERT, ETHYAGE), as well as the closure or merger of 35 smaller entities.
- To help meet our **2012 target**, we have specified an additional €6.4 billion in measures (gross of revenue feedbacks). Enactment of these measures will be a **prior action** for the review:
  - **Spending reductions.** To reduce government spending by €1 billion in 2012, we will adjust pensions and earmarked spending. For pensions, the portion of total

main pensions exceeding €1,200 per month will be cut by 20 percent (40 percent on the portion of pensions exceeding €1,000 per month for pensioners below 55 years); supplementary pensions above €150 per month will be cut by 15 or 30 percent depending on the fund (augmented savings targeted by the planned reforms in this area); and lump-sum pensions of civil servants for 2011–12 will be reduced by an additional 10 percent (on top of the cut targeted under the MTFS). Regarding earmarked spending, a ceiling of 5 percent of the stock of deposits will be placed on spending in the “Green fund.”

- **Revenue measures.** To generate additional revenues of €5.4 billion in 2012, we have introduced a special levy on real estate and will reduce PIT thresholds and deductions. The special property levy ranges between €3–16 per square meter (with a reduced rate for special categories). To strengthen payment compliance, it will be collected through electricity bills and will supplement the property tax envisaged in the MTFS. Regarding the PIT, the threshold will be reduced to €5,000 (individuals above the age of 65 or below the age of 30 and with income below €9,000 a year will be exempt); the bracket structure will be simplified and the child allowance reduced, starting from the third child. Finally, we will advance the removal of the subsidy for heating fuels originally envisaged for 2013.
- **Clearance of arrears.** A plan for full clearance will be submitted alongside the 2012 budget, with a central appropriation that will be made available to each line ministry and other general government entities for this purpose (based on the amount outstanding at end-2010). Appropriations from this central funding will be made available to the requesting ministry subject to timely compliance with the public financial management reform agenda (below), and on evidence of the effective operation of commitment controls within the relevant entity (no new accumulation of arrears).
- To secure our **2013–14 targets**, we will undertake a thorough review of public expenditure programs to identify 2 percent of GDP in additional measures (and an additional 1 percent of GDP as a buffer). The review will draw on external assistance, and the focus will be on identifying opportunities to: rationalize pensions and social transfers (in a manner that will preserve basic social protections); rationalize defense spending (without prejudice to the defense capability of the country); and restructure the central and local administrations. Completion of the review is proposed as a **structural benchmark** for end-June 2012, and progress will be assessed during upcoming program reviews. We have already identified several additional measures potentially yielding  $\frac{3}{4}$  percent of GDP, including: (i) adjustments to special wage regimes (which now account for about one-third of the public wage bill); (ii) further rationalization of pharmaceutical spending and operational spending of hospitals;

(iii) reductions in welfare cash benefits; and (iv) reform of the system of VAT refunds for farmers.

**7. The government remains committed to better underpin our adjustment with structural spending and revenue reforms.** We have advanced reforms in three key areas:

- **Personnel reductions.** Our overall aim is to reduce general government employment by 150,000 between 2010 and end-2015. To realize this aim we will utilize:
  - **Natural attrition.** A 1:5 hiring to attrition ratio will be applied during the period, and the number of temporary contracts will be reduced by about two-thirds between 2010 and 2015 (including 50 percent in 2011).
  - **Pre-retirement and retirement scheme.** A total of 1,000 individuals now past retirement age whose term has previously been extended will now enter into retirement. A total of about 14,000 public employees will be placed in a pre-retirement scheme by end-2011 (with those to be included in the scheme limited to those with 12–24 months remaining until their retirement).
  - **Labor reserve.** A total of about 15,000 public employees will be furloughed into a labor reserve by end-2011. Additional staff will be placed into the reserve by end-2012. A functional review of government will be used to identify general government units for closure or downsizing, and ministerial staffing plans developed on this basis will identify employees who are redundant. Time spent in the reserve will be limited to 12 months, at no more than 60 percent of the basic wage (excluding overtime and other extra payments). After 12 months those still in the reserve will be separated, and any payments while in the reserve will be counted against any severance pay.
  - **Controls on hiring.** We will: (i) adjust the intake into military and police schools in line with projected staffing needs; (ii) limit rehiring from the labor reserve to no more than 10 percent of the annual hiring target; (iii) augment the labor reserve every year by the amount of employees hired in excess of the natural attrition rule; and (iv) eliminate vacant positions in the context of revising the public sector organizational chart/structure. The Ministry of Public Administration will publish detailed exit and entry figures on a monthly basis.
- **Social security reforms.** Key actions outlined in the 4<sup>th</sup> review MEFP to be completed in the period ahead include: (i) by end-November, legislation will be adopted to reform the supplementary pension funds to be effective from January 2012; (ii) by end-November, we will also adopt and apply a new restricted list of hazardous professions and start reviewing the disability status according to new definitions of disability; and (iii) by January 1, 2012, and through the new single health fund EOPYY, we will reduce doctors' fees, regulate uniform conditions for the

purchase of health services, and introduce a single uniform health package for all EOPYY's members. The draft report of the earlier-commissioned expert health task force and time bound action plan for health reform are now expected by year-end.

- **Tax reform:** By March 2012, we will approve a revenue-neutral tax reform package (**structural benchmark**). The reform will simplify the tax system, broaden the tax base through policy measures so as to allow reductions in selected tax rates, and rebalance the distribution of the tax burden to foster growth and competitiveness. The reform package will include: (i) a simplification of the Code of Books and Records, (ii) the elimination of several tax exemptions and preferential regimes; (iii) simplification of the VAT and property tax rate structures; and (iv) a more uniform treatment of individual capital income. To support this reform and strengthen our fight against tax evasion, we will also enforce more comprehensive information requirements covering received incomes (including from foreign sources and non taxable income) and selected uses.

### **Fiscal institutional reforms**

8. **Reducing tax evasion and improving spending control are important objectives for the Greek government.** Success in these areas would notably improve the fairness of the fiscal adjustment Greece is now undertaking and could indeed help reduce the need to adjust through other policy measures. Success will require deep restructuring of fiscal management institutions, namely the revenue administration and public financial management structures. We recognize that concrete results from these complex institutional reforms will not be easy to achieve quickly, and we are thus determined to undertake the reforms with urgency.

9. **Regarding the revenue administration, we are committed to implement our anti tax-evasion plans and transform over time our institutions and working methods:**

- **Operational targets.** Progress towards the targets defined in our anti tax-evasion plans will be closely monitored via quarterly quantified performance indicators (achieving the targets is a **structural benchmark** for end-December 2011). Towards achieving the targets, we have scaled up risk-based audits and debt collection, and we have initiated audits of 1,700 high-wealth and self-employed individuals identified by the anti tax-evasion task force (new targets for completion of these audits have been included under the benchmark). Looking towards 2012, we will update our operational plans by end-December of this year to introduce new and more ambitious targets for audits and debt collection and the resolution of administrative appeals (meeting the targets is proposed as a new program **structural benchmark** for end-2012). The plan will also include ways to better integrate anti-money laundering tools into the anti tax-evasion strategy from January 2012, with a focus on, inter alia, improving reporting of suspicious transactions by the financial institutions to the Financial Intelligence Unit.

- **Removing barriers to effective tax administration:**
  - Using newly legislated appointment and removal powers, we will review the performance of managers in implementing the anti tax-evasion plan through end-2011, and replace those managers who do not meet assigned performance targets. We will also approve performance-based contracts for auditors and reassess auditors' qualifications (by end-November 2011). New auditors will be hired in 2012.
  - We will also strengthen our tax dispute-resolution system. First, we have appointed the head of the newly created fast-track administrative resolution body; and by end-November we will approve legislation making it compulsory for large dispute cases to be addressed at the administrative level only to this independent body. Second, we will issue secondary legislation to make the recently established arbitration system fully operational, by enabling the certification of arbitrators.
  
- **Medium-term reforms.** The third area of our work involves implementing the strategic plan for medium-term reforms approved in July. The organizational reforms defined therein should help us deploy resources in a more targeted manner:
  - We have established a new **central directorate for debt collection** (involving approval of the organizational structure, the appointment of the director and senior managers, and starting the process of hiring staff).
  - By end-November, we will also finalize the creation of a **large taxpayer unit**, completing the appointment of senior managers and the transfer of taxpayers' files. The new unit will be designed to perform all key tax administration functions including audit, monitoring of filing and payment obligations, collection of tax debts, and taxpayer services.
  - We are also **consolidating the operations of the tax administration** to improve efficiency. The Ministry of Finance has closed or merged 30 local offices and consolidate key functions (filing, payment enforcement, debt collection, audit, and judicial procedures) into larger offices. However, due to IT limitations, our plan to close a total of 200 local tax offices is now foreseen to be executed in 2012. Following our time-bound plan to update our IT system, we will deploy new hardware by end-February 2012, and complete the development of software applications for corporate income tax, and tax withheld at source by end-June. By the same date, we will also have a list of additional tax offices to be closed. We plan to have the necessary IT capabilities in place by December 2012.

10. **Concerning public financial management, our key tasks include strengthening budget procedures, strengthening spending controls, and improving fiscal reporting:**

- An efficient financial management requires clear **budgeting procedures**. By end-February 2012 we will adopt legislation and regulations for a streamlined procedure for submission and approval of within year supplementary budgets.
- Stronger **spending controls** require securing the effective operation of commitment registers (which will allow control of spending before it is committed, thus helping to prevent new arrears), the establishment of general directorates of financial services, and the appointment of permanent accounting officers in line ministries.
  - **Commitment registers.** Recent onsite inspections have identified a number of problems with the functioning of registers that are being addressed. Starting in October 2011, we have made it compulsory for accounting officers in line ministries and general government entities to report data from their commitment registers into the e-portal of the Ministry of Finance. To enforce this obligation, we will start enacting sanctions, including blocking budget releases to entities not submitting data, and disciplinary actions for accounting officers involved. We expect the commitment registers to be able to provide reliable and broad coverage of data on commitments, payments, unpaid bills, and arrears (for both ordinary and investment spending) by end-March 2012. The coverage will extend to all line ministries and the largest local governments, social security funds, extra budgetary funds, and hospitals.
  - **Other infrastructure.** We have also completed and approved the organizational plan for the new directorates of financial services, and line ministries will be obliged to adopt and implement the new plans by end-November 2011. Finally we will evaluate applications for the positions of permanent accounting officers in line ministries and, despite initial delays, we now expect to complete the appointments by end-November.
- **Fiscal reporting** has improved significantly in terms of coverage. We are now working to improve the quality of reported data and set up systems to collect more detailed revenue and spending information from general government entities. To reduce the discrepancy between financial and fiscal data, we have started revising and updating past data and expanding coverage (e.g. to external financing sources for some public enterprises). In collaboration with Elstat, the Ministry of Finance will reconcile and validate the results of the recent pilot exercise that collected detailed fiscal data from general government entities. This pilot will be expanded to cover at least 60 percent of central and general government spending units by end-2011.

11. **To improve implementation of these institutional reforms, we have set up management frameworks for the most important reform initiatives.** The responsibility of the steering committee overseeing the anti tax-evasion plan will be expanded to coordinate the implementation of the medium term reform plans. Separately, a coordination group has been established under the supervision of a GAO director and is responsible to make fully operational commitment registers in all line ministries and general government entities. The director heading the group will propose sanctions to the Minister on non-reporting entities and will produce monthly reports to the Minister analyzing the main sources of arrear accumulation and quarterly reports on implementation progress.

