International Monetary Fund

Greece and the IMF

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May 30, 2014

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

May 14, 2014

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.

Greece: Letter of Intent

Athens, May 14, 2014

Ms. Christine Lagarde
Managing Director
International Monetary Fund
Washington, DC 20431

Dear Ms. Lagarde,

In the attached update of the Memoranda of Economic and Financial Policies (MEFP) from March 9 and December 21, 2012, and May 20 and July 17, 2013, we outline progress and policies toward meeting the objectives of the economic program of the Greek government that is supported by an arrangement under the Extended Fund Facility (EFF).

Recent developments suggest that the recession is bottoming out, and we project that the economy will return to growth in 2014. We registered a significant primary fiscal surplus in 2013 in program terms, well above target and ahead of schedule. The external position has also improved, with the current account showing a surplus for the first time in decades. However, the economy continues to face significant challenges, including high rates of unemployment and public debt, high non-performing loan balances and structural current account deficits, despite reforms to the business environment improving the investment climate.

We met all end-2013 quantitative performance criteria under the program, except for the one on domestic arrears (narrow definition). However, we missed the indicative targets (Table 1) and several structural benchmarks (Table 2). Against this backdrop, we are adopting key reforms and taking corrective steps, including as prior actions for this review (Table 3). Our priorities include:

- *Fiscal policy*. As a prior action, we are revising expenditure ceilings to lock in the 2013 under-spending, and implementing policies to ensure that we achieve a primary fiscal surplus of 1.5 percent of GDP in 2014. We are committed to adopting policies consistent with a primary surplus of 3 percent of GDP in 2015. The draft 2015 budget will be agreed with the EC/ECB/IMF by end-September 2014. We are also taking steps to limit fiscal risks from the energy and health sectors.
- *Fiscal structural reforms*. We have approved legislation for a new property tax and further reformed the income tax and tax procedures codes. As a prior action, we have adopted legislation to strengthen the autonomy and improve the operations of the revenue administration. We are reforming the public administration and catching up on agreed exit and mobility targets. We have taken steps to streamline payment processes and minimize the risk of further accumulation of arrears.
- *Financial stability*. The asset quality review and stress test revealed the need to further strengthen bank capital and accelerate the process of repairing bank and private sector balance sheets. To this end, the Bank of Greece required banks to raise capital identified in the stress tests by end-June 2014, preserving the HFSF buffer as a backstop. All four systemic banks successfully completed capital increases. We are accelerating, as a top

priority, reforms of the corporate and household insolvency frameworks and strengthening of bank supervision.

- *Growth-enhancing structural reforms*. On our initiative and in agreement with the EC/ECB/IMF, we have adopted key OECD recommendations on eliminating regulatory restrictions to competition in four sectors. As prior actions, we have also implemented several actions in support of the privatization program, and frontloaded the reduction of the labor tax wedge. Additional reforms include measures to open restricted professions, improve competition in the energy sector, ease administrative burdens on business, and improve the quality of public services.

The program is fully financed through the next twelve months. Firm commitments are also in place thereafter from our euro area partners to provide adequate support during the program period and beyond, provided that we comply fully with the requirements and objectives of the program. In this regard, we remain on track to receive the first phase of conditional debt relief from our European partners, as described in the Eurogroup statements of November 27 and December 13, 2012.

On this basis, we request completion of the fifth review under the EFF arrangement. In view of the delays in the program reviews, we request the re-phasing of the undrawn purchases over the remaining reviews in 2014 (Table 4) and reduction by three reviews. We therefore request a purchase of SDR 3 billion as well as: (i) a waiver of nonobservance for the end-2013 quantitative performance criteria on government arrears; (ii) establishment of performance criteria and indicative targets for end-June, end-September, and end-2014 (Table 5); and (iii) establishment of new structural benchmarks for 2014 (Table 6).

We believe that the policies set forth in the attached MEFP are adequate to achieve the objectives under the program, and stand ready to take any measures that may become appropriate for this purpose as circumstances change. We will consult with the Fund on the adoption of any such actions and in advance of revisions to the policies contained in the Memoranda, in accordance with the Fund's policies on such consultations.

This letter is being copied to Messrs. Dijsselbloem, Kallas, and Draghi.

/s/
Antonis Samaras
Prime Minister

/s/
Yannis Stournaras
Minister of Finance

/s/
George Provopoulos
Governor of the Bank of Greece

Greece: Memorandum of Economic and Financial Policies

Developments, Outlook, and Strategy

1. Greece has made considerable progress toward restoring fiscal and external sustainability. We achieved a significant primary fiscal surplus in 2013, well above target and ahead of schedule. The improvement since 2009 is estimated at about 19 percent of GDP in cyclically-adjusted terms, and we have the highest cyclically-adjusted primary surplus in the euro area. The external current account also continues to improve, boosted by tourism.

2. These efforts are bearing fruit, but significant challenges remain. The pace of contraction is decelerating. Growth should turn positive in 2014, partly as a result of a lower fiscal drag. But growth is predicated on a revival of investment and exports, which in turn depend on the full and timely implementation of structural reforms and adequate external financing. At the same time, the economy faces major challenges, not least high unemployment, strained balance sheets, and a restrictive investment climate.

3. Our focus therefore remains on meeting fiscal targets, safeguarding financial stability, strengthening the basis for growth and job creation, and protecting the vulnerable. We are committed to preserving the achievements to date and to continue implementing in full the measures agreed since the start of the program or taking fiscally equivalent measures, agreed with the EC/ECB/IMF, to ensure achievement of fiscal targets. Our policies are centered on: (i) restoring fiscal sustainability (¶4–13); (ii) modernizing fiscal institutions (Annex I); (iii) safeguarding financial stability (¶15–22); (iv) increasing productivity through structural reforms (¶23–30); and (v) protecting the vulnerable (¶8).

Fiscal Policy

4. To achieve the 2014 primary balance target of 1.5 percent of GDP, we are implementing in full the measures in the budget and are taking the following steps:

- *Locking in under-spending.* As a **prior action**, we locked in €320 million of lower spending from permanent savings in 2013 by revising binding expenditure ceilings in the 2015–18 medium-term fiscal strategy (MTFS).

- *Potential court rulings.* A constitutional court ruling reversed the wage cuts of judges since August 2012, leading to an increase in gross spending of wages and pensions of €168 million in 2014, including a permanent annual increase in the wage and pension bill of €70 million that we have accommodated. We do not expect any more adverse rulings regarding special wage regimes or levies on property. Nevertheless, should such rulings occur, we are committed to taking off-setting actions.

- *Debt reduction/spending*. In accordance with the Eurogroup statement of November 2012, we transferred over 30 percent of the over-performance in the 2013 general government primary balance in program terms, or €500 million, to the segregated account earmarked for debt reduction. We are also using the fiscal space projected with the EC-ECB-IMF for 2014 to provide in gross terms up to €525 million of one-off income support to around 730,000 households and 75,000 security personnel with low earnings and assets. We will review and agree with the EC/ECB/IMF the scope for any further one-off increase in social or pro-growth spending in the context of the next review of the program, conditional on the fiscal targets being met.

5. We are committed to achieving the 2015 fiscal target. We project a gap for 2015. In the first instance, we intend to close the gap by extending expiring measures. Under current projections, we believe that it will be necessary to extend the solidarity surcharge in full. But we will re-visit this issue in the context of the preparation of the 2015 budget. If there is sustained over-performance of revenue, contingent on the fiscal targets being met, we will in consultation with the EC/ECB/IMF consider a reduction in the high statutory tax rates while aiming to broaden the tax bases. In line with the existing legal framework, the 2015–18 MTFS was voted on by Parliament on May 9, 2014, and the draft 2015 budget will be agreed with the EC/ECB/IMF by end-September 2014.

6. We are reducing social security contribution (SSC) rates to lower the cost of business and strengthen labor demand, and enhancing the pension system to ensure its viability and support labor supply.

- *SSC rate cuts.* As a **prior action**, we legislated a reduction in SSC rates of IKA by 3.9 p.p. effective July 1, 2014. The rate cut is achieved by mostly reducing employer-paid non-pension contributions (by 2.9 p.p.). We will review, by end-June 2015, the impact on wages, employment and public finances, and assess the case, in consultation with the EC/ECB/IMF, for a further cut in employer contributions of 1 p.p. in a budget neutral way. Offsetting measures include eliminating OAED family benefits, reducing OAED training programs, rationalizing OAEE exemptions, and enhancing collectability rates by offsetting VAT and income tax refunds against SSFs' debts, yielding about €230 million in fiscal savings in 2014. We will prepare by September 2014, in consultation with the EC/ECB/IMF, a comprehensive plan to (i) unify and streamline SSC policies to eliminate loopholes, and (ii) better target lower-end contributions to improve employment incentives, including by enhancing schemes for young people and long-term unemployed financed by the EU funds. We will implement the plan by end-2014.

- *Pensions*. While the 2010 reform was a major step forward, at about 17 percent of GDP, pension spending remains one of the highest in the EU. To address remaining short- and long-term concerns, we commit to (i) consolidating pension fund administration and enhancing efficiency; (ii) ensuring that the consolidated system (excluding budgetary transfers related to social assistance functions) is actuarially balanced through the next decades; (iii) containing pension spending to ensure compatibility with the short- and medium-term fiscal program targets that underpin the agreed debt sustainability analysis by recalibrating pension system parameters and containing the state subsidy to the pension system; and (iv) establishing close links between contributions and benefits in all pension funds to ensure actuarial fairness.