### **Financial sector policies**

12. **Securing financial stability is the government's priority.** The challenge we face is to ensure stable funding bases for banks and help them regain access to wholesale markets and to the deposits that have left the banking system. Adequate liquidity support in the near term must be consistent with plans to reduce banks' reliance on exceptional central bank support in the medium term. Meanwhile, capital buffers must be built up to instill confidence in individual banks. Moreover, a stronger resolution framework recently enacted allows the competent authorities to address any weak banks in a timely and cost efficient manner while preserving confidence in the system. With this as backdrop, the Bank of Greece is determined to take decisive actions to protect the soundness of the financial sector.

13. **We are committed to preserve sufficient financial system liquidity.** The Eurosystem has been providing exceptional liquidity support through its monetary policy operations. The Bank of Greece, following Eurosystem procedures, will ensure that it continues to stand ready to disburse adequate and appropriate exceptional liquidity assistance in a timely manner. Over the medium term, banks will need to reduce their reliance on central bank borrowing and government guarantees. Regular updates of medium-term funding plans under guidance of the Bank of Greece will be an important tool to ensure that this process proceeds at a pace consistent with the program's macroeconomic, fiscal, and financial framework. The next update will be finalized by end-2011. To this end, banks will be given guidance on the new macroframework discussed above to inform revisions of their plans, and the Bank of Greece will provide feedback on banks' draft plans (to ensure their collective consistency with the macroframework).

14. **We have refined our strategy to help banks strengthen their capital position.** This will help them manage increasing balance-sheet risks, and over time should facilitate earlier access to wholesale funding markets:

- **Banks' consolidated core Tier I minimum regulatory capital requirement will be set at 10 percent from the beginning of 2012.** The core Tier I capital requirements will exclude hybrid capital, but include preference shares issued by banks and

subscribed by the Greek government at the onset of the global financial crisis in 2008–09.

- **Banks' books will be carefully scrutinized to reassure that losses are reflected:**
  - The Bank of Greece has required that the outcome of the PSI for government bonds be adequately recognized in bank profit and loss accounts. Further, using its Pillar II powers, the Bank of Greece will ensure an equivalent capital treatment of risks related to Greek government bonds exposures across all institutions, (with reference to the NPV reduction of the PSI). In this context, the Bank of Greece will update its last Pillar II assessment at the latest one month after completion of the PSI exercise.
  - The Bank of Greece has contracted an independent qualified international advisory firm to perform a diagnostic of banks' domestic loan portfolios, under baseline and adverse macroeconomic scenarios, to be concluded by end-year. Based on this exercise, the Bank of Greece will require that losses from loans not adequately provisioned be recognized in banks' profit and loss accounts.
- **The Bank of Greece, under Pillar II supervisory powers, will require additional capital buffers as determined by banks' individual risk profiles.** The minimum capital need for each bank is defined by the 10 percent core Tier I requirement. Capital requirements will be increased if this is needed to maintain a minimum core Tier I target capital ratio of 6 percent in the context of a stress test exercise involving a three-year adverse macroeconomic scenario. This will incorporate projected losses and dynamics in profitability, risk-weighted assets and other risks, including sovereign exposures. Completion of this capital-needs assessment is proposed as a new program **structural benchmark** for end-February 2012.
- **Following the additional capital-needs assessment based on the diagnostic study, banks may be given time to raise this additional capital on the market.** If the Bank of Greece determines that a period of time should be allowed for a bank to meet capital requirements, the relevant bank will be asked to present, by end-April, a viable business plan to this end. Any bank in this circumstance will have to meet capital requirements by no later than end-August 2012. Any such business plan should also demonstrate that the requirements will continue to be met over a three-year period. Any capital to be raised should consist of instruments qualifying as Tier I capital. We will continue to encourage banks to explore strategic alliances with domestic and foreign partners to strengthen capital and address structural funding issues.
- **Public support will be available.** The overall envelope for bank support will be increased in line with estimated bank needs. A bank should first attempt to raise capital from the private sector, and if a substantially discounted rights issue is not

taken up, the HFSF may inject capital at prices at or below the level targeted in the rights issue, subject to conditions minimizing downside risks and thus the burden on taxpayers. To facilitate this support, the size of the HFSF will be targeted for increase to adequately backstop estimated bank-capital needs. Funds will be transferred into the dedicated HFSF account upon approval in the context of program reviews. Any support provided with HFSF resources will continue to be in line with EU state aid rules. The government commits not to use the HFSF to recapitalize state-owned banks and instead to exercise its full responsibilities as the main shareholder (and an appropriate amount of funds will be set aside for this purpose).

- **The institutional mechanisms for public support will be strengthened in line with this framework.** In line with EU state-aid rules, we have amended the HFSF law and related legislation to require existing bank shareholders to absorb any losses in full; and to require disposal of any bank holdings within 24 months of a recapitalization, either through sale, or by facilitating a merger, takeover, or transfer of activities to other financial institutions. As a **prior action** for the review, the Bank of Greece and FSF will complete a memorandum of understanding to further strengthen their cooperation (including sharing of appropriate supervisory information).

15. **We have revised our bank-resolution framework to provide additional options for timely and effective resolution processes.** The framework will allow timely and effective intervention and resolution consistent with EU rules and international sound practices. In this context, parliament has enacted amendments to the Banking Law, providing a broad set of tools to safeguard financial stability and improve depositor protection. The new resolution framework has the following key features:

- Available techniques have been expanded to include: (i) transfer of assets and liabilities, and (ii) bridge-bank transactions (transactions involving an interim credit institution (ICI)). In implementing the law, we will ensure that the sale of assets and liabilities (or of shares of a bridge bank/ICI) will be open, transparent, and non-discriminatory. The law further stipulates that shareholders and subordinated bond holders always remain with the transferring entity (bad bank). A regulation will specify that resolutions will be designed using a least-cost principle without prejudice to financial stability.
- The Bank of Greece has been empowered as the competent resolution authority for taking the decisions on all matters in the use of the new resolution techniques (with the exception of decisions pertaining to ICIs, which will be taken by the Ministry of Finance, upon the recommendation of the Bank of Greece). The Bank of Greece will consult with other relevant agencies and the Ministry of Finance in this capacity.
- The Deposit Guarantee Scheme (HDIGF) law has been amended to enable it to assist in the resolution of banks. This includes allowing it to maintain and manage two

funds (alongside the existing depositor protection fund, a resolution fund has been established). The law gives the HDIGF creditor preference in resolution to better ensure recovery of guaranteed funds.

- To further strengthen the framework, we will amend the resolution law to give more flexibility in the resolution process, in particular the necessary rights to manage labor contracts and reduce employment in the new ICI for the purpose of enhancing the ICI's viability.

**16. We will review governance arrangements for our financial oversight agencies.**

We will review, in consultation with the European Commission, ECB, and IMF staff: (i) the organizational arrangements for the Bank of Greece to ensure that they are in line with best international practice and that any potential conflict of interest in its expanded supervision and resolution role is avoided; (ii) the corporate governance arrangements for the HFSF (including the need for internationally recognized professionals with banking experience to be members of the board with voting rights); and (iii) the governance arrangements for the HDIGF (to address potential conflicts of interest). Enactment of legislation to address any outstanding issues in these areas is proposed as a **structural benchmark** for end-2011.

**17. We will take action to ensure that banks meet regulatory and other requirements:**

- ATE is slated for privatization in 2012. Its share capital increase, to address concerns raised by the CEBS 2010 stress test, closed on 7 July 2011. To preserve financial stability, the government has addressed the shortfall in capital resulting from losses booked through September on government bond holdings. In particular, the bank has convened a shareholders' meeting to authorize a rights issue to bring the bank back into compliance with the existing minimum regulatory-capital requirement as soon as possible. The government has committed to fully subscribe its share in cash and to purchase any other unsubscribed shares (after notification to the EC). An appropriate amount of funds will be set aside for this purpose. This will be reflected in ATE's restructuring plan, an update of which will be resubmitted to the EC by end-November.
- Regarding the Hellenic Consignment and Loan Fund (HCLF), legislation on its unbundling was adopted in early May 2011. An implementing decree has clarified 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 transferring the commercial activities has also been specified alongside commitments to comply with state aid rules, and these have been endorsed by Inter-Ministerial Decision. The disposal of the commercial activities branch will be completed on or before end-July 2012.

- Concerning other banks, Proton bank was resolved by setting up an interim credit institution. The Bank of Greece will also require capital shortages in any other institutions to be addressed by end-November, or take the appropriate actions to deal with the situation (by end-November). Until capital shortages have been resolved, the Bank of Greece will closely monitor affected banks and continuously enforce appropriate remedial measures.

## Privatization

18. **The government aims to transfer a critical mass of public assets to private sector control.** This is crucial to support the program's growth, financing, and debt reduction strategy. The government is determined to overcome the challenges posed by market conditions and technical and legal complexities. To put the privatization program on a firm footing, we have defined steps towards meeting near-term targets and established an institutional framework for the effective and timely privatization of assets.

19. **The government remains committed to privatizing the assets identified in the privatization plan plus any additional bank equity acquired through recapitalizations.** In particular, we remain committed to achieve our program privatization target—€35 billion through 2014—and to sell €50 billion in assets through 2015 (Annex II). To deal with technical delays to date, we have adjusted our near-term targets (Annex II). A number of steps are underway to help secure the achievement of our privatization targets:

- **We have adjusted our schedule for asset transactions to deal with technical delays to date (Annex II).** To stay on track to meet our revised near-term targets, we have refocused on asset sales with larger proceeds and on those projects which are more technically advanced. Amongst real estate assets, we will focus on the sale and lease back of government buildings. Operations that require more restructuring activity (such as unbundling utilities or bundling ports) have been rescheduled to 2012. To reach the privatization objective, the government stands ready to offer for sale its remaining minority holdings in state-owned enterprises (with public control, in the form of minority shareholdings, limited only to cases of critical network infrastructure).
- **We will take the necessary procedural steps to allow assets to be sold according to the revised schedule.** As a **prior action** for the review, we will: (i) shift a second group of assets into the privatization fund covering transactions to be completed through end-2012 (Annex II); and (ii) appoint legal, technical, and financial advisors for 14 projects to be completed by end-2012 (advisors for all end-2012 projects would be appointed by end-November). Concerning real estate assets, by end-2011, we will group these into 5–6 categories (according to their potential use). The largest and most mature projects will be transferred to the privatization fund, and portfolios of smaller projects will be managed by a merged entity formed from ETA/KED and

placed under professional management (and supervised in coordination with the HRADF).

20. **To facilitate the work, the government has fully operationalized the Privatization Agency (HRADF).** The HRADF was legally created on August 2, and after appointing a Board of Directors, the Fund began its operations at end-August. Since then, observers nominated by the Eurogroup President and by the Commission have joined the Board, and a Council of Experts, whose opinion is necessary for the exploitation of the assets, has been installed. To complete its establishment internal regulations (including the HR chart and remunerations), and the business plan with quarterly targets have been approved by the Board.

### **Structural reform policies**

21. **The government's priority remains to durably boost Greece's productivity, competitiveness, capital formation, and growth.** To this end, the government is pursuing a comprehensive structural-reform agenda aimed at creating a well-functioning labor market, removing barriers to investment and exports, liberalizing service markets, promoting sectoral growth, and addressing inefficiencies in the judicial system. We recognize the need to reach a critical mass of reforms and reform synergies to jump-start growth. In this regard, the government will speed up implementation of already legislated reforms, and we are working to define additional actions in various areas, including measures promoting wage flexibility, lowering the labor tax wedge, and removing barriers to growth in key sectors.

22. **The government is committed to ensuring greater labor market flexibility and higher employment.** In the past 18 months, several labor market reforms have been implemented aimed at promoting youth employment, permitting the reallocation of human resources to more productive sectors, allowing for more flexible work arrangements, and facilitating collective bargaining, (including by allowing for special firm-level collective agreements to set wages below sectoral floors). Nevertheless, with unemployment rising rapidly and productivity growth yet to take off, the government will enact additional measures to increase wage flexibility and promote employment:

- **Wage flexibility.** To further facilitate collective bargaining at the firm level for companies of all sizes, the government will enact legislation to allow worker representatives to negotiate both special and regular firm-level agreements. Moreover, the "favorability clause" (requiring negotiations to start from the most-favorable existing contract applicable to other similar workers) will be suspended until at least end-2015, in such a manner that firm-level agreements take precedence over sectoral and occupational agreements. In addition, the possibility to extend sectoral agreements to those not represented in the negotiations will be suspended for a period until at least end-2014. Enacting legislation in these three areas will be a **prior action** for this review.

- **Other labor market parameters.** During Q4 2011, the government will launch a dialogue with social partners to examine all labor market parameters that affect the competitiveness of companies and the economy as a whole. The goal is to conclude a national tripartite agreement which addresses the macroeconomic challenges facing Greece, in particular the need to support stronger labor market flexibility, competitiveness, growth, and employment.
  - **Labor tax wedge.** To promote employment in the formal sector, the government will take actions that will allow it to reduce the employers' share of social security contributions. These actions may include rationalizing and consolidating small earmarked funds and broadening the base (while ensuring that the reform does not affect pension obligations). Over the medium-term, administration of collections will be improved, including by combining collection functions. Once savings or alternative revenues are realized, the rate will be cut. Enacting the changes in legislation is proposed as a new program **structural benchmark** for end-June 2012.
23. **Barriers to exports and investment will be further reduced by end-year.** These are crucial to jump-starting the recovery and boosting growth. To this end:
- **Licensing.** By end-November, the Ministries of Industry and Environment will put in place the main secondary legislative acts required to make operational the new laws on business and environmental licensing, including those concerning the classification of projects by risk and review requirements. By end-June 2012 all remaining secondary legislation related to these licensing laws will be issued, and the new electronic environmental register will be fully operationalized.
  - **Fast-track investment procedures.** By end-November, the three projects that have been approved by the inter-Ministerial Committee will be taken through the fast-track procedure. In addition, two other projects have been submitted to the inter-Ministerial Committee to be processed within a month. As soon as the system is assessed to be functioning well, qualifying thresholds will be lowered (to generalize the system to attract new investments).
  - **Export procedures.** By end-December, the government will pass a new law (which enters into effect immediately) that: (i) eliminates the requirement to register with the exporter's registry; (ii) simplifies export-related legislation by repealing and replacing all previous legislative acts; and (iii) sets the framework for the introduction, by end-2012, of a single electronic export window. Also by then, the Ministry of Finance in cooperation with the Regional Development will amend legislation to simplify customs declaration procedures for exports and imports, as well as for local clearance procedures. An e-customs system, now underway, will be fully introduced by June 2012 to help operationalize the single window for exports.

**24. The government will continue the work to bring the liberalization of the service sector to full fruition:**

- **Regulated professions.** The new law entered into effect on July 2, liberalizing all professions and economic activities that generate an income and are subject to licensing restrictions and other requirements. Nevertheless, to ensure restrictions in the public interest are properly in place, the government will pass legislation by end-December allowing a limited number of required restrictions to be reinstated. These restrictions will first be evaluated by the Hellenic Competition Authority. By end-March 2012, the government will complete the screening and amending of existing legislation to ensure full consistency with the new law (proposed as a **structural benchmark**).
- **Transportation and energy sectors.** Regarding transportation services, by end-2011, legislation will be passed to eliminate the transition period for the liberalization of road haulage and establish licensing costs in line with administrative costs. Finally, the Ministry of Energy will finalize a plan to ensure competitive access to 40 percent of lignite-fired generation, including through plant sales, by end-November.

**25. The government of Greece has diagnosed obstacles to growth in key sectors and will specify plans to overcome these.** For the tourism sector, the government will finalize an action plan by end-year aiming to change the profile of tourism in Greece by expanding the tourism season and creating additional niche products. A number of other diagnostic studies will be finalized, covering cross-sectoral barriers to growth, as well as specific sectors with growth potential, such as retail, energy, food manufacturing, agriculture, aquaculture, and regional cargo transport hubs. Based on these, the government will finalize similar action plans defining concrete measures and a timeline for implementation by end-March 2012.

**26. Reforms to Greece’s judicial system are progressing.** In the past 18 months, the government has passed laws to simplify and speed up procedures for tax cases, provide for transparency and efficiency through e-justice, allow for out-of court mediation, and improve the administration of civil justice. The Ministry of Justice is currently implementing these changes and working towards the next reform steps. Specifically:

- **Clearing the existing case backlog in courts:** The Ministry of Justice has identified the backlog of tax cases and plans to reduce it by 15 percent by end-2011. By this point, the Ministry will also establish a work plan towards full elimination of the remaining identified tax case backlog by end-July 2013. The Ministry will also conduct—together with an external body—a study of the non-tax backlog of cases for all other courts (by end-June 2012) to inform an action plan for its elimination.
- **Simplifying procedures for tax cases:** Nineteen specialized tax chambers have been established, and 5 additional ones will be added by end-December 2011. By end-

March 2012, the Ministry of Justice will: (i) start to publish individual court data, including on recovery rates for tax cases; and (ii) finalize an assessment of the recent measures increasing the deposit requirement for tax appeals and limiting the number of suspensions of tax cases, making proposals for remedial actions, as needed.

- **Speeding case processing.** The government is committed to introduce e-justice in Greece. A fully operational system for e-registration and e-tracking will be extended to all courts by end-2013, and a pilot project for the introduction of e-filing in the largest court will be implemented by end-2011. In parallel, the Ministry of Justice will work on expanding the application of the pilot project for expedited case registration procedures ('fast lane'). The government is committed to increase court registration fees in civil matters by year-end.
- **Expanding out-of-court procedures:** The government is committed to facilitate out-of-court mediation. To this end, all necessary secondary legislation to make the new law on mediation operational will be issued by end-2011.
- **Reforming the Code of Civil Procedure and designing a performance and accountability framework for courts:** We remain committed to these two medium-term reforms described in the July MEFPP aimed to overhaul the current framework to ensure that justice can be delivered effectively and in an accountable manner.

27. **To help our structural reform efforts deliver concrete results, the government will improve reform management and oversight.** The government will implement by end-2011 the recently adopted legislation establishing a directorate of planning, management, and monitoring of reforms. Starting with end-year data, the directorate will publish on the government's website and on a quarterly basis monitoring indicators for each structural reform initiative.

## Financing

28. **A clearer picture has emerged of our additional financing needs during the program period (2011–13).** We remain confident that Greece will be able to restore market access at reasonable rates by 2014. Given projected cash deficits, projected amortization of debt, and our planned asset transactions, we expect that we will require €153 billion in new financing. This is against €42 billion in remaining undisbursed funds from euro area member states and the IMF in the present program.

29. **We are finalizing a debt exchange operation with private sector holders of Greek government bonds.** We expect the PSI operation to be completed by the time of the Sixth Review. Given the importance of achieving our financing and debt sustainability objectives, we will make any needed technical revisions to the design of the PSI operation and require a high participation rate before proceeding with the operation.

30. **To fill any remaining needs, we have secured financing commitments from the official sector.** On July 21, 2011, euro area partners committed to continue to support countries under adjustment programs, like Greece, for as long as it takes to regain market access (provided the program is implemented). New lending would be at extended maturities of up to 30 years and at close to funding costs, using the EFSF as a financing vehicle.

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

	2011						2012		2013	
	Jun-11		Jul-11		Sep-11		Dec-11	Mar-12	Dec-12	Dec-13
	Progr. 1/	Actual	Progr. 1/	Actual	Progr. 1/	Actual	Progr. 1/	Progr. 2/	Progr. 2/ 4/	Progr. 3/ 4/
<b>Performance Criteria (unless otherwise indicated)</b>										
1. Floor on the modified general government primary cash balance	-4.3	-4.9	-5.1	-4.9	-5.0	-5.3	-5.1	-0.4	1.3	7.4
2. Ceiling on State Budget primary spending	30	28.4	34.7	33.5	44.5	42.0	60.8	13.7	58.7	69
3. Ceiling on the overall stock of central government debt	394	365	394	377	394	371	394	409	409	..
4. Ceiling on the new guarantees granted by the central government	1.0	0.3	1.0	0.3	1.0	0.6	1.0	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	0.005	0.0	0.001	0.0	0.0	0.0	0.0	0.0	0.0
6. Floor on privatization receipts 6/	..	..	0.39	0.39	1.70	0.39	1.70	5.00	11.0	20.0
<b>Indicative Targets</b>										
7. Ceiling on the accumulation of new domestic arrears by the general government 7/	0.0	4.0	0.0	3.9	0.0	3.8	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 program approval (May 9, 2010).

6/ Cumulatively from January 1, 2011.

7/ Calculated on a cumulative basis from January 1, 2010 and applied on a continuous basis from program approval (May 9, 2010).

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

Measures	Macrocritical relevance	Status
<b>August 15 structural benchmark</b>		
1. Government to enact legislation in the context of MTFS implementation (phase II) to: (i) introduce pension adjustment bill stipulating freezes through 2015, introducing individual social security numbers, caps, means testing, and rationalizing benefits of pension funds; (ii) introduce single public pay scale bill, temporarily freeze automatic progression, and halve productivity allowance; and (iii) close 40 small public entities, merge 25 more small entities, and close an additional 10 large entities under line ministries and in the social security sector.	To reduce the overall deficit to below 3 percent of GDP by 2014.	Converted to prior action.
<b>September 15 structural benchmark</b>		
2. Parliament to pass legislation revising the FSF operating framework (to address conditions for recapitalization) and revising the bank resolution framework (in particular, the deposit guarantee scheme, and the early intervention and bank liquidation frameworks).	To strengthen the resolution framework for problem banks and to allow timely and effective intervention and resolution.	Met with a delay.
<b>Prior actions</b>		
1. Government to complete key actions to implement the various measures approved in the context of the first MTFS reform bill and anticipated in the second set of reforms bills (Annex I), including the reform of the public sector wage grid and the closure and/or merger of extra-budgetary funds.	To reduce the overall deficit to below 3 percent of GDP by 2014.	Completed.
2. Government to enact spending reductions (including pensions and earmarked spending and advanced removal of the heating fuel subsidy); revenue measures (including reducing PIT thresholds and reductions) as described in MEFP paragraph 6.	To help reach the 2012 fiscal target.	Completed.
3. Bank of Greece and FSF to complete a memorandum of understanding to further strengthen their cooperation (sharing of appropriate supervisory information).	To strengthen the institutional mechanisms for public support for the banking system.	Completed.
4. Government to (i) shift a second group of assets into the privatization fund covering transactions to be completed through end-2012 (Annex II); and (ii) appoint legal, technical, and financial advisors for 14 projects to be completed by end-2012.	To allow asset sales according to the revised privatization schedule	Completed.
5. Government to enact legislation to (i) allow worker representatives to negotiate both special and regular firm-level agreements; (ii) suspend the "favorability clause" in wage negotiations until at least 2015; and (iii) suspend until at least the end of 2014 the possibility to extend sectoral agreements to parties not represented in the negotiations.	To increase wage flexibility and employment.	Completed.
<b>Proposed structural benchmarks</b>		
<b>End-December 2011</b>		
1. Government to achieve quantitative targets set under its anti-tax evasion plan.	To combat tax evasion and improve tax collection.	Current structural benchmark, in progress.
2. Government to enact legislation to address outstanding issues regarding the governance arrangements for financial oversight agencies, including (i) organizational arrangements for the Bank of Greece; (ii) the corporate governance arrangements for the HFSF; and (iii) the governance arrangements for the HDIGF.	To strengthen governance arrangements for financial oversight agencies.	Proposed.
<b>End-February 2012</b>		
3. Bank of Greece to complete bank capital needs assessment.	To align capital buffers to banks' individual risk profiles	Proposed.
<b>End-March 2012</b>		
4. Government to screen specific service sector legislation and repeal or modify unnecessary and outdated regulations to ensure full consistency with the new law liberalizing all professions and income-generating economic activities.	To make service sector deregulation fully effective.	Proposed.
5. Parliament to approve a tax reform package, including [(i) a simplification of the code of Books and Records, (ii) the elimination of several tax exemptions and preferential regimes under the corporate income tax and the VAT; (iii) simplification of the VAT and property tax rate structures; and (iv) a more uniform treatment of individual capital income].	To simplify the tax system, improve its efficiency, and broaden the tax base.	Proposed.
<b>End-June 2012</b>		
6. Government to undertake a thorough review of public expenditure programs to identify [3] percent of GDP in additional measures (including a 1 percent of GDP buffer of potential additional measures).	To help reach the 2012 fiscal target.	Proposed.
7. Government to enact legislation to (i) reduce the employers' share of social security contributions, including by rationalizing and consolidating small earmarked funds and broadening the base ; and (ii) improve the administration of security contribution collections, including by combining collection functions.	To reduce non-wage employment cost and increase employment.	Proposed.
<b>End-December 2012</b>		
8. Government to meet newly introduced and more ambitious targets for audits and debt collection and the resolution of administrative appeals.	To combat tax evasion and improve tax collection.	Proposed.