    - To achieve these objectives and in consultation with the EC/ECB/IMF, we will: (i) prepare a draft comprehensive proposal on the main elements of SSF consolidation, and harmonize contribution and benefit payment procedures, by June 2014, (ii) complete an actuarial study of the whole pension system, including supplementary and lump-sum funds, by September 2014, including simulations of actuarial balances and calculations of internal rate of return by funds and by income groups, (iii) on this basis, agree on specific design and parametric improvements with the EC/ECB/IMF by October 2014, and (iv) legislate changes by November to take effect from January 1, 2015 (**structural benchmark**).

- On supplementary pensions, we will by June 2014 integrate all funds in ETEA that fall under the ESA95 definition of General Government and will adjust benefits to contributions in an actuarially neutral way with pro-rata calculations starting January 1, 2014. The fiscal sustainability factor will be applied to all supplementary funds integrated into ETEA from July 1, 2014 to eliminate any deficit. Starting January 1, 2015, all supplementary pension funds will only be financed by own contributions. For a very limited number of funds that technically cannot be merged into ETEA at this stage, the same rules as outlined in this paragraph will be legislated by end-June 2014 and applied from January 1, 2015.

- On lump-sum pensions, the reform implementation has already started (effective since January 1, 2014), eliminating the deficits in these funds. All remaining funds that fall under the ESA95 definition of General Government will be incorporated under law 4052/2012 by June 2014, effective from January 1, 2015. Starting January 1, 2015, all lump-sum funds will only be financed by own contributions.

7. We are further optimizing the tax structure to improve the business climate.

- On <u>nuisance taxes</u>:

  - As a **prior action**, we have: (i) abolished 40 charges at an annualized cost of €245 million, of which: 9 are abolished effective July 1, 2014, at the latest; 27 that finance social security funds are abolished effective January 1, 2015; and 4 charges amounting to about €60 million accrue to entities outside the general government and do not impact the budget effective immediately; (ii) removed revenue earmarking of 12 taxes amounting to €1.4 billion effective January 1, 2015.

  - As there are still more nuisance charges to be assessed, we will: by end-May 2014 update the list of nuisance charges that accrue to the general government and to entities outside the general government (including, e.g., by making public service announcements and inviting anonymous reporting of these charges). We will abolish as many as possible, in consultation with the EC/ECB/IMF, by end-June 2014, effective January 1, 2015. We will also by end-June 2014 abolish all charges that finance auxiliary pensions (that fall under the Ministry of Labor), effective January 1, 2015, financed by adjusting pension spending in these funds or contributions consistent with the 2012 pension reform.

  - We will review by September 2014 and legislate by November 2014 the phasing out of nuisance charges that finance main pensions, congruent with the pension timeline above, and the mode of financing (whether SSCs should be increased or spending reduced). This will include addressing advertising nuisance taxes that finance pensions, such as those identified in the OECD competition assessment. It will also include the abolishment of all charges that finance auxiliary pensions (that fall under the ESA95 definition of General Government, but are outside the Ministry of Labor), effective January 1, 2015, and adjust spending or contributions consistent with the 2012 pension reform. We will also comprehensively review all reciprocal charges by September 2014 and legislate their phasing out by November 2014.

- Finally, we will review, as part of the study of regulated professions (¶27), by end-August 2014 transaction-related charges, including stamp duties, with a view to replacing the most distortionary ones with more efficient taxes. We will decide by end-September 2014, in consultation with the EC/ECB/IMF, which of these charges should be reduced, abolished, have their revenue earmarking removed, or replaced. We will take the corresponding legislative actions by November 2014.

- Moreover, we commit to a comprehensive VAT reform and will, in consultation with the EC/ECB/IMF: review VAT policy and administration by June 2014; reduce administrative burdens and streamline the VAT refund system by July 2014, including by allowing companies with a fully compliant filing and payment history and absence of past tax evasion for the past two years to receive refunds without audit; and legislate the comprehensive reform of VAT policy and administration through primary legislation and other instruments by October 2014 to take effect from January 1, 2015 (**structural benchmark**).

8. We are taking further steps to support employment programs and improve targeting of the social safety net to vulnerable groups. Hiring under two employment programs introduced in the second half of 2013 and financed through EU structural funds—the youth internship and employment voucher program and the social community work program—is progressing. We will extend the latter by offering at least a further 50,000 places in 2014, and launch the youth guarantee scheme (inspired in the EU scheme) by December 2014. On social protection, we embarked on the preparatory work and will launch by September 2014 a pilot means-tested income support program (guaranteed minimum income) in two municipalities, and roll it out nationally in 2015, if financing is available. We will conduct by end-June 2014 a review of social protection and assistance systems. On that basis, we will streamline tax- and expenditure-related benefits in the context of the 2015 budget to create the fiscal space to provide increased, targeted support to vulnerable groups within the overall fiscal targets.

9. We have amended the Income Tax and Tax Procedures Codes and other relevant legislation to further strengthen the tax system and ensure uniformity and consistency across all relevant legislation. However, some high-priority actions remain pending:

- *On the income tax code (ITC)*, we will in consultation with the EC/ECB/IMF: (i) if the surcharge is to be extended (¶5), assess the case for re-designing the solidarity surcharge for individuals in a revenue neutral manner, and take the appropriate action, reducing significantly reconciliatory tax returns, rationalizing exemptions introduced in 2014, and integrating it into the ITC by September 2014; (ii) by end-July 2014, conduct a comprehensive review of collective investment vehicles that are not affected by the provisions of the ITC (Article 72, ¶18), identify the best practice for taxing these vehicles and their participants, and prepare draft legislation to integrate these taxation principles fully in the ITC; (iii) by end-July 2014, identify all income tax incentives across different legislative documents, including those introduced in the ITC in 2014, and quantify them as tax expenditures; (iv) as a **structural benchmark**, by end-September 2014, adopt legislation to be implemented by January 2015 at the latest to: (a) integrate the taxation principles on collective investment vehicles fully into ITC, (b) map and fold the identified tax exemptions into the newly adopted ITC, eliminating the incentives that are deemed inefficient or inequitable, (c) following a review of implementation, improve the capital gains tax on real estate, including taking a comprehensive approach to valuation of acquisitions and broadening the tax base, and (d) limit the withholding tax on technical services (ITC Article 64, ¶1.d) to profit shifting situations, in line with best practice in the EU; (v) by end-September 2014, bring the capital gains tax on portfolio shareholders in line with best practice in the EU; and (vi) by end-September 2014, conduct a comprehensive review of all remaining legislation that are in conflict with or in any other way related to the new ITC and map these legislative acts to the ITC.

- *On the tax procedures code (TPC)*, we will: (i) by end-June 2014, ensure the revenue administration's capabilities to conduct timely audits at taxpayer's premises by developing fast-track procedures for authorization of entry and search requests by the administration, particularly in fraud cases, and in consultation with the EC/ECB/IMF change administrative procedures or amend legislation as necessary to achieve this; (ii) by end-September 2014, following a review of the rights of designated tax collection officials to enter tax debtors' business premises to verify the tax debtors asset and liquidity position and to identify assets that can be subject to enforcement measures, amend as necessary the TPC to ensure that these rights are sufficient for enforcement purposes; (iii) by June 2014, undertake a comprehensive review of tax fraud and evasion provisions in the legislation to amend by September 2014 the Special Penal Law 2523/1997 and any other relevant legislation, with a view, inter alia, to (a) broaden the definition of tax fraud and evasion to all taxes, and (b) ensure that this review does not reduce the scope of tax crimes that are currently predicate offenses to money laundering. Following these amendments, we will repeal Article 55, ¶s 1 and 2, of the TPC by September 2014 (**structural benchmark**) (see also ¶33, first bullet); (iv) take the necessary preparations by July 2014 to bring the inheritance and gift taxes under the scope of TPC (Article 66, ¶29); (v) by end-June 2014, in consultation with EC/ECB/IMF, modernize the revenue administration's procedure for enforced sale of assets at public auctions to ensure that, inter alia, the auction is announced well in advance in public media and that bids exceeding the cost of the auction will be accepted irrespective of the amount of debt owed by the owner of the asset and are set at a level that allows for effective and timely disposal by the revenue administration. Debt amounts that have not been covered by the proceeds from the auction shall remain enforceable; and (vi) by end-June 2014, review existing legislation for the procedures for withholding agents and, by September 2014, fold these into the TPC as general procedural rules for all withholding agents. By end-June 2014, we will conduct a comprehensive review of all remaining legislation that are in conflict with or in any other way related to the new TPC and map these legislative acts to the TPC. We have ensured that until end-2014 the current practice of levying multiple penalties will be limited to a fixed cap. We will further ensure by end-September 2014 that, effective January 1, 2015, violations involving non-issuance or incorrect issuance of retail receipts will be treated as a single but serious procedural violation for VAT, whereas not having a reliable accounting system will remain a single violation for direct taxes. In this regard, we will—in cooperation with technical assistance—

prepare our tax administration to apply modern auditing techniques to counter tax evasion. We will also ensure that the application of fines on the offences committed or detected before the entry into force of the new TPC are in line with best practices in the EU and legislate any changes by end-September 2014.

- *Code of Public Revenue Collection (KEDE)*. We will undertake a mapping of the KEDE to identify conflicts with the ITC and TPC, and will amend by June 2014 any conflicting provisions to ensure compatibility. We will conduct in consultation with EC/ECB/IMF a comprehensive review of KEDE by June 2014 to align it with the international best practice, with an initial draft bill available by September 2014, to be legislated in October 2014.

- *Modernizing accounting standards*. To complement the ITC and TPC, we will adopt by end-May 2014 a new act on Greek Accounting Standards and Tax Accounting Rules to replace the existing Tax Recording Code and, for the first time, provide a modern and consistent set of accounting and tax accounting rules covering all enterprises. By May 2014, we will establish a working group within SGPR to develop a roadmap and timetable for the implementation of new accounting standards. These should, inter alia, (i) provide the necessary secondary legislation, (ii) tax compliance documents and forms, and (iii) ensure appropriate preparations by businesses, especially SMEs.