**Annex I: Fiscal Measures to be Enacted as a Prior Action for the Review**

Actions	Description
From the June Implementation Bill	<ul style="list-style-type: none"> <li>• Issue ministerial decisions/circulars to the start collection on excise on natural gas, heating oil and vehicle tax measures in line with the effective date stipulated in the law</li> <li>• Issue ministerial decisions to uniformly regulate health benefits for all SSF's. Sign a master contract between the National Organization for Health Service Benefits (EOPYY; participating social security funds), and private hospitals/medical centers.</li> <li>• Legislate withholding as the collection method for the solidarity surcharge starting 2012</li> </ul>
From the August Structural Benchmark	<ul style="list-style-type: none"> <li>• Pass the law on the new wage grid for the general government (including SOEs), which includes a cut in overtime pay and in remuneration in line with MEFP paragraph 6</li> <li>• Pass law to extend freeze of main and supplementary pension indexation through 2015</li> <li>• Issue ministerial decisions with respect to the closure/merger of 23 of the entities specified in the second implementation bill</li> <li>• Issue ministerial decision to determine closure/merger of KED, ETA, ODDY, National Youth Institute, EOMEX, IGME, OSK, DEPANOM, THEMIS, ERT</li> <li>• Issue ministerial decisions specifying the disability criteria consistent with achieving the medium-term savings objective</li> <li>• Finalize positive list for pharmaceuticals that establishes price charged to SSFs</li> </ul>

## Annex II. Greece: Privatization Schedule

Date	Name	State Share Participation	Participation to sell	Type of Sale	<b>Prior Action to be transf. to HRADF</b>
<b>2011</b>	Q2 OTE	10.0%	10.0%	share sale	
	Q4 OPAP 1	100.0%	100.0%	Concession	
	Q4 OPAP 2	100.0%	100.0%	Concession	
	Q4 Athens Intl Airport	100.0%	100.0%	Concession	
	Q4 Four Airbus Aircraft	100.0%	100.0%	Sale	
	Q4 Mobile Telephony Licenses	100.0%	100.0%	sale of rights	
<b>2012</b>	Q1 State Lotteries	100.0%	100.0%	share sale of SPV	
	Q1 Real Estate Assets 1	100.0%	100.0%	share sale of SPV	✓
	Q1 OPAP	34.0%	29.0%	share sale	✓
	Q1 Larco	55.2%	55.2%	share sale	
	Q1 Hellenic Defense Systems (EAS)	99.8%	99.8%	share/asset sale	
	Q1 Casino Mont Parnes	49.0%	49.0%	share sale	
	Q2 Athens Intl Airport (AIA)	55.0%	at least 21%	share sale of SPV	
	Q2 Hellenic Petroleum (ELP)	35.5%	35.5%	share sale	
	Q2 Public Gas Company (DEPA)	65.0%	65.0%	share sale	
	Q2 Public Gas Company (DESFA)	65.0%	31.0%	share sale	
	Q2 Hellenic Horse Racing (ODIE)	100.0%	100.0%	share sale	
	Q2 Egnatia Odos Rd	100.0%	100.0%	share sale of SPV	✓
	Q2 Piraeus Port (OLP) 2/	74.1%	23.1%	share sale of SPV	✓
	Q2 Thessaloniki Port (OLTH) 2/	74.3%	23.3%	share sale of SPV	✓
	Q2 Loan and Consignment Fund	100.0%	100.0%	share sale of SPV	
	Q3 Hellenic Agricultural Bank (ATE)	89.9%	at least 38.6%	share sale	
	Q3 Regional airports 1	100.0%	100.0%	share sale of SPV	✓
	Q3 Hellenic Post (ELTA)	90.0%	at least 40%	share sale	✓
	Q3 Hellenic Vehicle Industry (ELBO)	51.0%	51.0%	share sale	
	Q3 Public Power Corp plants 3/	51.0%	17.0%	share/asset sale	
	Q3 Ports 1	100.0%	100.0%	share sale of SPV	✓
	Q4 Hellenic Postbank	34.0%	34.0%	share sale	
	Q4 Digital dividend 1	100.0%	100.0%	sale of rights	
	Q4 Thessaloniki Water (EYATH)	74.0%	34.0%	share sale of SPV	✓
	Q4 Athens Water (EYDAP)	61.3%	61.3%	share sale of SPV	✓
	Q4 Hellenic Motorways 1	100.0%	100.0%	share sale of SPV	✓
	Q4 Real Estate Assets 2	100.0%	100.0%	share sale of SPV	✓
	Q4 Mining rights				
<b>2013</b>	Railway Operator (TRAINOSE)	100.0%	100.0%	share sale	
	Large regional ports	100.0%	100.0%	share sale of SPV	✓
	Small regional ports	100.0%	100.0%	share sale of SPV	✓
	Hellenikon 1	100.0%	100.0%	share sale of SPV	
	Regional airports 2	100.0%	100.0%	share sale of SPV	✓
	Hellenic Motorways 2	100.0%	100.0%	share sale of SPV	✓
	Hellenic Goldmines 1	100.0%	100.0%	share sale of SPV	
	Digital dividend 2	100.0%	100.0%	sale of rights	
	Real Estate/land	100.0%	100.0%	share sale of SPV	
	Q4 OPAP 2 3/				
<b>2014</b>	Offshore Gas Storage Fac.	100.0%	100.0%	share sale of SPV	✓
	ITGI gas pipeline				
	Hellenikon 2	100.0%	100.0%	share sale of SPV	
	Real Estate/Land	100.0%	100.0%	share sale of SPV	
	Hellenic Motorways 3	100.0%	100.0%	share sale of SPV	
	Hellenic Goldmines 2	100.0%	100.0%	share sale of SPV	

1/ To be conducted as market conditions permit; the share sale may be gradual over several months.

2/ Subsidiaries of Thessaloniki and Piraeus Ports will be sold after combining ports groups.

3/ PPC will be unbundled with divestment of the productive capacity, and a share of infrastructure retained.

4/ Contractual agreement for OPAP 2 (VLT) includes a payment of Euro 86 million in Q4 of 2013.

## GREECE: TECHNICAL MEMORANDUM OF UNDERSTANDING

November 30, 2011

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 €1 = 1.4385 U.S. dollar, €1 = 116.30 Japanese yen, €1.1128 = 1 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/Secretariat General of Communication, Secretariat General of Prefectures, Presidency of the Hellenic Democracy, and the Hellenic Parliament) will include any arrears (as defined under subsection C) related to the activities of the ordinary and investment budgets. Data will be in line with the monthly publications of state budget arrears, published on the Ministry of Finance website, and will be based on survey data, until data from commitment registers are assessed by IMF, European Commission, and ECB staff to provide comprehensive and reliable information.
- **The change in net financial assets of local governments** is defined on a transactions basis, as the change in the total of financial assets minus financial liabilities of local authorities adjusted for valuation changes by the Bank of Greece.
  - Financial assets include (but are not limited to) deposits of local governments in the Bank of Greece and deposits of local governments in domestic credit institutions. Deposits will be measured at face value excluding accrued interest in line with recording for monetary survey data.
  - Financial liabilities include (but are not limited to) short and long term loans from domestic credit institutions to local governments, measured at face value, consistent with recording for monetary survey data.
- **The change in net financial assets of social security funds** is defined on a transactions basis, as the change in the total of financial assets minus financial liabilities of social security funds, adjusted for valuation changes by the Bank of Greece; minus the change in the stock of arrears of public hospitals (NHS hospitals) to entities outside of the general government (as defined below).
  - Financial assets include
    - Deposits of social security funds in the Bank of Greece and deposits of social security funds in the domestic credit institutions and deposits held either directly or indirectly through the IKA mutual fund. Deposits are measured at face value excluding accrued interest, consistent with reporting requirements for monetary survey data.

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

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

- Holdings of shares, held by ETERPS, quoted on the Athens stock exchange.
  - Holdings of Mutual Fund units issued by Greek management companies.
  - Holdings of central government bonds.
  - Holdings of other bonds issued abroad.
- Financial liabilities include the short and long term loans from the domestic credit institutions to ETERPS, measured consistently with monetary survey data, or other lending from the Bank of Greece.
- **The change in net financial assets of reclassified public enterprises (RPEs)** is defined on a transactions basis, as the change in the total of financial assets minus financial liabilities of RPEs, adjusted for valuation, minus the amount of guarantees called from entities which are consolidated within the general government. RPEs will include the following organizations: ELGA, KEELPNO, OPEKEPE (excluding the account ELEGEP), 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.

They also include short and long term loans from the foreign banking system, as well as loans from the EIB or other official lenders, as measured by the difference between new loans granted to these entities (as approved by the GAO in line with the Fiscal Responsibility Act) and amortization of these loans through called guarantees of the government or amortization of these loans made by actual payments by the companies themselves, upon monitoring and information provided by the General Accounting Office (D25).

- For the subsidiaries of OASA (Isap, Hlpap, Ethel) where the Bank of Greece data do not record changes in their domestic liabilities as a result of the recording of these debt transactions by the mother holding company, guarantees called to these entities will not be subtracted from the net acquisition of financial assets.
- **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. Expenditures defined in the contracts for hiring external advisors to realize privatization receipts under the privatization program (excluding those privatization receipts agreed to be cash revenues for QPC monitoring in the context of the May 2010 program or the 2011 budget (Second Review) discussions) will be excluded from cash expenditures.

#### 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 (requited 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 within four weeks after the end of each month, and publish this information on the Ministry of Finance website. The arrears data 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. These reports will also include data on accounts payable overdue for more than 30 and 60 days for the central government (line ministries and Decentralized Prefectures). Data on accounts payable overdue for more than 30 and 60 days will be based on the commitment registers.

### **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. The ceiling shall also exclude the borrowing for collateral for a private sector involvement operation under the program to the extent that such borrowing would be recognized in the gross debt definition.

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. The ceiling shall also exclude guarantees granted by ETEAN up to an amount of € 50 million provided these are fully backed by an equivalent amount of bank deposits. 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. 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.

21. **Other.** For QPC monitoring, receipts from privatization are generally excluded (in line with paragraph 5 of the TMU) from cash revenue receipts. However, for 2011, 2012 and 2013 where this is applicable, sales of those gaming licenses, telecom licenses, sales of aircrafts, and extension of the airport concession that were agreed in the context of the May 2010 program or the 2011 budget (Second Review) discussions will be recorded as cash revenue receipts and taken into account for the MGGPCB criterion, irrespective of whether the realized proceeds accrue to the privatization agency or not. The privatization agency will provide GAO, analytical data on the gross receipts and expenditures of the above mentioned sources, on a monthly basis—by the end of the 20<sup>th</sup> of every next month.

### **H. ESA “Program” Deficit and Overall Monitoring and Reporting Requirements**

22. ESA “Program” Deficit. For the purposes of the program, the ESA deficit will exclude the sale of non-financial assets such as land, buildings, and other concessions or licenses, unless these have been agreed in the context of the May 2010 program or the 2011 budget (Second Review) discussions to be deficit reducing measures.

23. Overall Monitoring and Reporting Requirements. 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

24. **Benchmark on progress in revenue administration, 2011.** Progress in revenue administration in 2011, to be reported by the authorities on a monthly basis 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.

In addition:

- Completion of 400 risked based audits of self employed and high wealth individuals (HWIs), as identified by the relevant task force, by end-December 2011.

- Collection of 20 percent of all assessed taxes and penalties from new audits of HWI within 3 months of the assessment date, and collection of 30 percent of all assessed taxes and penalties from the new audits within 6 months of the date of assessment.
25. **Benchmarks on progress in revenue administration, 2012.** Progress in revenue administration in 2012, to be reported by the authorities on a monthly basis, will be defined as follows
- Completion of 300 full scope and 325 temporary audits (e.g. VAT, withholding, exemptions, etc) of large taxpayers, as identified by the relevant task force, by end-December 2012.
  - 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 the new audits within 6 months of the date of assessment.
  - Completion of 1,700 risked based audits of self employed and high wealth individuals (HWIs), as identified by the relevant task force, by end-December 2012.
  - Collection of 20 percent of all assessed taxes and penalties from new audits of HWI within 3 months of the assessment date, and collection of 30 percent of all assessed taxes and penalties from the new audits within 6 months of the date of assessment.
  - Collection during 2012 of at least €1.5 billion of the existing stock of tax debt (as of end-December 2011)
  - Completion of 6,000 VAT audits of non-filers as identified by the relevant task force by end-December 2012.
  - 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 VAT audits of non-filers within 6 months of the date of assessment.
  - Increase of at least 7 percent in the number of registered VAT taxpayers filing returns on time with respect the average filings achieved in Q4 2011.
26. **Supporting material.** Monthly information on full-scope audits and temporary audits of large taxpayers, self employed and high wealth individuals, and VAT non filers, and 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 2012.

**GREECE: LETTER OF INTENT TO EC AND ECB**Athens, 31<sup>st</sup> October 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 Messrs. Juncker, Rehn and Trichet,

In the attached update to the Memoranda of Economic and Financial Policies (MEFP) and Memoranda of Understanding on Specific Economic Policy Conditionality (MoU) from 2010, and from 23 February and 2 July 4 2011, we describe progress and policy steps towards meeting the objectives of the economic program of the Greek government, which is being supported by financial assistance by the euro-area Member States, in the context of the Greek loan facility agreement.

We continue to make progress with our economic programme:

- Concerning our fiscal targets, we have been working to build on the unprecedented fiscal adjustment we have realized since late 2009. However, we have been fighting strong headwinds from the recession, and also some delays in putting in place measures. Unfortunately, due to these factors we missed the end-September performance criterion on the primary cash balance for the general government by a small margin, and also the indicative target on non-accumulation of domestic arrears. However, we have implemented a package of measures to ensure that fiscal policy can be brought back on track, including the full second package of MTFs (medium-term fiscal strategy) reforms due in August.

- Fiscal-institutional reforms have been advancing. A structural benchmark on articulating a medium-term strategic plan of revenue administration reforms was observed, and this will inform our strategy in this important area. A second benchmark on publishing three consecutive months of consistent arrears and consolidated general government fiscal reports was partially observed, with data published, but not drawn from commitment registers, as anticipated.
- Our policy efforts to support financial system stability continue. Parliament has enacted new bank resolution legislation that will allow timely and effective intervention and resolution consistent with EU Treaty rules and international sound practices.
- Regarding privatisation, the Privatisation Fund has been established and has become fully operational. While we were able to sign contracts for new concessions during Q3, the quarterly quantitative performance criterion on cash privatization receipts for end-September was missed, owing to difficult market conditions and delays in preparations. We have prepared a new schedule of sales that will see a number of contracts signed during the remainder of 2011, and 2011 cash revenue targets met with about a one-quarter delay.
- Regarding growth-enhancing structural reforms, since June, we have completed some legislative initiatives, including the passage of a law to simplify environmental licensing. Moreover, as a prior action for the review, we have enacted legislation to improve labour market flexibility. We are working to speed up implementation going forward.
- Finally, the external arrears of some local governments which were identified in July, and a small amount of arrears that accumulated subsequently, were fully cleared on 30 August. Steps have been taken to ensure that such arrears will not arise again, including improvements to the monitoring of local government debt service payments.

Alongside our policy efforts, we are working to finalize a debt exchange with private financial institutions. Any remaining financing needs will be covered by the official sector, in line with the commitments received at the 21 July 2011 summit. 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 sixth instalment of financial assistance by the euro-area Member States, pooled by the European Commission, in the amount of EUR 5.8 billion.

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 Fund, as well as with the European Commission and ECB on the adoption of any such actions and in advance of revisions to the policies contained in this letter.

This letter is being copied to Ms. Lagarde.

\_\_\_\_\_  
/s/

Evangelos Venizelos

Deputy Prime-Minister and Minister of Finance

\_\_\_\_\_  
/s/

George Provopoulos

Governor of the Bank of Greece

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

(Fifth Update)

22 October 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 2011/734/EU of 7 July 2011 (as amended; hereinafter the Council Decision), the memorandum of economic and financial policies (MEFP) and in this Memorandum.

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

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

**1 FISCAL CONSOLIDATION***Budget implementation*

The Government implements the revenue and expenditure policies agreed in this and previous memoranda with the aim of minimising any deficit in excess of the deficit ceiling of EUR 17 065 million in 2011, and to reduce the 2012 deficit to below EUR 14 916 million, as established in the Council Decision.

The Government adopts and implements the following measures **prior to the sixth disbursement**:

- A reduction in tax exemptions, in particular the tax-free personal income thresholds, with the aim of increasing revenue by at least EUR 2 831 million in 2012;
- A permanent levy on real estate, collected through the electricity invoices, with the aim of collecting at least EUR 1 667 million in 2011, and increasing amounts in subsequent years;
- An immediate implementation of the revised wage grid for civil servants, which contributes to reduce expenditure by at least EUR 101 million in 2011, and with a carryover of at least EUR 552 million for 2012, additional to savings provided in the MTFS (Medium-Term Fiscal Strategy through 2015, of June 2011). This reform should cover all general government employees, except those covered by special wage regimes. These net savings take into account the impact of this measure on income tax and social security collection, as well as bonuses to be paid to specific employee categories;
- A cut in main, and supplementary, pensions, as well as in lump sums paid on retirement, with the aim of saving at least EUR 219 million in 2011 with a carryover of EUR 446 million in 2012, additional to savings provided for in the MTFS;
- Spending by the Green Fund is capped at 5 percent of their deposits, with the aim of saving EUR 360 million in 2012.

The Government also adopts the following acts (which concern measures included in the MTFS), **prior to the sixth disbursement**:

- Ministerial Decisions or circulars to start collection of excises on natural gas, heating oil and vehicle tax measures;
- Ministerial Decisions to uniformly regulate health benefits for social security funds;
- Legislation for the collection of the solidarity surcharge through withholding;
- Ministerial Decisions that initiate closing, merging or substantially downsizing entities are adopted. This affects KED, ETA, ODDY, National Youth Institute, EOMEX, IGME, OSK, DEPANOM, THEMIS, ETHYAGE and ERT, and 35 other smaller entities specified in the 'second implementation bill';
- Ministerial Decisions specifying the disability criteria consistent with achieving the MTFS saving objectives;
- A Law to freeze the indexation of main and supplementary pensions through 2015;

- Finalise the positive list for pharmaceuticals that establish prices charged to social security funds.

The Government prepares the budget for 2012 [**November 2011**] in line with the MTFS targets, this Memorandum, and the Council Decision's deficit ceilings. Information on the several measures provided for in the MTFS will be updated and made public. The several tax and expenditure legislative acts that are necessary to implement the budget are adopted at the same time of the budget. [**December 2011**].

In order to prepare the measures that will be adopted with the 2013 and 2014 budgets, the Government initiates a review of public expenditure programmes that should be completed by **June 2012**, with the aim of identifying measures amounting to 3 percent of GDP (including one percent of GDP in contingency measures). The review will draw on external technical assistance and will focus on pensions and social transfers (in a manner that will preserve basic social protection); defence spending without prejudice to the defence capability of the country; and restructuring of central and local administrations. By the same date, adjustments to special wage regimes; further rationalization of pharmaceutical spending and operational spending of hospitals, and welfare cash benefits will also be specified.

The Ministry of Finance ensures a tight supervision of expenditure commitments by the government departments, including extra-budgetary funds, public investment budget, social security funds and hospitals, local governments and state-owned enterprises, and an effective tax collection, in order to secure the programme quantitative criteria (Article 1 (2 and 3) of the Council Decision, and of the MEFP).

The Government stands ready to define and enact additional measures, if needed, in order to respect the budgetary ceilings established in the Council Decision.

## 2 STRUCTURAL FISCAL REFORMS

### 2.1 *Asset management and privatisation*

The Government implements the privatisation programme with the aim of collecting EUR 35 billion by end-2014 and EUR 50 billion by end-2015 (see cumulative quarterly targets in Annex 1, plus the bank equity acquired through recapitalisation).

The Government stands ready to offer for sale its remaining stakes in state-owned enterprises, if necessary in order to reach the privatisation objectives. Public control will be limited only to cases of critical network infrastructure.

To ensure that the plan objectives are achieved, the Government continuously transfers assets to the Hellenic Republic Asset Development Fund (HRADF). In particular, **prior to the sixth disbursement**, it will transfer to the privatisation fund the following assets:

- Alpha Bank (0.619% of shares);
- National Bank of Greece (1.234% of shares);
- Piraeus Bank (1.308% of shares);
- Piraeus Port Authority (23.1% of shares);
- Thessaloniki Port Authority (23.3% of shares);
- Elefsina, Lavrio, Igoumentsia, Alexandroupolis, Volos, Kavala, Corfu, Patras, Rafina, Heraklion port authorities (100%);
- Athens Water and Sewerage Company (27.3%);
- Thessaloniki Water and Sewerage Company (40%);
- Regional state airports (transfer of concession rights);
- Off-shore natural gas storage facility 'South Kavala' (transfer of rights of current and future concessions);
- Hellenic motorways (transfer of economic rights of current and future concessions);
- Egnatia odos (100%);
- Hellenic Post (90%);
- OPAP, SA (29%)
- 4 state buildings.