- *Enhancing transparency*. By June 2014, we will produce and publish an electronic consolidated version of primary tax legislation, including ITC and TPC, and will update the publication regularly as appropriate.

10. We have issued key secondary legislation to ensure prompt implementation of the ITC and TPC. As a **prior action**, we have issued the secondary legislation to: (i) define taxpayers who are professionally engaged in trading securities in regulated markets (Law 4172/2013, Article 21, ¶3); (ii) clarify rates and procedures for the implementation of tax withholding (Law 4172/2013, Article 60, ¶4); (iii) clarify the base for the solidarity surcharge either by issuing an MD (Law 3896/2011, Article 29, ¶6) or a clarification circular; (iv) determine the content of transfer pricing documentation (Law 4174/2013, Article 21, ¶6), and (v) determine the requirements for electronic notification of documents (Law 4174/2013, Article 5, ¶6).

11. Preparations for the new unified property tax are advancing. We commit to take all necessary actions to compensate for implementation slippages, if any, that might lead to revenue shortfalls, and will keep the assessment of estimated revenues under review.

- *Preparations*. We created a property tax implementation team to refocus the organizational structure toward the collection of main taxes, including the property tax, have trained the personnel in the tax offices and specified the staffing requirements at 15 (excluding DOYs) to implement effectively the new ENFIA. We have completed the filing software testing and final changes to the E9 forms that form the basis of the new tax database. By end-May 2014, we will finalize filing of the E9 forms, so that billing of the new property tax can commence in June 2014. We have launched a communication campaign that will significantly enhance understanding of the filing requirements and the specificities of the new tax. By September 2014, we will review the exemptions from ENFIA introduced in 2014 and eliminate starting January 2015 those that are deemed inefficient or inequitable.

- *Valuation*. Over time, we will align property assessment values with market values. To this end, by July 2014, we will develop a medium-term reform plan that outlines actions, including setting up a project team, needed to: (i) by January 2015, set up an experienced real property valuation unit, collect data on real estate market conditions with an aim to adjust the zone prices to reflect more accurately real estate market conditions, and determine the nature of the value based and the valuation methodologies relevant to individual categories of properties; (ii) by September 2015, review the valuation of commercial properties, and adjust the zone prices to reflect more accurately real estate market conditions; (iii) by January 2016, issue a real estate market value index and ensure full identification of ownership with properties through a cadastre of properties and cross-checking of all ownership interests with all individual properties; and (iv) by January 2017, align all property assessment values with market prices.

12. To improve transparency and limit fiscal risks, we are taking further actions on government guarantees and quasi-fiscal transfers, state-owned enterprises, the energy sector, and the health sector.

- *Guarantees and contingent liabilities*. Starting from Q1 2014, we are publishing on the Ministry of Finance website on a quarterly basis the stock and flows of all general government guarantees, including the ones provided by ETEAN, but excluding the ones to the financial sector (that will continue to be published in aggregate form in the monthly general government bulletin). We will publish by Q3 2014 a comprehensive list of all outstanding public-private partnership contracts.

- *State-owned enterprises*. To stop the drain on public resources from loss-making firms, maximize the recovery value and make the public sector more efficient, in addition to implementing the agreed plans on ELVO, HDS, and LARCO, we have: (i) passed legislation to close or merge the toll company together with 21 other companies, (ii) commenced restructuring of the public law entities, including under the supervision of the Ministries of Infrastructure, Culture, and Agriculture with an objective of downsizing employment by 1000 by end-2014; (iii) for the Hellenic Aerospace Industry (HAI), launched a process for the restructuring and possible introduction of external investment into HAI and will adopt and initiate a strategy for its restructuring by end-September 2014 based on the advice of external experts; and (iv) for Hellenic Post, appointed reputable external advisors to identify options and make recommendations for the best path to privatization to be prepared by June 2014 and implemented immediately, in accordance with the agreed privatization schedule. In consultation with the EC/ECB/IMF, we will identify by end-May 2014 a set of state-owned enterprises that need to be restructured, taking into consideration their financial position (e.g., deficit, state guarantees, subsidies) and policy purpose, and will develop concrete restructuring proposals for implementation by end-September 2014.

- *Energy sector*

    - <u>Renewable energy account (RES)</u>. To restore long-term sustainability and eliminate the debt of the account by end-2014, we have, as a **prior action**, aligned the terms of power purchasing agreements for existing contracts to a reasonable rate of return—reducing tariffs paid to solar producers by about 28 percent on average and to other renewable producers by 5.4 percent on average, imposed a one-time contribution on renewable producers by writing down net arrears owed to them by €310 million (a 28.7 percent reduction for solar producers and 10 percent for others), and increased the RES levy by €4.8 per MWh, and introduced a 200 MW annual cap on new solar installations receiving incentives. Exceptionally, for 2014 only, for fast track projects approved in earlier years, an additional 300 MW cap is foreseen, with feed-in tariffs at current levels.

- <u>Public Power Company (PPC)</u>. To ensure adequate cost recovery while significantly reducing cross-subsidization across consumers, PPC has established a quarterly tariff adjustment mechanism, with a first adjustment effective July 1, 2014. The tariffs will continue to be subject to monitoring by RAE, the regulator. The justification for quarterly PPC tariff proposals based on cost and revenue considerations will be made public, while avoiding inappropriate disclosure of confidential PPC data (data published will include PPC operating and capital costs and realized and projected revenue flows from electricity sales and other sources).

- <u>Structural measures</u>. We will put in place by July 2014 a set of measures (such as reduced capacity payments, elimination of variable cost recovery, auctions of a portion of PPC's generation output, and demand side measures to improve efficiency during peak demand periods) to address concerns related to the competitiveness of energy-intensive users, in a way that does not burden PPC's finances or create fiscal risks, strengthens prospects for PPC's privatization, and improves the efficiency of the energy market. As a result, the effect of the recent action to preferentially lower electricity prices to energy-intensive users will be addressed. We will consult with the EC/ECB/IMF before considering any further actions that benefit specific groups of energy consumers at the expense of other consumers or market participants.

- <u>Clearing arrears</u>. The government will clear all public sector arrears through 2013 to PPC—general government arrears have been cleared or the resources have been transferred to the entities owing the arrears and will be cleared by end-June 2014; the rest, including transportation, irrigation and water supply companies will be cleared by end-2014. The arrears of Larco will be dealt with in the context of its liquidation. These measures should provide adequate liquidity to begin clearing arrears in the system, including among PPC, producers, ADMIE, LAGIE, RES producers, and DEDDIE. We will monitor clearance of arrears with the goal of a substantial reduction by mid-2014 and elimination of all arrears by end-2014.

- *Health sector*

  - <u>Pharmaceutical spending</u>. We have increased the original claw back target for 2014 by about €100 million to €2 billion to create space for spending on vaccinations and medicines for the uninsured. This increase is financed by equivalent offsetting measures in primary care spending. We have also extended the claw back target to 2015. To support this target, we have taken measures totaling €625 million, including: (a) reducing the price of off-patent drugs to 50 percent and generics to 32.5 percent of the patent price; (b) establishing a minimum prescription target of generics of

60 percent for doctors, on average, with suspension in cases of non-compliance; (c) expanding the OTC list; (d) establishing price-volume agreements with companies; and (e) introducing evidence-based prescription guidelines and new protocols. We will introduce regressive profit margins for pharmacies and reducing them to 15 percent starting June 2014. We have introduced new drugs in the reimbursement list on the basis of objective and strict medical and cost-effective criteria and any future inclusions will be consistent with taking sufficient offsetting measures to keep spending (before the claw back) at €2 billion. The overall price level of generics will need to be assessed in the context of the next review.

- Clinics and diagnostics. We will collect the 2013 claw back on private clinics and diagnostic tests by end-May, and will complete the associated audits by June and September 2014, respectively, and the final settlement of outstanding claims by end-October 2014. We have extended the claw back at the 2013 spending ceiling of €890 million through 2015. We have taken structural measures to support this target, including setting budgets for diagnostic tests to doctors, reducing prices, and requiring ex ante approval of private hospital treatment plans, and stand ready to take further measures as needed to bring actual spending close to the claw back ceiling.

13. We are progressing with public administration reforms, including downsizing through attrition. We are on track to reduce employment by 150,000 by end-2015.

- *Staffing and compensation.*
  - To complete our monitoring framework for government employment and the wage bill, we will bring all employees of central and local governments, legal entities of public law, and legal entities of private law under Chapter A into the Census Database by end-June and the Single Payment Authority by October 2014. Contractual staff will be reported in full time equivalent terms by end-July 2014.
  - We will undertake, in consultation with the EC, ECB and IMF, a broad review of government employment levels and the remuneration structure to ensure they are consistent with high-quality provision of public services and are fiscally sustainable. We will prepare a report by end-May 2014, as a basis for long-term staffing targets.
  - We will identify by July 2014 further implementation issues related to the wage grid reform and the rationalization of the public sector wage structure in a fiscally neutral way, such as the comprehensive application of the wage grid reform across the public sector, including decompressing the wage distribution in both directions in connection with the skill, performance and responsibility of staff, in consultation with the EC/ECB/IMF. These will be legislated by end-October 2014 and made effective from January 1, 2015 (**structural benchmark**).
  - We will undertake a comprehensive review of all non-wage benefits, such as working hours, leave arrangements, per diems, travel allowances, unemployment benefits and perks by end-July, and will align them with best practices in the EU by end-September 2014 (**structural benchmark**), effective from January 1, 2015.