The legal, technical and financial advisors for at least fourteen of these transactions that are planned until end-2012 are appointed **prior to the sixth disbursement**. For the other transactions planned for 2012, advisors are appointed by **end-November 2011**.

The Government continues compiling and publishing an inventory of state-owned assets, including stakes in listed and non-listed enterprises and commercially viable real estate and land to ensure it is comprehensive. The inventory will be published in successive stages by **end-2011**, **mid-2012** and **end-2012**.

The Government accelerates state land ownership registration, and adopts secondary legislation on tourism housing and on land use [**Q4-2011**].

A new General Secretariat of Public Property is established and made operational with the aim of improving management of real estate assets, clearing them of encumbrances and preparing them for privatisation. The real estate entities KED and ETA are merged and professionally managed in coordination with the HRDAF. The HRDAF creates six real estate portfolios. **[Q4-2011]**.

Proceeds from privatisation of financial and non-financial assets do not substitute fiscal consolidation efforts and will not be considered when assessing compliance of the annual general government deficit with the ceiling established in the Council Decision (see technical memorandum of understanding).

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.

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

The legal act on the transfer to the State of the mobile and immobile assets of entities that are closed is adopted. **[end-2011]**

Tariffs in OASA, OSE group and other state-owned enterprises increase by at least 25 percent, while their business plans are appropriately updated. **[Q1-2013]**

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

In line with the anti-tax evasion action plan, the Government will step up audits of large-scale tax payers, high-wealth individuals and self-employed, it will accelerate the resolution of tax arrears, and better integrate anti-laundering tools into the strategy. Progress will be monitored by quantitative indicators. These quantitative indicators and compliance with these targets will be monitored and made public.

The audits of 1 700 high-wealth and self-employed individuals identified by the anti-evasion task force will be initiated **immediately**.

To advance the reforms of revenue administration, the Government:

- activates a large-taxpayers unit; **[end-October 2011]**
- removes barriers to effective tax administration by implementing the key reforms of the new tax law, including replacing managers who do not meet performance targets **[end-2011]**, reassessing tax auditors' qualifications **[end-2011]** and hiring new auditors in the course of **2012**
- makes operational the newly created fast-track administrative dispute resolution body to deal rapidly with large dispute cases (i.e. within 90 days). **[November 2011]**
- centralises the functions of, and merges, at least 31 tax offices by **end-October 2011**, and merges, transfers competences, eliminates management positions and closes some 200 local tax offices, identified as inefficient, in the course of **2012**
- puts in place a new IT system that interconnects all tax offices.

The preparation of the new IT system involves the following main steps in relation to the new data centre, web-facing and back-office applications:

- 15 new electronic services and enhancements are running by **end-December 2011**. These concern mainly the corporate income tax.
- the new data centre hardware is in place and running by **end-March 2012**;
- 20 more new electronic services and enhancements by **end-June 2012**. These concern mainly taxes withheld at source.
- database and application design and implementation, **by end-October 2012**;
- 8 remaining new electronic services and enhancements by **end-December 2012**. These concern forms filed late with a fine, real-estate tax, and VAT administration.
- system and user tests, user training, and migration of all tax offices to the centralized database: by **end-December 2012**;
- operational use of the new IT infrastructure by all tax offices: **1 January 2013**.

To speed up tax-related judicial appeals, the government has created the possibility of dedicated court chambers for tax cases; 24 chambers are expected to be operational by **end-2011**.

The Government prepares a tax reform that aims at simplifying the tax system, eliminating exemptions, including and broadening bases, thus allowing reductions in tax rates in a prudent and fiscally-neutral manner. This relates to the personal income tax, corporate income tax and VAT, as well as social contributions. The reform will also simplify the Code of Books and Records. [**March 2012**]

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

A plan for the clearance of arrears is published in **November 2011**. The Government ensures that the stock of arrears steadily declines from the **sixth disbursement onwards**. Data on arrears are published **monthly** with a lag of not more than [20] days after the end of each month.

To strengthen expenditure control, the Government:

- appoints permanent financial accounting officers in all Ministries [**end-November 2011**];
- continues the process of establishing commitment registries, which should cover the whole general government; [**Q1-2012**]
- enforces the obligation of accounting officers to report commitments, including by enacting sanctions to entities not submitting the data and disciplinary action for accounting officers; [**Q1-2012**]
- tables legislation streamlining the procedure for submission and approval of supplementary budgets. [**February 2012**]

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

##### *Functional reviews*

The Government assesses the results of the first phase of the independent functional review of central administration. This assessment will result in an action plan for the implementation of operational policy recommendations. These recommendations should determine how to achieve a more streamlined and effective public service, to define clear responsibilities and command lines of ministerial departments,

eliminating overlapping competences, and to improve inter- and intra- mobility. **[October 2011]** A second phase of the review will lead to an action plan and to the drafting of framework legislation by **end-2011**.

The ongoing functional review of existing social programmes is finalised **[Q4-2011]**. A second phase will include a more detailed review of specific social programmes, aiming at reducing excessive fragmentation, generating savings and creating efficiencies. **[Q1-2012]**

*Public sector wages and human resource management*

The Government publishes a medium-term staffing plan **[end-December 2011]** for the period up to 2015, in line with the rule of 1 recruitment for 5 exits. The recruitment/exit rule applies to general government as a whole without sectoral exceptions.

Before **end-2011**, about 15 000 staff currently employed by various government entities are transferred to the labour reserve, while about 15 000 will be placed in pre-retirement. Staff in the labour reserve, and in pre-retirement, will be paid at 60 percent of their basic wage (excluding overtime and other extra payments) for not more than 12 months, after which they will be dismissed. This period of 12 months may be extended up to 24 months for staff close to retirement. Payments to staff while in the labour reserve are considered part of their severance payments.

Additional redundant staff will be transferred to the labour reserve in the course of **2012**, in connection with the identification of entities or units that are closed or downsized, and in case the recruitment rule is violated.

Staff transferred to the Government from either state-owned enterprises or other entities under restructuring are considered as new recruitments. The same applies to staff in the labour reserve that is transferred to other government entities, after screening of professional qualifications by ASEP under its regular evaluation criteria. The overall intake in the professional schools (e.g. military and police academies) is adjusted in line with the staffing plans.

The staffing plans per Ministry and each group of public entities will include tighter rules for temporary staff, cancellation of vacant job post and reallocation of qualified staff to priority areas and takes into account the extension of working hours in the public sector. The staffing plans and monthly data on staff movements (entries, exits, transfers among entities) of the several government departments are published on the web. **[monthly starting end-November 2011]**

The Government commissions an expert assessment of the new wage grid. **[end-2011]** This assessment will focus on the wage drift that is embedded in the new promotion mechanism. If the assessment reveals any excessive wage drift, the promotion rules are adjusted before **end-2012**. No promotion takes place before the assessment and adjustment to the promotion rules.

*Public procurement*

The Government launches the development of an e-procurement IT platform and sets intermediate milestones in line with the action plan. These milestones include 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. **[October 2011]**

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. **[Q4-2011]**

The 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. **[Q4-2011]**

The Government issues decisions, in consultation with the Commission services,

- to provide for the institution and establishment of positions for the SPPA's personnel, as well as for the organisation of human resources and services of the Authority in accordance with the provisions of the law on the SPPA; **[October 2011]**
- to appoint the members of the SPPA; **[October 2011]**
- to provide for the operational regulation of the SPPA. **[Q4-2011]**

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. This includes the adoption of the operational regulation of the SPPA. **[January 2012]**

The e-procurement platform is fully operational, and a common website is created for the publication of all procurement procedures and outcomes. **[October 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 encompass the main supplementary (auxiliary) schemes (ETEAM, TEADY, MTPY), based on comprehensive data collected and elaborated by the NAA. 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. **[end-November 2011]**

The list of heavy and arduous professions is revised and its coverage is reduced to less than 10 percent of employment. The new list of difficult and hazardous occupations (Law 3863/2010) is published by **end-October 2011** and applies **immediately** to all workers. No profession will be added to the list after its revision.

In addition to an initial cut (see above), the 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. **[Q4-2011]**

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: **Q4-2011**; implementation: **Q1-2012**]

The Government identifies the schemes for which lump sums paid on retirement are out of line with contributions paid, [**November 2011**] and adjusts the payments. **[Q1-2012]**

The reform contributes to achieving 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, The 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-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, and the central evaluation office is operational since **September 2011**.

The 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. The 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, so that they remain aligned to those of IKA.

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

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

The 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. **[Q4-2011]**

The 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**.

Contributions paid by OGA members are progressively equalised to those of other members of EOPYY, as envisaged in the medium-term fiscal strategy. The process of equalisation of contributions is legislated by **end-2011**, implemented in **January 2012** and will be completed in 30 months.

EOPYY starts operating by **end-October 2011**. 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.

The 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. **[Q4-2011]**

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*

The Government updates 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. **[November 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, the 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*

The 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; **[November 2011]**
- publishes and continuously updates the positive list of reimbursed medicines using the reference price system developed by EOF. **[November 2011]**

The 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, the Government conducts the necessary tendering procedures to implement a comprehensive and uniform health care information system (e-health system). **[Q4-2011]**

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]**

The 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. The Ministry of Health 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:

- setting the maximum price of generics to 60 percent of the branded medicine with similar active substance; **[November 2011]**
- establishing and monitoring compulsory e-prescription by active substance and of less expensive generics when available; **[Q4-2011]**
- 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. **[Q1-2012]**

The Government takes further measures to 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:

- increasing the mobility of healthcare staff (including doctors) within and across health facilities and health regions. **[Q4-2011]**
- adjusting public hospital provision within and between hospitals within the same district and health region; **[Q4-2011]**
- revising the activity of small hospitals towards specialisation in areas such as rehabilitation, cancer treatment or terminal care where relevant; **[Q4-2011]**

A system for comparing hospital performance (benchmarking) is set up on the basis of a comprehensive set of indicators. **[Q4-2011]** Annual reports will be published as of **Q1-2012**.

*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 will be used as a human resource planning instrument. The 2011 report will present plans for the allocation and re-qualification of human resources for the period up to 2013. It will also provide guidance for the education system and it will specify a plan to reallocate qualified and support staff within the NHS and health funds. **[Q4-2011]**

The 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. **[November 2011]**

*Accounting and control*

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

By **end-October 2011**, the 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. The annual report and the individual prescription reports examine prescription behaviour with particular reference to the most costly and most used medicines. **[Q1-2012]**

All hospitals adopt commitment registers. **[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. **[Q4-2011]**

The Ministry of Health completes the ERP (enterprise-resource planning) programme of hospital computerisation and extends coverage of the web-based platform ESY.net to all hospitals. **[Q4-2011]**

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

#### *Centralised procurement*

The Government will move towards a new 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. **[end-October 2011]** 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.

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. [**end-November 2011**]

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

The taskforce produces an implementation report, revising the policies implemented so far. [**Q2-2012**]

### 3 FINANCIAL SECTOR REGULATION AND SUPERVISION

**Each quarter**, the Government transfers EUR 1 000 million to a dedicated government account opened by the General Accounting Office. Funds from this account are regularly paid 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 from that account is subject to agreement by the European Commission, ECB and IMF staff. Any support provided with HFSF resources will continue to be in line with state aid rules.

The Bank of Greece and the HFSF complete a memorandum of understanding to further strengthen their cooperation, including sharing of appropriate supervisory information, **prior to the sixth disbursement**.

Over the medium term, banks will need to reduce their reliance on Eurosystem borrowing and government guarantees. Regular updates of medium-term funding plans under guidance of the Bank of Greece will be an important tool to ensure that this process proceeds at a pace consistent with the programme's macroeconomic, fiscal, and financial framework. The next update is finalised by **end-2011**.

Banks' consolidated core tier 1 minimum regulatory capital requirement will be set at 10 percent from **January 2012** on. The core tier 1 capital requirements will exclude hybrid capital, but will include preference shares issued by banks and subscribed by the Greek government at the onset of the global financial crisis in 2008-09.

The Bank of Greece ensures an equivalent capital treatment of risks related to Greek government bond exposures across all institutions (with reference to the NPV reduction of the PSI). In this context, the Bank of Greece updates its last Pillar II assessment [one month] after completion of the PSI.

The diagnostic of bank loan portfolios commissioned by the Bank of Greece will be concluded by **end-December 2011**. The Bank of Greece will ensure that any existing under-provisioning revealed by this exercise will be recognized in banks' profit and loss accounts. The Bank of Greece, in cooperation with the Commission, the ECB, and the IMF staff teams will use the diagnostic results to determine capital needs over the three year horizon, based on a minimum core tier 1 target capital ratio of 6 percent under an adverse stress test scenario. The capital needs will be assessed per bank and disclosed to the market by **end-February 2012**.

Following the additional capital needs assessment based on the diagnostic study, banks may be given time to raise this additional capital on the market. If the Bank of Greece determines that a period of time should be allowed for a bank to meet capital requirements, the relevant bank will be asked to present, by **end-April 2012**, a viable 3-year business plan to this end. Any bank in this circumstance will have to meet capital requirements by no later than **end-**

**August 2012.** Any capital to be raised to this end should consist of instruments qualifying as Tier I capital.

The governance arrangements of financial oversight agencies will be reviewed in consultation with the European Commission, ECB, and IMF staff:

- the organisational arrangements for the Bank of Greece to ensure that they are in line with best international practice and that any potential conflict of interest in its expanded supervision and resolution role is avoided;
- the corporate governance arrangements for the HFSF (including the need for internationally recognized professionals with banking experience to be members of the board with voting rights); and
- the governance arrangements for the HDIGF (to address potential conflicts of interest).

The enactment of legislation to address any outstanding issues in these areas will be completed by **end-2011**.

The government commits to fully subscribe its share in cash in ATE bank, and to purchase any other unsubscribed shares (after notification to the European Commission). An appropriate amount of funds will be set aside for this purpose. This capital increase will be reflected in ATE's restructuring plan, an update of which will be resubmitted to the European Commission by **end-October 2011**.

Regarding the Hellenic Consignment and Loan Fund (HCLF), an implementing decree and commitments to comply with state aid rules will 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 transferring the commercial activities and the above-mentioned commitments will be specified by **end-October 2011** and will thereafter be endorsed by an Inter-Ministerial Decision. The disposal of the commercial activities branch will be completed on or before **end-July 2012**.

Any support provided by the HDIGF and the HFSF in the framework of resolution will be notified to the European Commission under state aid rules.

The Bank of Greece will require capital shortages to be addressed by **end-November 2011**, [or take the appropriate actions to deal with the situation (by **end-November 2011**)] in line with EU state aid rules. Until capital shortages have been resolved, the Bank of Greece will closely monitor affected banks and continuously enforce appropriate remedial measures.

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*

#### *Wage setting*

The Government initiates discussions [Q4-2011] with social partners to examine all labour market parameters that affect the competitiveness of the companies and the economy as a whole. The goal is to conclude a national tripartite agreement which addresses the macroeconomic challenges to support stronger competitiveness, growth and employment.

Moreover, based on a dialogue with social partners and taking into account the objective of creating and preserving jobs and improving the firms' competitiveness, the Government adopts further measures to allow the adaptation of wages to economic conditions.<sup>1</sup> In particular:

- the extension of occupational and sectoral collective agreements is suspended until end-2014;
- the so-called favourability principle is suspended throughout the MTFS period, in such a manner that firm-level agreements take precedence over sectoral and occupational agreements;
- firm-level collective contracts can be signed either by trade unions or, when there is no firm-level union, by work councils or other employees' representations, irrespective of the firms' size.

These amendments are legislated **prior to the sixth disbursement**.

#### *Fighting undeclared work*

Quantitative targets on the number of controls of undeclared work to be executed are set for the Labour Inspectorate. A pilot study is implemented in order 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). [December 2011]

An assessment on the effectiveness of the Labour Inspectorate law will be made six months after its implementation. [Q4-2011] 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 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.

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<sup>1</sup> Reforms to collective bargaining do not concern health and safety conditions and are implemented in respect of core labour standards and EU law.

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

##### *Regulated professions*

In the implementation of Law 3919/2011, any decision to reinstate a restriction considers the need to promote competition and takes into account international best practice. The Government consults widely, and in particular with the Hellenic Competition Commission. [not later than **end-Q4 2011**]

The Government repeals Ministerial Decision YA 648/2011 and issues a new Ministerial Decision significantly reducing the value of a transaction above which the notaries' *pro rata* fee for drafting contracts is the maximum permissible fee. In addition, the new Ministerial Decision defines *pro rata* fees for transactions below this maximum value at successively decreasing rates in inverse proportion to the graduated increase, ensuring a sharp reduction of the fees already charged. To this end, the new ministerial decision reduces *pro rata* fees by at least 30 percent in the first two tranches defined in Ministerial Decision YA 648/2011, with larger cuts in the *pro rata* fees applicable to subsequent tranches. The new Ministerial Decision also lowers fees for copies and for additional pages. [Q4-2011]<sup>2</sup>

For the legal profession, the 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'). [Q4-2011]

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. [Q4-2011]

The Government publishes a report, by **mid-November 2011**, 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 on 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;

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<sup>2</sup> The above reduction will be subject to the results of a comparative study regarding notarial fees in other EU countries in order to determine to which extent the notarial fees in Greece should be reduced.

- 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 Law 3919/2011, EU law and competition rules.

Changes to Presidential Decrees, Ministerial Decisions and Circulars following the screening of legislation are adopted. [**March 2012**].

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. [**December 2011**]

The 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. [**Q4-2011**]

The 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. [**November 2011**]

The Government monitors the implementation of Law 3919/2011 and launches a study on how effective such a law is in increasing competition and reducing prices [**October 2011**]. The study is regularly updated, with the first results available by **end-December 2011**. If necessary, adjustments to the law with the aim of increasing competition are adopted by **March 2012**.

The Government presents the results of screening of the regulations of the main regulated professions to assess the justification and the proportionality of the requirements reserving certain activities to providers with specific professional qualifications. [**November 2011**]

The Government prepares acts by **end-2011**, to be adopted by **Q1-2012**, at the latest, in order 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;
- 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;
- set up contributions of lawyers and engineers to their professional associations that reflect the operating costs of the services provided by those associations. These contributions are paid periodically and are not linked to prices charges by professions;
- simplify the requirements reserving certain activities to the legal and engineering professions that are not justified or proportionate;
- amend Article 6 of Law 3919/2011 to provide for the freedom of incorporation of law firms and the freedom to the opening of branches inside Greece.
- abolish Article 7.1 b) of Law 3919/2011, regarding the powers of the Technical Chamber of Greece to monitor and to open disciplinary proceedings for unusually low fees.
- tackle any other issues identified in the assessment of the implementation of Law 3919/2011.

The 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 the recognition of professional qualifications, including compliance with ECJ rulings (*inter alia*, related to franchised diplomas). The Government:

- updates the information on the number of pending applications for the recognition of professional qualifications, and sends it to the Commission; **[October 2011]**
- presents draft legislation by **October 2011**, to be adopted by **end-year**, in order to remove the prohibition to recognise the professional qualifications derived from franchised degrees. Holders of franchised degrees from other Member States should have the right to work in Greece under the same conditions as holders of Greek degrees.

#### *Services Directive*

The Government completes the adoption of changes to existing sectoral legislation in key services sectors such as retail (e.g. open air markets and outdoor trade), wholesale (e.g. central markets), agriculture (e.g. veterinary services), employment (employment agencies), and technical services. The Government also adopts changes to the remaining sectoral regulation, ensuring full compliance with the directive.

Regulations should:

- facilitate the establishment by:
  - abolishing or amending requirements which are prohibited by the Services Directive;

- abolishing or amending unjustified and disproportionate requirements, including those relating to quantitative and territorial restrictions, legal form requirements, shareholding requirements, fixed minimum and/or maximum tariffs and restrictions to multidisciplinary activities.
- facilitate the provision of cross-border services, so that providers of cross-border services are required to comply with specific requirements of the Greek legislation only in exceptional cases (when admitted by Articles 16 or 17 of the Services Directive).
- provide legal certainty for providers of cross-border services by setting out in the respective (sectoral) legislation which requirements can, and which requirements cannot, be applied to cross-border services. **[Q4-2011]**

The Government ensures:

- that the point of single contact (PSC) is fully operational in all sectors covered by the Services Directive;
- that the PSC distinguishes between procedures applicable to service providers established in Greece and those applicable to cross-border providers (in particular for the regulated professions);
- that there is adequate connection between the PSC and other relevant authorities (including one-stop shops, professional associations and the recognition of professional qualifications). **[Q4-2011]**

#### *Sectoral growth drivers*

The Government publishes reports analysing:

- the potential contribution of the tourism sector to growth and jobs. In an Action Plan, the Government identifies legislative, administrative and other obstacles hindering competition and market entry to the realisation of sector potential; **[November 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. **[November 2011]**

The necessary legal acts and other structural actions are adopted **[Q4-2011]** to implement the findings of these reports.

The Government initiates additional studies on manufacturing, energy, and wholesale sectors with a view to removing remaining obstacles to growth in these sectors. On the basis of these studies, the Government prepares concrete actions and a timetable for implementation **[March 2012]**.

#### *Business environment*

The Government publishes a plan **[October 2011]** for a "Business-Friendly Greece" tackling 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, in order 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.

The Government concludes the screening of 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. A draft proposal of market regulation is ready by **[end-December 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. **[October 2011]**

The 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. The obligation of registration with the exporters' registry of the Chamber of Commerce is abolished. **[December 2011]**, while the e-customs system is fully operational. **[June 2012]**

In order to help attract investment in key sectors, the Government speeds up the review of project applications in the pipeline of the fast-track procedure for large investments for at least three large investment projects by **end-November 2011**, with two more projects one month later.

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

The Government accelerates **[Q4-2011]** 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.

A Ministerial Decision on market regulations is issued following the screening launched in Q2-2011. **[Q4-2011]**

An *ex post* impact assessment is presented in order to evaluate Law 3853/2010 on the simplification of procedures for the establishment of companies in terms of savings in time and cost to set up a business, as well as to verify that all secondary legislation is in force. **[Q1-2012]**

### *Transport*

Liberalisation of tourist coaches is immediately effective after passing legislation in early August 2011. Secondary legislation establishing the costs and the time required for issuing new licences is adopted by **end-October 2011**. Such costs will not exceed the administrative costs and the required timing will not exceed 20 business days in total.

The 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. **[Q4-2011]** After ensuring that regional airports are economically viable, the Government launches an effective transaction strategy leading to their privatisation. **[Q1-2012]**

A report is submitted on the functioning of the regular passenger transport services (KTEL), presenting options for liberalisation. **[Q4-2011]**

The transitional period established in Law 3887/2010 for the reduction in costs for issuing new road transport operator licences is brought to an end on 1 January 2012. The necessary secondary legislation as foreseen in that law (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]**

In line with the policy objectives of Law 3919/2011 on regulated professions, the Government removes entry barriers to the taxis market (in particular, restrictions on the number of licences and price of new licences), in line with international best practice. **[Q4-2011]**

*Energy*

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

The Government ensures that network activities are effectively unbundled from supply activities.