- *Mobility and availability*. To catch up to the end-2013 target of 25,000 employees in the "availability" scheme, i.e., the existing mobility and exit scheme, (**prior action**), we are rationalizing staffing across the general government following the review of structures (employees reallocated during the re-organization of the tax administration—which started before the scheme was put in place—will count toward the target). A further 3,000 employees will be shifted into the scheme from municipalities by September 2014. The scheme will remain in place to facilitate future organizational restructuring, including the downsizing and outsourcing of services. Consistent with the TMU, employees placed in the scheme will have their wages reduced by 25 percent, and will be assessed, within a centrally-defined evaluation framework, before reallocation to new positions, or exit. Payments during the time in availability will count against any severance entitlements. The availability scheme is distinguished from a new "mobility" scheme, which is a permanent mechanism for voluntary and mandatory transfers to better allocate personnel within the public administration. It will not be connected to exits nor will it require placing employees under the availability scheme and reducing their remuneration. We will establish by March 2015 an internal job market within the public administration, while implementing mandatory rotation within the public sector beyond the ongoing restructuring exercise to facilitate continuous renewal of skills.

- *Exits*. To meet the end-March 2014 target of 5,000 exits (**prior action**), we are (i) processing disciplinary cases, and identifying illegal conversion of temporary contracts to permanent staff. This is facilitated by removal of the need for ex-ante approval by the Council of State and other legislative initiatives, and (ii) merging, downsizing or closing private law entities with overlapping or obsolete functions and excessive staffing. Any re-hiring of former ERT staff to the new broadcaster will be consistent with preserving our exit targets and done through ASEP, with an open and transparent procedure. We have terminated contracts of 1,700 staff whose appeal to judicial litigation to obtain permanent positions was rejected. The additional 10,000 exits targeted for 2014 will originate predominantly from the availability scheme, and the liquidation and downsizing of public entities of private law. We remain committed to the renewal of personnel by accelerating the effort to tackle disciplinary cases, cases of incapacity, and illegal hirings (including illegal conversion of temporary contracts into permanent ones). Those actions will lead to the dismissal of personnel proven unable to exercise their duties as public servants. We estimate as an indicative number that there would be 2,000 such exits by Q1 2015. We will assess by end-September 2014, in consultation with the EC/ECB/IMF, and taking into account the results of the public administration reforms, whether to formally define targets.

- *Rationalization*. We will undertake a comprehensive assessment of services that can be provided more efficiently and at lower cost by the private sector by end-December 2014 and outsource some of those activities, together with abolishing the corresponding positions and staff from the civil service by end-June 2015. These dismissals will not be counted toward the 1:1 rule.

- *New hiring*. New hiring through 2015 will remain within the 1:5 ceiling, and temporary employment contracts each year will be reduced by about 10 percent relative to the previous year. In case past targets have been exceeded, the reduction rules will be re-adjusted accordingly. For mandatory exits (excluding outsourcing), we will hire new staff

(1:1 rule) with critical skills to serve the public and ease the pressure in the private labor market, as long as this is consistent with the government's overall employment ceilings. We will strictly enforce the probation period for new staff of two years, including through a comprehensive performance assessment at the end of the first year, and before being granted permanent employment status.

- *Performance*. We have passed legislation to revise the current system for performance assessments, and will complete the 2013 assessment by July 2014 using the revised system. We will establish a new performance evaluation system by end-2014 to assess 2014 performance by end-March 2015. We will revise by May 2014 the criteria for the appointment of managers to move toward qualification and performance-related factors, rather than seniority, and will fill all senior appointments by end 2014 and heads of units by end-June 2015.

14. Fiscal institutional reforms are covered in Annex I.

Financial Sector Policies

15. Following the announcement of the results of 2013 stress test exercise, we are taking the following steps:

- **Timeline**. Banks have until end-June 2014 to meet their capital needs under the baseline scenario, based on capital-raising plans that they submitted for approval by mid-April 2014. The upfront capital raising under the baseline scenario is based on mitigating actions, but only those included in banks' current restructuring plans along with any further mitigating actions agreed with the EC (DG-Competition) as commitments in the revised restructuring plans, which the BoG will take into account for recalculating capital needs. Further, banks have until end-May 2014 to submit capital-raising plans addressing the adverse scenario, for approval by the Bank of Greece by end-June 2014.

- **Commitment**. We stand ready to take all necessary policy actions to safeguard overall financial stability. We remain committed to a four-pillar banking sector, and the results of the stress test have confirmed that this commitment is appropriate. The resources in the HFSF have been set aside as a buffer against possible capital shortfalls that could materialize in the stress test horizon, or as a result of the SSM comprehensive assessment exercise. These form part of a credible backstop, together with the support of euro area Member States. The SSM assessment in 2014 provides an opportunity in late-2014 to assess progress and ensure adequate capitalization.

- **Recap law.** As a **prior action**, we have passed legislation governing the injection of public sector resources into the banks through the HFSF, under which the HFSF will provide capital to viable banks that fail to meet the capital needs determined by the stress tests. To minimize taxpayer liability, capital support will be subject to the prior implementation of burden-sharing measures, in accordance with EU rules. The shares subscribed by the HFSF will bear full voting rights, and the subscription price will be determined by the HFSF General Council, based on reports by two independent advisors as prescribed in the law.

16. Eurobank completed its share capital increase, following the announcement of stress test results. The overriding objectives were to strengthen the bank's capital base as soon as possible, attract in a competitive process anchor investors that would play an active role in the bank's management and balance sheet repair, and achieve a strong private sector participation in the transaction, marking the return of our banking sector to capital markets as a sign of its nascent recovery.

17. We are committed to preserve sufficient banking system liquidity in line with Eurosystem rules. The Bank of Greece, following the procedures and rules of the Eurosystem, stands ready to continue disbursing adequate and appropriate emergency liquidity support in a timely manner, if needed, while expecting banks to achieve a sustainable funding model over the medium term. In this context, banks have submitted their funding plans to the Bank of Greece, and will be required to update their plans on a quarterly basis to allow for continuous monitoring and assessment of their efforts.

18. We are intensifying supervision, in consultation with the EC/ECB/IMF, including over the management of banks' troubled assets.

- We will introduce KPIs to monitor banks' progress in reducing their large NPL portfolios, and banks will begin gradual reporting under these KPIs by end-June 2014, with full reporting to commence from end-December 2014.

- We will report on the appropriateness of banks' loan forbearance practices and recognition of income from NPLs by end-July 2014. Based on the results of the ECB's comprehensive assessment, we will assess the need to introduce impairment provisioning guidelines similar to those of other EU supervisory authorities. If guidelines are deemed necessary, we will introduce them in time for consideration in the 2014 end-year accounts.

- We are evaluating options for improving recovery from assets under liquidation and will implement by end-June in full the recommendations of technical assistance to this end.

- We will undertake a review of the Bank of Greece's supervisory model, legal powers, governance structures and the enforcement toolkit by end-June 2014, in consultation with EC/ECB/IMF staff, and introduce appropriate legislative or regulatory changes by end-September 2014. As part of this review, we will prepare the Basel Core Principles (BCP) self–assessment by end-June, and will request IMF staff to complete an assessment of supervisory practices against specific and pre-agreed BCPs by end-September 2014.

- We are taking the following steps immediately to improve the effectiveness of our supervisory practices. We addressed restrictions on hiring experienced staff in a manner that preserves staff autonomy and the financial independence of the Bank of Greece. In addition, we will: (i) revise our organizational structure and internal governance processes by September 2014, in preparation for transfer of supervisory responsibility to SSM; (ii) engage specialists to assist us with the supervision of NPL portfolios by end-May; and (iii) assess the impact of the introduction of the EBA guidelines on definitions of NPLs and forbearance and require banks to adopt the guidelines by end-June 2014.

19. We are committed to addressing deteriorating asset quality and improving our debt resolution framework, in consultation with the EC/ECB/IMF. We have established a Government Council for the Management of Private Debt to coordinate legal and institutional reforms to enhance corporate and personal debt resolution frameworks. As a **prior action**, the Council has: agreed its expenditure budget for 2014; under the Secretary General for Consumer Protection, engaged project management, public relations, and technical specialists to ensure effective delivery of all aspects of the agenda; and adopted definitions of a cooperative borrower and reasonable living expenses for use in and out-of-court debt workouts. The major tasks of the Council are as follows:

- Introduce a binding Code of Conduct for banks that specifies the terms of engagement between creditors and debtors by end-May 2014 (**structural benchmark**). Banks will be required to pilot and implement long-term debt restructuring tools by end-October 2014 and be compliant with the Code by end-2014.

- Design out-of-court debt restructuring tools for enterprises, including a multi-creditor coordination mechanism inspired by international standards (such as the INSOL principles) to facilitate the restructuring of viable commercial entities, by end-May 2014. We will also specify by end-May a similar coordination mechanism for SMEs that will include the use of standardized templates as well as a review and appeals procedure. We will adopt and implement both mechanisms, *inter alia*, by making the necessary legislative changes, by end-July.

- Review the personal and corporate insolvency laws by end-June 2014, and implement necessary changes to improve the functioning of in-court insolvency procedures by end-October 2014 (**structural benchmark**). This will include establishing a regulated profession of insolvency administrators, not restricted to any specific profession and in line with best practice in the EU.

- Launch by end-July educational services and public awareness campaigns to inform debtors of their options and rights and educate small businesses on financial and credit management.

- Develop a coherent plan for a means-tested social safety net for vulnerable home owners by July 2014 (see also ¶8).