In particular, for electricity:

- all the necessary transfers of staff and assets of the transmission system operator (TSO) are completed; the TSO management, its supervisory body and the compliance officer are appointed in accordance with the Electricity Directive 2009/72/EC; **[Q4-2011]**
- all necessary transfers of staff and assets to the legally unbundled distribution system operator (DSO) are completed; **[Q1-2012]**
- the unbundled TSO is certified by the Greek energy regulator. **[Q2-2012]**

For gas:

- ownership unbundling is implemented as foreseen in the Greek energy law. **[Q1-2012]**
- the unbundled TSO is certified by the Greek energy regulator. **[Q2-2012]**

The Government starts implementing the measures ensuring the access by third parties to lignite-fired electricity generation. **[Q4-2011]**

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. The Government submits a request for derogation under certain conditions of Article 44 of Directive 2009/72 for small isolated systems. **[Q4-2011]**

Legislation is adopted to award the hydro reserves management to an independent body. **[Q4-2011]**

The 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]**

The 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*

The Government pursues an up-to-date and in-depth evaluation of all R&D and ongoing innovation actions, including in various operational programmes with their costs and benefits. It presents a strategic action plan for policies aimed at enhancing the quality and the synergies between public and private R&D and innovation, as well as tertiary education. This action plan identifies a clear timetable for relevant measures to be taken, taking the budgetary impact into account and harmonising these actions with other relevant initiatives in these areas, in particular the investment law. **[February 2012]**

*Better regulation*

The Government tables legislation **[November 2011]** 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.

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 Regulation Unit consults the Hellenic Competition Commission when formulating and drafting the guidelines to be implemented by the ministries' better regulation units;
- impact assessments are published.

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

On administrative burden reduction, the 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. **[December 2011]**

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

The Government meets targets for payment claims and major projects in the absorption of EU structural and cohesion funds set down in the table below. Compliance with the targets shall be measured by certified data.

In meeting absorption rate targets, recourse to non-targeted state aid measures is gradually reduced. The Government provides data on expenditure for targeted and non-targeted *de minimis* state aid measures co-financed by the structural funds in 2010 **[October 2011]** and in 2011 **[Q4-2011]**.

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. **[Q4-2011]**

The Government earmarks appropriate amount to:

- complete unfinished projects included in the 2000-06 operational programme closure documentation (ca. EUR 260 million), as well as an appropriate amount for the rest of the implementation and closure of the 2000-06 cohesion-fund projects;
- to cover the required national contribution, including non-eligible expenditure (i.e. land acquisitions) in the framework of the 2007-13 operational programmes. **[Q4-2011]**

The Government identifies EUR 500 million from ERDF within the 2007-13 operational programmes for the creation of a guarantee fund for small and medium-sized enterprises. **[Q1-2012]**

## GROWTH-ENHANCING STRUCTURAL REFORMS

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

	2011	2012	2013
European Regional Development Fund (ERDF) and Cohesion Fund	2 600	2 850	3 000
European Social Fund	750	880	890
Target of first half of the year	<i>target: 1 105 (of which 5 major projects) outcome: 627 (of which 6 major projects)</i>	1 231	1 284
<b>Total annual target</b>	<b>3 350</b> (of which 15 major projects)	<b>3 730</b>	<b>3 890</b>

The Government launches a web-based monitoring tool of procedures for the approval of project proposals and for the implementation of public projects, [**October 2011**], which should be fully operational by **end-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**]

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

With the aim of accelerating the absorption of EU financing and in order to adapt itself to the increase in the EU co-financing rates, the Government will, by **December 2011**:

- establish priority projects per operational programme, including, where appropriate major projects, which will have a significant impact on cohesion, growth and employment, and their respective estimated allocation. These projects should be operational by 2015; [**December 2011**]
- activate or eliminate sleeping projects (i.e. projects already approved in the operational programmes but not yet contracted within the timeframes as defined at the national level). For those projects which are retained, it indicates which conditions must be met in order that the co-financing is upheld; [**December 2011**]
- create a central database monitoring compensation and the time elapsed for the completion of expropriations incurred in the framework of the implementation of projects co-financed by the ERDF and the Cohesion Fund; [**Q1-2012**]

- simplify tasks relating to project implementation by mapping responsibilities and removing unnecessary steps in accordance with the management and control systems while also consolidating management capacities where appropriate (e.g. waste treatment). **[Q2-2012]**

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

The Government 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 task force's report. **[end-October 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]**

The new tertiary education framework law, aimed at reducing excessive costs and at improving its overall efficiency and effectiveness, is implemented. **[Q2-2012]**.

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

In order 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, the 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, the Government:

- launches **[October 2011]**, jointly with an external body of experts, a study of the backlog of non-tax cases in courts. The study includes the Supreme Court and the Supreme Administrative Court, with data available by **end-March 2012** and the analysis by **end-June 2012**.
- puts in place implementing rules for Law 3898/2010 on mediation in civil and commercial matters; **[October 2011]**
- identifies dormant cases, i.e. cases pending before the civil courts in which the relevant court's file records that they have been postponed or never received a hearing date and no party activity for receiving a hearing date has taken place for at least 18 months; **[October-2011]**

The Government presents a working 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 intermediate targets for reducing the backlog by at least 15 percent by **December 2011**, 50 percent by **July 2012** and 80 percent by **December 2012**; [Q4-2011]

The Government prepares a working plan for the use of e-registration, e-tracking of the status of individual cases in all courts of the country, and for e-filing. The work plan includes deadline for the evaluation and completion of current pilot projects (e.g. e-filing) and their extension to all courts. The plan [Q4-2011] envisages that e-registration, and e-tracking is extended to all courts by end-2013;

The Government improves alternative dispute resolution for out-of-court settlement and actively promotes pre-trial conciliation, mediation, and arbitration, with a view to ensuring that a significant amount of citizens and businesses make use of the new legal framework for mediation; [Q4-2011]

The Government produces an evaluation or impact assessment of existing and required additional efficiency measures (such as the fast-lane procedure at the Athens Court of First Instance) in order to reduce the processing time of cases, including further simplifying case registration, further rationalizing docket management with a view to allowing the resolution of docketed cases, and providing increased computer support to judges in order to allow the issuance of written decisions in all courts within two weeks from the judge taking the decision; [Q4-2011]

The Government takes the necessary measures in order to be able to publish quarterly reports on recovery rates by bailiffs and notaries, duration and costs of corporate insolvency cases and tax cases. For the purposes of this Memorandum, 'recovery rate' refers to the ratio of the amount collected by the creditor in enforcement proceedings -following the issuance of an enforceable title- to the amount adjudicated by the court; [Q4-2011]

The Government conducts an assessment on whether the reform of the Code of Administrative Procedure has delivered the results that the legislation had set out to do; [Q4-2011]

The Government increases the costs of civil litigation in line with the policy underlying the increase of litigation costs in administrative matters; [Q4-2011]

The Government establishes a task force with a mandate to 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]

In order to improve the efficiency of courts, the 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, so as 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]

The Government imposes additional dissuasive measures against non-cooperative debtors in enforcement cases; [Q1-2012]

The Government presents a qualitative study on recovery rates in enforcement proceedings, evaluating the success rates and the efficiency of the various modes of enforcement. [Q1-2012]

The Government decides on the date by when it will open access to the regulated profession of mediator to non-lawyers in line with this memorandum conditionality on regulated professions and presents an action plan ensuring that non-lawyers may offer mediation services on that date. [Q1-2012]

The Government establishes a task force that is broadly representative of the legal community, including, but not limited to, academia, practising lawyers, in-house lawyers, lawyers from other EU Member States established or offering their services in Greece, aimed at reviewing the Code of Civil Procedure and bring it in line with international best practices on, *inter alia*, (i) judicial case management, including the possibility of removing dormant cases from court registers; (ii) relieving judges from non-adjudicatory work, such as pre-mortgaging of immovable property, formation and dissolution of incorporated entities and consensual/non-litigious family law applications, (iii) the enforcement of decisions and of orders to pay, in particular small claims cases with a view to reducing the role of the judge in these procedures, and (iv) enforcing statutory deadlines for court processes, in particular for injunction procedures and debt enforcement and insolvency cases. For the purposes of this Memorandum, judicial case management shall mean the possibility of judges to be involved early in identifying the principal factual and legal issues in dispute between the parties, require lawyers and litigants to attend pre-hearing conferences and manage the conduct of proceedings and the progression of the case to achieve the earliest and most cost-effective resolution of the dispute. [Q2-2012]

The Government carries out an evaluation [Q3-2012] of the backlog reduction plan of tax cases in all administrative tribunals and administrative courts of appeal established in Q4-2011, it also updates the plan and it takes remedial action, should there be deviations in achieving full clearance of the backlog by **end-July 2013**;

By **end-August 2012**, the 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 non-tax cases in courts of at least 50 per cent by **end-July 2013** and it starts implementing the action plan.

The Government conducts an assessment of whether the enactment of Law 3898/2010 on mediation on civil and commercial matters has delivered the results which the legislation had set out to do, and presents data and analysis concerning costs, time and success rates associated with the enforcement of agreements arising from alternative dispute resolution as compared with the enforcement of judicial decisions. **[Q4-2012]**

The taskforce on the review of the Code of Civil Procedure makes specific recommendations on: (i) case management, (ii) relieving judges from non-adjudicatory work; (iii) the reduction of the role of the judge in the enforcement of decisions and of orders to pay and (iv) on enforcing statutory deadlines for court processes. **[Q1-2013]**

**5 REFORM MONITORING AND TECHNICAL ASSISTANCE**

The Ministry of Finance's directorate of planning, management and monitoring becomes operational with the aim of improving reform management and oversight. It starts publishing quarterly monitoring indicators for each of the key structural reform initiatives, on a quarterly basis. **[Q4-2011]**

The Government will request technical assistance to be provided by the EU Member States, the European Commission the IMF or other organisations in priority areas. These technical assistance actions will be coordinated by the Commission's technical assistance taskforce.

**Annex 1: Privatisation targets**

<b>By end of:</b>	<b>Privatisation receipts (EUR million)</b>
<b>2011 Q4</b>	1 700
<b>2012 Q1</b>	5 000
<b>Q2</b>	7 000
<b>Q3</b>	9 000
<b>Q4</b>	11 000
<b>2013 Q1</b>	15 000
<b>Q2</b>	17 000
<b>Q3</b>	18 000
<b>Q4</b>	20 000
<b>2014</b>	35 000
<b>2015</b>	50 000

## Annex 2: Provision of data

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

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

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

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

### 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>Monthly, no later than 15 days after</p>

(Data compiled by the Ministry of Finance)	the end of each month; these data should also be included in subsequent transmissions in case of revision.
Data on expenditure pending payment (including arrears) of the general government, including the State, local government, social security, hospitals and legal entities. <i>(Data compiled by the Ministry of Finance on the basis of basic data from the several line ministries)</i>	Quarterly, within 55 days after the end of each quarter.
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	Quarterly, by the end of each quarter.
Data on public debt and new guarantees issued by the general government to public enterprises and the private sector.  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).  Data on planned monthly interest outflows. <i>(Data compiled by the Ministry of Finance)</i>	Monthly, within one month.
Data on assets privatised and proceeds collected. <i>(Data compiled by the Ministry of Finance)</i>	Monthly.
Data on state-owned 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 state-owned 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 health care 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

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

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

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

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