- Implement other supportive measures such as better data collection (by May 2014), reducing the costs of the property auction process (by June 2014), and introducing residential and commercial real estate transaction price registers (by October 2014).

- Set up a monthly data collection process to monitor the effectiveness of the transition debtor-protection scheme enacted in December 2013. Based on incoming data, the Council will by end-June 2014 prepare a report assessing the effectiveness of the new law and its impact on strategic default behavior, and will propose measures to ensure effective implementation in case of shortcomings.

20. We are taking further steps to overhaul operational and governance arrangements in the financial sector more broadly. These efforts are two pronged: first, the HFSF's governance and operational structure and effectiveness as a shareholder is being enhanced by: (i) employing personnel with international experience in commercial banking and NPL resolution; (ii) reviewing the internal safeguards on conflict-of-interest rules and related-party transactions and making appropriate changes by end-May 2014; and (iii) increasing the number of General Council members to 9 and the members with international experience to 7. Second, the HFSF's engagement with the banks will be strengthened. Based on a broad review of the governance arrangements concerning HFSF's participation in the banks by end-May 2014 to be undertaken in consultation with the EC/ECB/IMF, we will adopt appropriate legislative and operational steps by June 2014, to ensure that financial institutions are run on a sound, commercial basis. In this context, we will examine a broad variety of options in consultation with the EC/ECB/IMF to step up oversight arrangements over banks' performance and clean up of their balance sheets, including through a revision of the relationship framework agreements.

21. We will prepare a comprehensive strategy on the cooperative sector, taking into account the role of Panellinia bank. While cooperatives are currently compliant with capital requirements, we will examine by end-July 2014, in consultation with the EC/ECB/IMF, all modalities, including further consolidation or a review of their *modus operandi* to ensure the sector as a whole has achieved stability and standards that are considered best practices internationally. We will implement the strategy by end-September 2014.

22. We will take no fiscal policy actions that would undermine the solvency of banks. In particular, the banks will not be required or permitted to pay any dividends on preference shares, or fees or taxes in lieu of this, unless they have distributable profits (excluding profits from acquisitions and selling of subsidiaries abroad), and the Bank of Greece has given its consent, confirming that such a payment would be compatible with the preservation of adequate capital buffers and liquidity going forward. We will not impose unilateral debt relief solutions for any particular group of debtors.

Privatization

23. We are redoubling our efforts to tackle the obstacles to privatization, as performance has continued to fall short of program objectives. We will focus on:

- *Corporate governance*. We will provide the HRADF with all necessary authority to effectively control companies that it is responsible for privatizing, while strengthening its accountability, transparency and operational autonomy. Specifically:
    - The HRADF will complete by end-June 2014 an assessment of the management and board members of companies in its portfolio and take all appropriate steps (including by terminating the relevant appointment) with respect to those that are not performing well or whose actions are not aligned with the HRADF's goal of privatization. The assessment will be completed by the Board of Directors of the HRADF based on a set of clear objectives and criteria.
    - The HRADF has appointed at least one board member of companies in its portfolio where it is not currently represented, and has approved transparent criteria for the selection and appointment of Board members in which HRADF is a shareholder.

- As a **prior action**, we have adopted, in consultation with the EC/ECB/IMF, legislation, requiring the HRADF to exercise its shareholders' powers in the companies in which the HRADF is a majority shareholding, according to a framework of cooperation which sets out objectives and criteria in line with the privatization process. Under such legislation, the HRADF shall ensure ongoing adherence of such framework of cooperation, including through taking appropriate action towards Board members and management in the relevant companies. The framework of cooperation shall be designed and adopted by the HRADF Board of Directors by June 2014.

- To enhance operational functioning, we have amended the HRADF law to inter alia ensure uninterrupted operations in the event that the chair is vacant; provide personal contracts to the executive members of the BoD, and narrow the grounds for dismissal of the HRADF Board members; introduce greater flexibility in tools and procedures for asset sales; legislate that super/extraordinary dividends (i.e., in excess of profits of the previous year) or reductions in share capital from entities under privatization are paid to the HRADF (and within 10 days to the segregated account); and exempt the HRADF from the requirements under Law 4111/2013 regarding the submission and monitoring of monthly/quarterly targets and ensure that reporting requirements of the HRADF under Article 78 of Law 2362/1995 are limited to: (i) annual budget (expenditure and revenue) and any changes to it made during the year (forward looking); (ii) monthly submission of budget execution and financing (backward looking); (iii) monthly submission of wage bill data (backward looking); and (iv) monthly submission of commitment registry summary (backward looking on a monthly basis, forward looking for annual budget spending). The HRADF will review by June 2014 current legislation that applies to general government entities, including the organic budget law (Law 2362/1995), to identify any legal provisions that hamper its ability to operate efficiently or contradict aspects of its law, and the authorities will, in consultation with the EC/ECB/IMF, take action to address these by October 2014 (with the amendment of the organic budget law).

- More broadly, to strengthen the governance regime and the effectiveness of the HRADF, we will undertake a review, including through an independent third-party assessment, aimed at having strong conflict-of-interest, related-parties transactions and insider trading rules, strict incompatibility criteria for the HRADF Board members. In this context, we will also review the internal governance arrangements that can effectively enable the HRADF to implement such rules and criteria. Legal and operational changes to reflect these improvements will be introduced, in consultation with the EC/ECB/IMF, by June 2014.

- *Real estate*. To facilitate real estate privatization:

  - We will undertake a comprehensive reform of land use restrictions and urban planning at the local, regional, and national levels, including zoning, environmental, energy, forest, coastal lands, and building coefficient requirements and approval processes. Building on work already done, and in parallel with initiatives in the area of spatial planning and forestry, we will prepare an action plan, including dates for passage of needed legislation, by end-September 2014 to improve legal clarity and drastically reduce the time and procedural requirements needed to secure rights to develop land, while preserving needed safeguards on land use. This fundamental reform will facilitate privatization of publicly owned real estate and improve the property rights of private owners and reduce the barriers to private investment.

- We have undertaken a review of the mission, objectives, and staffing of ETAD, to strengthen its effectiveness in professionally managing and maturing assets ahead of transferring them to HRADF. We will review the unutilized properties under the ministries that have been transferred to ETAD by June 2014 to identify omissions, and require that ministries identify and transfer remaining unutilized properties to ETAD by end-September. The HRADF has evaluated all income-generating properties in ETAD's portfolio and assessed whether they can be privatized.

- We will adopt, in consultation with the EC/ECB/IMF, by end-May 2014, legislation to propose to current illegal or unauthorized occupants of government-owned properties to purchase such properties on market terms.

- *Government support for privatization*. Many of the actions required to conclude privatization transactions are the responsibility of government ministries and entities whose active engagement is essential. To help ensure full government support:

  - As a **prior action**, we will: implement, in consultation with the EC/ECB/IMF, pending government actions (TMU Annex Table I.3) (these include inter alia the issuance of MD on setting up tolls on Egnatia Odos and the establishment of the port regulator); and launch the expression of interest for the sale of shares in Thessaloniki port concession.

  - To facilitate cooperation between ministries and the HRADF, an inter-ministerial working group led by a Secretary General of the Ministry of Finance or by the PM's office, with participation of the HRADF, shall meet bi-weekly to review new and existing pending government actions and ensure expeditious completion. The authorities will review this list of actions with the EC/ECB/IMF on a monthly basis.

  - The HRADF prepares detailed project plans and timelines for completion of the sales of major assets in the privatization portfolio, and will report monthly to the EC/ECB/IMF on progress against this timeline starting in April 2014. Where slippages of key government actions needed to realize the projected privatization timetable are detected, remedies will be put in place and projections will be adjusted accordingly. The HRADF publishes on a quarterly basis a report on steps taken to proceed with privatization (expressions of interest, any needed legislative approvals, tenders, and regulatory approvals) and financial accounts (including a profit and loss statement, a cash flow statement, and the balance sheet), no later than 60 days after the conclusion of every calendar quarter. We have passed legislation to establish a mechanism to monitor the privatization projects after they have been contracted to ensure the proper functioning of contracts and resolve issues as they arise.

24. We have adjusted our targets for privatization proceeds to make them more realistic in light of institutional constraints and delays. While we are confident that the steps outlined above will improve prospects for realizing privatization revenues, we do not believe that previous program targets are feasible at this time, in particular relating to real-estate sales. We have therefore revised program targets to reflect an ambitious but more realistic assessment of prospects, and will continue to keep these targets under review, mindful of both upside (from heightened investor interest) and downside (from continuing significant hurdles to privatization) risks. We will continue to monitor progress via quarterly indicative targets, and performance criteria for September and December 2014 (Table 5).

Structural Reforms

25. Product and service market reforms aimed at promoting competition and reducing the administrative burden are a key focus for this review.

- *Promoting competition*. An OECD review of four sectors (tourism, retail, building materials, and food processing) has identified 329 regulatory distortions that hamper competition. We have addressed 43 of these restrictions and, with a view to lower consumer prices, improve labor productivity, and support creation of new jobs, we are committed to address virtually all of the remaining ones (we will adopt most OECD recommendation in full, except for those specified in Table 5). To that end, we will:

    - As a **prior action**, adopt 237 recommendations: (i) 212 in an omnibus law; (ii) 15 in two new laws (on licensing and outdoor trade); and (iii) 10 as part of several sectoral laws and ministerial decisions. These include reforming the licensing framework for shopping malls and outlets; removing several restrictions on the ownership and operation of pharmacies; abolishing barriers to entry in the building materials sector (such as minimum requirements on storage or capital requirements); and eliminating barriers to investment in tourism activities (such as geographical restrictions).

    - By end-June 2014, adopt all necessary secondary legislation to fully implement the reforms discussed above, except for two codes of best practice on sales and offers and on foodstuff traditional definitions that will be implemented by end-September.

    - Adopt another 32 recommendations, including (i) 18 in the context of nuisance tax reform (¶7); (ii) 6 by end-June 2014 as well as 1 by end-2014 through several sectoral laws (related to the maritime and tourism sectors); and (iii) 7 by end-2014 to align various technical specifications with EU standards.

    - Conduct follow-up studies, including to: (i) assess the evolution of OTC prices and, if there is no substantial reduction of such prices by end-June 2014, we are committed to liberalize immediately the retail channels for all OTC products; (ii) review the experience of liberalized Sunday trading in select areas, and on that basis decide by March 2015 on whether to roll out the recent changes across the country; (iii) evaluate by end-2014 the impact of the changes in milk pasteurization and sale procedures adopted as part of the prior action above, and make additional legislative changes immediately if milk prices remain high; and (iv) following consultation with the EC/ECB/IMF, adopt legislative amendments, as needed, to bring our legal framework related to 6 of the remaining recommendations in line best practices in the EU by end-2014.

- Finally, we have requested the OECD to conduct a similar review of the following sectors: wholesale trade, manufacturing, telecommunications, and e-commerce by October 2014. To this end, we have launched the process and will agree, by end-May 2014 at the latest, the terms of reference for the project with the EC/ECB/IMF. We will adopt by end-November 2014 specific measures to promote competition and price flexibility in these sectors following the submission of the final OECD recommendations (**structural benchmark**).

- *Reducing red tape*. The OECD has screened laws and regulations in 13 sectors, and identified a number of procedures that can be significantly streamlined to reduce administrative burdens by 25 percent, while fully safeguarding the public interest. We will adopt in consultation with the EC/ECB/IMF the recommendations by end-June 2014 (**structural benchmark**). We have adopted a first set of changes to simplify a number of burdensome administrative procedures identified by the OECD.

- *Simplifying licensing*. The current burdensome and highly discretionary investment licensing regime, requiring approval by multiple ministries and government agencies, is a major obstacle to attracting investment. To address the problem, with assistance from the World Bank, we have outlined a strategy aimed at shifting from the complicated ex-ante licensing mechanism to a largely self-compliance system based on established standards. To that end, we adopted a licensing framework law containing very few and specifically defined exceptions on areas requiring ex-ante licensing (with no further exceptions to be granted thereafter), and plan to have all secondary legislation in place by end-2014 (**structural benchmark)**. We have submitted a presidential decree on all pending secondary legislation needed to implement Law 3982/2011 on technical professions and will also do so for Law 4014/2011 on environmental licensing by end-September 2014.

- *Liberalizing rentals*. <u>For commercial properties</u>, we adopted a law to reduce minimum duration requirements for new rental contracts to 3 years. <u>For tourism rentals</u>, we adopted legislation to facilitate short-term rentals and help reduce informality, by: (i) reducing the threshold under which a lease is characterized "tourist lease" from 3 to 1 month; (ii) substantially reducing the minimum space requirements for villas that are classified as "tourist leases"; and (iii) we will by June 2014 replace the requirement for approval by EOT with a simple registration for rentals less than one month subject to minimal and well-justified quality and safety standards. We will review the framework for tourist leases by end-July, and will prepare by end-September 2014 in discussion with the EC/ECB/IMF the necessary legislative changes to bring it in line with best EU practice.

- *Liberalizing transport*. <u>On ferry transport</u>, have allowed companies to distribute freely across its fleet the days they can stop operations during the winter season; eliminated the requirement for companies to declare maximum prices; adopted legislation allowing optionally firm-level labor agreements in the domestic ferry sector and suspending the favorability clause and extension of collective agreements, while respecting the international and European legislation; and aligned mandatory discounts for ferry tickets for new PSO lines with the ones for commercial lines. By end-September 2014, in consultation with the EC/ECB/IMF, we will (i) adopt legislative changes to align manning requirements for domestic services with the one for international lines, while respecting safe manning in line with international standards and best-practice principles; and (ii) review the applicability of the above changes on the favorability clause and extension of collective agreements to the international line segment and adopt legislative changes as appropriate. On air transport, we will rationalize PSO contracts, including restricting them to the non-tourist season, and review alternatives (e.g., infrastructure investment), and will take measures to ensure the participation in the tendering process of non-domestic airlines by October 2014.

- *Facilitating trade*. Building on earlier reforms aimed at aligning our customs clearance and export/import procedures with best EU practices, we have introduced an electronic submission system for all import declarations. We now require check payments for all customs charges and ceased to accept cash payments and will make all payments electronically by end-September 2014, except for small payments by individuals. In addition, with assistance from the World Customs Organization, we will adopt optimized procedures in the Athens airport and Piraeus port customs offices for exports by end-May 2014, including full implementation of the risk-based system and alignment of the level of controls with best practices in the EU. We will roll-out those optimized procedures to all other custom offices for exports by end-June 2014 and imports by end-2014.

26. We are intensifying efforts to reform the energy sector. In the electricity market, we adopted the law to privatize ADMIE, the transmission system operator, and submitted the law to create and sell a new generation and retail company out of PPC. In the gas market, we have established a roadmap to transition Greece to a more mature market model, increasing the degree of competition at all levels, and transferring the advantages to the broadest possible set of consumers. Any changes to existing arrangements will be fiscally neutral. (See MOU, §6.1.5 for more details.)

27. We continue to open up regulated professions and will assess the implementation of reforms to ensure they are delivering the desired results (TMU Table 4). We issued implementing legislation to complete the liberalization of a number of professions, including day care clinics, electricians, actuaries, chartered valuers, and geo-technicians. As a **prior action**, we adopted legislation opening the mediator’s profession to non-lawyers, repealed provisions relating to the severance pay upon voluntary separation of private sector salaried lawyers, and at the same time introduced a provision so that any unilateral adverse alteration of the terms of the salaried contract that is harmful to the lawyer is deemed as termination of contract on behalf of the employer; and clarified the reference in the Code of Lawyers to the minimum wage for salaried lawyers in relation to the statutory national minimum wage. We will further assess the fees and reserved activities for notaries and on this basis adopt legislation to align them with best practices in the EU by end-September 2014. Consistent with HCC’s opinion, we will adopt by end-June 2014 amendments to remove unjustified and/or disproportionate requirements on a number of reserved activities for engineers. Finally, we will hire a highly reputable external consultant by June 2014 to review comprehensively by end-August 2014 all professions under each ministry to determine what regulated professions have not yet been assessed or fully liberalized, agree with the EC/ECB/IMF by end-September on actions to remove any remaining excessive restrictions across all regulated professions that are being identified, and accordingly take the necessary legislative steps by end-October 2014.

28. We have taken administrative steps, in consultation with social partners, on our framework on collective dismissals. We will undertake an assessment by end-September 2014, in consultation with the EC/ECB/IMF and the ILO, on whether the collective dismissal system replicates EU best practices in an effective, credible, and durable way. Based on this assessment, we will, in case of doubt, take appropriate legislative action to align the framework with EU best practices by end-October 2014 (**structural benchmark**).

29. We are taking additional steps to address areas in the labor market where excessive restrictions remain. These include reviewing excessive mandatory requirements on wages, benefits and payments or other restrictions in hiring or dismissals by May 2014 and adopting necessary legislation to bring them in line with best practice in the EU by August 2014. Further:

- *Industrial action*. To safeguard the right to work, promote constructive relations among parties, and avoid any undue disruption of the operations of firms, and at the same time ensure that the framework for trade unions' operations is mature and aligned with international conventions, we will: by end-June 2014, review against best practices the existing framework; after consultation with social partners, prepare by end-September 2014 in discussion with the EC/ECB/IMF the necessary legislative changes to bring the framework in line with best practice in the EU; and adopt these changes by end-October 2014 (**structural benchmark**).

- *Temporary work*. We have taken the following steps to increase the flexibility of the framework for temporary work, to bring it in line with EU best practices: (i) abolished the restriction that temporary work agencies (TWAs) can provide their services only for "transitory, extraordinary, or seasonal" positions; (ii) reduced restrictions on hiring via TWAs following redundancies for economic reasons (from 6 to 3 months for individual redundancies, and from 12 to 6 months for collective dismissals); (iii) removed the restriction for the use of TWAs in large public works contracts; and (iv) reduced the list of hazardous positions where provision of employees by TWAs is not allowed.

- *Reporting requirements and Labor Code*. We have simplified labor reporting requirements, including implementing several OECD administrative burden review recommendations, and will take further steps to address the ILO, other stakeholder, and remaining OECD recommendations by end-September 2014. To enhance transparency and level the playing field, we will, by end-June, compile a comprehensive list of all labor legislation across sectors, and address in consultation with the EC/ECB/IMF any inconsistency that exist, and compile on this basis by end-2014, a comprehensive Labor Code.

- *Minimum wage*. To increase incentives for hiring long-term unemployed workers, and as part of a broader package to support long-term unemployed (¶8), as a **prior action**, we adopted legislation that sets the statutory minimum wage system (consisting of the statutory minimum wage and maturity allowances) for white-collar workers above the age of 25 years who have been unemployed for more than one year at the base minimum wage plus maturity allowances equivalent to 5 percent of the base minimum wage for every three years of work experience, up to a maximum of 15 percent. In addition, we clarified that the statutory minimum wage under the new minimum wage mechanism, which becomes effective on January 1, 2017, will be a single rate.

- *Application of labor market reforms to the education sector*. To remove the uncertainty on the application of the law 4046/2012 on severance payments and Cabinet Act (FEK 38/28-2-2012) to the private education sector, we repealed provisions in previous laws (Law 682/1977, Articles 30 and 33; and Law 1351/1983, Article 11, ¶1) that are inconsistent with the recent changes in the general labor law.

30. We continue to advance judicial reforms and are improving the anticorruption framework. Judicial reforms have started to yield results by reducing case backlog and eliminating unnecessary restrictions for lawyers. However, with the backlog remaining very high overall, we have proposed additional measures in the short term to reduce the backlog of tax cases. We are committed to adopt, in consultation with the EC/ECB/IMF, a revised Code of Civil Procedures by end-May (**structural benchmark**). Based on the study of court fees delivered in November 2013, and in full accordance with the constitutional principle of the citizens for access to justice, we will propose a selective increase of court fees by end-September 2014, in consultation with the EC/ECB/IMF. We have adopted new anti-corruption legislation. We will, in consultation with the EC/ECB/IMF, submit legislation to parliament for adoption by end-June 2014: (i) on the funding of political parties; and (ii) providing for an enhanced system of published declaration of assets, interests, and incompatibilities by public and elected officials, as well as members of government, and for independent risk-based audits.

Table 1. Greece: Quantitative Performance Criteria, September–December 2013

(Billions of euros, unless otherwise indicated)

	Sep-13		Dec-13	
	Prog.	Actual	Prog.	Actual
Performance criteria				
1. Floor on the modified general government primary cash balance 1/	-0.8	3.0	-0.3	0.4
2. Ceiling on state budget primary spending 1/	38.8	36.1	53.2	52.4
3. Ceiling on the overall stock of central government debt	335.0	321.9	335.0	326.6
4. Ceiling on the new guarantees granted by the central government 2/	0.0	0.0	0.0	0.0
5. Ceiling on the accumulation of new external payments arrears on external debt contracted or guaranteed by general government 3/	0.0	0.0	0.0	0.0
6. Ceiling on the stock of domestic arrears (narrow definition)	1.0	2.0	0.0	1.3
Indicative targets				
7. Ceiling on the stock of domestic arrears (general government definition)	1.5	5.8	0.0	3.9
8. Floor on privatization receipts 4/	1.5	0.2	1.6	1.0
9. Mandatory exits (employees in thousands) 5/ 6/	2.0	3.2	4.0	3.5
10. Transfers to the mobility scheme (employees, in thousands) 5/	12.5	8.4	25.0	15.9
11. Floor on the stock of employees in the mobility scheme that will exit	5.0	2.1	11.0	5.0

1/ Applies cumulatively from start of the target's calendar year.
2/ Applies cumulatively from October 1, 2012.
3/ Applies on a continuous basis from program approval.
4/ For 2012, cumulative from program approval. For 2013, cumulative from January 1, 2013.
5/ Cumulative from January 1, 2013.
6/ Actuals are gross exits and do not exclude individuals within three years of early retirement.

Table 2. Greece: Structural Benchmarks, September–December 2013

Measure	Status
End-September 2013	
1. Ministry of Finance to produce a comprehensive list of nuisance taxes and levies, and eliminate them or transfer them (and the associated spending) to the central government budget (IMF Country Report No. 13/20, MEFP ¶9).	• Not observed. Re-phased including part as a prior action (see Table 3).
2. Adopt legislation on a new property tax regime (IMF Country Report No. 13/241, MEFP ¶7).	• Not observed. Law adopted in December 2013.
3. Banks to update their restructuring plans and submit them for validation by DG-Competition (IMF Country Report No. 13/20, MEFP ¶23).	• Observed.
4. Government to meet quarterly performance indicators (KPIs) for revenue administration (IMF Country Report No. 13/241, MEFP ¶18).	• Not observed. Nine out of ten KPIs missed (see TMU Annex Table I.1).
5. Government to meet quarterly performance indicators for public financial management (IMF Country Report No. 13/241, MEFP ¶23).	• Not observed. One out of three KPIs missed (see TMU Annex Table I.2).
End-October 2013	
6. Approve the new organizational structure of the Revenue Administration, staffing numbers, grading system and classification, and qualification and appointment processes (IMF country report No. 13/153, MEFP ¶3).	• Not observed. Most actions were completed with delays, and staffing numbers will be approved in May 2014.
7. Adopt all secondary legislation needed to implement the tax procedures code (IMF Country Report No. 13/241, MEFP ¶6).	• Not observed. Prior action (see Table 3).

Table 2. Greece: Structural Benchmarks, September–December 2013 (concluded)

Measure	Status
End-November 2013	
8. Adopt legislation to reform the system of social security contributions to: (i) broaden the contribution base; (ii) simplify the contribution schedule across the various funds; and (iii) reduce contribution rates by 3.9 percentage points. The reforms will be fully phased in by January 1, 2016 and will be revenue neutral and preserve the actuarial balance of the various funds (IMF country report No. 13/20, MEFP ¶10).	• Not observed. Upfront social security rate reduction is a prior action (see Table 3); steps to broaden contribution base are underway; and harmonization of rates across funds is rephased for end-June 2014 (¶6).
End-December 2013	
9. Government to meet quarterly performance indicators for revenue administration (IMF country report No. 13/153 MEFP ¶8 and Annex II).	• Not observed. All ten KPIs missed (see TMU Annex Table I.1).
10. Government to meet quarterly performance indicators for public financial management (IMF country report No. 13/153, MEFP ¶11 and Annex IV).	• Not observed. One out of three KPIs missed (see TMU Annex Table I.2).
11. Bank of Greece to complete a follow-up stress test for banks based on end-June 2013 data, using a methodology designed in consultation with the EC, ECB, and the IMF, and to update banks' capital needs on this basis (IMF country report No. 13/20, MEFP ¶23).	• Observed. Stress tests completed, but results not agreed with staff.
12. Ministry of Finance to complete a targeted audit of general government accounts payable, to verify whether any arrears remain, and to review compliance with the conditions set for clearing arrears (IMF Country Report No. 13/20, MEFP ¶39).	• Not observed. Clearance of pre-2012 arrears rephased for Q3 2015, and completion of the targeted audit of general government accounts payable rephased for end-2015.

Table 3. Greece: Prior Actions

Measure	Macro critical relevance
Fiscal measures	
1. Government to lock in lower spending of €320 million from permanent savings in 2013 by revising binding expenditure ceilings in the 2015-18 MTFS (¶4).	• Fiscal sustainability (budget)
2. Implement several measures to eliminate RES debt by end-2014 (¶12).	• Fiscal sustainability (spending)
3. Government to place additional public sector employees in the mobility scheme to reach 25,000 employees, and to achieve 5,000 exits in the public sector (¶13).	• Fiscal sustainability (spending) and government efficiency
Fiscal institutional reforms	
4. Adopt secondary legislation to the Income Tax Code and the Tax Procedure Code (¶10).	• Fiscal sustainability (revenue)
5. Government to submit presidential decree to consolidate revenue administration functions, and to transfer to SGPR all revenue-related functions of SDOE, and SGPR to adopt the final organizational structure of the revenue administration (Annex I ¶2).	• Fiscal sustainability (revenue)
6. Implement an interim borrowing framework within the general government (Annex I ¶5).	• Fiscal financing
Financial sector	
7. Adopt legislation governing the injection of public resources into banks via the HFSF (¶15).	• Financial stability
8. Government Council for the Management of Private Debt to take steps to enhance corporate and personal debt resolution frameworks (¶19).	• Financial stability
Privatization	
9. Adopt law to strengthen HRADF's control in companies it is majority shareholder, and implement pending government actions in support of the 2014 privatization program (¶23).	• Fiscal sustainability (budget) and economic efficiency
Structural reforms	
10. Reduce IKA's SSC rates by the equivalent of 3.9 pp effective July 1, 2014 (¶6).	• Strengthen competitiveness and promote employment
11. Abolish 40 charges with an annualized cost of €245 million (¶7).	• Strengthen competitiveness and promote employment
12. Adopt 237 of the OECD recommendations to remove barriers to competition in four sectors (tourism, retail, building materials, and food processing) (¶25).	• Strengthen competitiveness and promote employment
13. Adopt legislation to open mediator's professions to non-lawyers, repeal provision on severance pay of lawyers upon voluntary separation, and clarified the reference on the minimum wage for lawyers (¶27).	• Strengthen competitiveness and promote employment
14. Adopt legislation to reduce minimum wage for long-term unemployed (¶29).	• Strengthen competitiveness and promote employment

Table 4. Greece: Schedule of Proposed Purchases under the Extended Arrangement, 2012–16

Review	Availability Date	Action	Purchases		Disbursements
			Millions of SDRs	Percent of quota	Billions of euros 1/
	March 15, 2012	Board approval of EA	1,399.1	127.0	1.6
First and Second Reviews	August 31, 2012	Observance of end-December 2012 performance criteria, completion of first and second reviews	2,798.2	254.0	3.3
Third Review	February 28, 2013	Observance of end-December 2012 performance criteria, completion of third review	1,506.8	136.8	1.8
Fourth Review	July 25, 2013	Observance of end-June 2013 performance criteria, completion of fourth review	1,506.8	136.8	1.8
Fifth Review	February 28, 2014	Observance of end-December 2013 performance criteria, completion of fifth review	3,013.6	273.5	3.5
Sixth Review	August 31, 2014	Observance of end-June 2014 performance criteria, completion of sixth review	3,013.6	273.5	3.5
Seventh Review	November 30, 2014	Observance of end-September 2014 performance criteria, completion of seventh review	3,013.6	273.5	3.5
Eighth Review	February 28, 2015	Observance of end-December 2014 performance criteria, completion of eiggth review	1,506.8	136.8	1.8
Ninth Review	May 31, 2015	Observance of end-March 2015 performance criteria, completion of ninth review	1,506.8	136.8	1.8
Tenth Review	August 31, 2015	Observance of end-June 2015 performance criteria, completion of tenth review	1,506.8	136.8	1.8
Eleventh Review	November 30, 2015	Observance of end-September 2015 performance criteria, completion of eleventh review	1,506.8	136.8	1.8
Twelfth Review	February 29, 2016	Observance of end-December 2015 performance criteria, completion of twelfth review	1,506.4	136.7	1.8
Total			23,785.3	2,158.8	28.0

Source: IMF staff projections.

1/ Exchange rate of January 5, 2012.

Table 5. Greece: Program Quantitative Performance Criteria, 2014–15

(Billions of euros, unless otherwise indicated)

	2014			2015	
	Jun.	Sep.	Dec.	Mar.	Dec.
	PC	PC	PC	Indicative	Indicative
Performance criteria					
1. Floor on the modified general government primary cash balance 1/	0.4	3.1	5.1	1.2	7.5
2. Ceiling on state budget primary spending 1/	21.0	31.8	44.4	10.1	42.1
3. Ceiling on the overall stock of central government debt	335	335	335	340	340
4. Ceiling on the new guarantees granted by the central government 2/	0.0	0.0	0.0	0.0	0.0
5. Ceiling on the accumulation of new external payments arrears on external debt contracted or guaranteed by general government 3/	0.0	0.0	0.0	0.0	0.0
6. Ceiling on the stock of domestic arrears of the general government	3.2	2.6	1.9	1.9	...
7. Floor on privatization receipts 4/	...	2.1	...	...	...
Indicative targets					
1. Floor on privatization receipts 4/	...	...	2.5	...	4.7
2. Mandatory exits (employees, in thousands) 5/	9.0	14.0	15.0	...	...

1/ Applies cumulatively from start of the target's calendar year.
2/ Cumulative from April 1, 2013.
3/ Applied on a continuous basis since program approval.
4/ Cumulative from January 1, 2013.
5/ Cumulative from April 1, 2013. Includes further targets for July 2014 of 10,500 and August 2014 of 12,000.

Table 6. Greece: Structural Benchmarks

Measure	Macro critical relevance
End-May 2014	
1. Government to introduce a new Code of Conduct for banks (¶19). Proposed.	• Financial stability
2. Adopt changes to the Code of Civil Procedure (¶30). Proposed.	• Growth/competitiveness (business environment)
End-June 2014	
3. Address recommendations of the OECD study on administrative burdens (¶25). Proposed.	• Growth/competitiveness (business environment)
End-September 2014	
4. Adopt legislation to integrate into ITC the taxation of collective investment vehicles as well as all income tax expenditures (eliminating inefficient or inequitable ones) (¶9). Proposed.	• Fiscal sustainability (revenue)
5. Adopt legislation to broaden definition of tax fraud and evasion, and repeal Article 55 ¶s 1 and 2 of TPC (¶9). Proposed.	• Fiscal sustainability (revenue)
6. Align public sector's non-wage benefits with EU best practices (¶13). Proposed.	• Government efficiency
End-October 2014	
7. Adopt VAT reform to streamline rates and simplify administration (¶7). Proposed.	• Fiscal sustainability (budget) and business environment.
8. Adopt wage grid reform to become effective January 1, 2015 (¶13). Proposed.	• Fiscal sustainability (budget)
9. Adopt amendments to the Organic Budget Law (Annex I ¶5). Proposed.	• Fiscal sustainability (budget)
10. Government to enhance the personal and corporate insolvency framework (¶19). Proposed.	• Financial stability
11. Adopt legislation to align framework on collective dismissals with EU best practices (¶28).	• Strengthen competitiveness and promote employment
12. Adopt legislative changes to bring Greece's framework on industrial actions in line with EU best practice (¶28). Proposed.	• Strengthen competitiveness and promote employment

Table 6. Greece: Structural Benchmarks (concluded)

Measure	Macro critical relevance
End-November 2014	
13. Adopt pension reform package based on actuarial studies completed in September on the whole pension system including supplementary and lump-sum funds (¶6). Proposed.	• Fiscal sustainability (budget)
14. Adopt legislation to address all identified issues in the follow-up OECD report on legislative barriers to competition in wholesale trade, manufacturing, telecommunications, and e-commerce (¶25). Proposed.	• Strengthen competitiveness and promote employment
End-December 2014	
15. Adopt all secondary legislation on investment licensing law (¶25). Proposed.	• Growth/competitiveness (business environment)
End-March 2015	
16. Adopt revisions to the government Chart of Accounts (Annex I ¶5). Proposed.	• Fiscal transparency

Annex I. Fiscal Institutional Reforms and Follow-up of TA Recommendations

1. With legislative efforts peaking in 2013, reforms in 2014 will focus on the implementation of the new legal framework.

Revenue administration

2. We have further bolstered the autonomy of the revenue administration.

- *New structure*. As a **prior action**, we will adopt legislation to: (i) consolidate the revenue administration functions and competencies of the General Directorate of Taxation and the General Directorate of Tax Audits and Collection into a new General Directorate of Tax Administration under the SGPR; (ii) close the General Directorate of Financial Inspection within SGPR and replace with the Internal Affairs Department of SGPR, effective end-June 2014; and issue (iii) the Secretary General Decision to establish the new SGPR structure. We have re-organized processes so that the 61 local tax offices that have debt collection and audit responsibilities can maintain a clear focus on the major taxes (income, VAT, and property taxes) by requiring filing of most returns/declarations to be done electronically or as self-assessments (and consistent with ITC, Article 67, ¶1). To further protect the integrity of the tax administration, by end-May 2014, we will ensure that other public bodies provide only detailed fact sheets to the tax administration in order to perform the audits and investigations,.

- We have amended legislation to transfer all tax-related audit and investigation competences from the Financial and Economic Crimes Unit (SDOE) to SGPR. To ensure the complete transfer of all revenue-related activities, we have as a **prior action**: (i) revoked the provisions of Article 6 of Law 3943/2011 on the origin of SDOE personnel being ex-tax and customs officers; and (ii) of the 200 staff transferred to SGPR effective October 31, 2013, replaced those who have not yet taken up their positions with an equivalent transfer of highly-skilled personnel. We will by end-May assess with reputable international experts in financial crime prosecution SDOE objectives, staffing needs, and organizational structure. We will by end-October assess all pending cases to determine those that need to be investigated further and those that can be closed without any investigation. Until a new SDOE objective and staffing needs are approved in consultation with the EC/ECB/IMF, new hirings of SDOE will be undertaken only to the extent needed in cases requested by the prosecutor and without distracting resources from SGPR.

- *Grading and promotion reform*. To start implementing the new grading and promotion system, we have approved the job descriptions for general directors and HQ directors. We will issue all necessary amendments to the legal framework, including amending the law 4093/2012 if needed and issuing all decisions governing the new system by June 2014. A strategy for the migration of existing staff to the new system will be approved by June 2014 with a view to transfer all audit positions and staff by March 2015.

- *Budget*. We have staffed the budget office of the Strategic Planning and Financial Control Directorate to make it functional.

3. We are taking steps to strengthen debt collection, improve performance of installment schemes, enhance audits, and boost the collections of SSCs and customs.

- *Tax debt collection*. We are dismantling long-standing impediments to effective collection. To this end, we will adopt, in conjunction with the adoption of the revised organic budget law, legislation to: (i) abolish the requirements to pursue systematically collection efforts of all debts without regard to their collectability by end-June 2014; and (ii) clarify the rules for prosecutions of tax debtors and repeal the systematic and compulsory referral of debts smaller than €60,000 by end-September 2014 (see ¶9, second bullet, iii). We will evaluate with technical assistance the implementation of the rules for writing off debt to identify possible improvement by July 2014, with a follow-up evaluation by October 2014 that will propose further simplification if needed, thereby removing the need for extensions in the statute of limitations for debt collection. We will further automate tax debt collection functions by June 2014 and complete a new work flow management system for all debt collection offices by September 2014.

- *Personal liability*. We will issue by end-May 2014 an explanatory circular that clarifies the personal liability of SGPR staff and management, consistent with the existing legal framework.

- *Audit*. We have optimized the process of selecting and auditing remittance cases using the new partial audit methodology, and we will complete at least 400 such cases by May 2014. In addition, we have completed 5 audit reports on the basis of indirect audit methods, and will complete another 10 by the end of June and at least 40 in total by end-2014, using the AML framework where needed. By June 2014, we will define the criteria for a risk-based approach to selection for audit SGPR managers and officials, and revise audit standards to ensure appropriate documentation to justify individuals' assets.

- *Staffing*. We will reinforce the revenue administration with a transfer, by May 2014, of 160 appropriately skilled staff from the Municipal Police. By May 2014, we will complete a revised staffing plan for the SGPR to identify additional staffing needs and determine the schedule for further recruitments through 2014, which will ensure that at least 1,600 of about 2,100 new MOF vacancies for 2014 will be positioned in the SGPR in addition to the transfer of municipal police staff, subject to the MOF staffing ceiling. This includes the external hiring of 300 auditors by June 2014.

- *Filing tax returns*. To ensure adherence to our commitment for non-extension of deadlines to file tax returns unless in extraordinary or exceptional circumstances beyond the control of the authorities ("force majeure"), we have identified a number of weak elements in the portal infrastructure which were subsequently strengthened, optimized the platform, and legislated a common payment schedule for PIT regardless of the filing date thus removing any incentives for late filing. We have also put in place a communication strategy for addressing such problems should they occur in the future. The ITC amendments also smooth the filing schedule.

- *Tax refunds*. We are optimizing the VAT refund risk criteria and issued guidance to local tax offices for implementation of refund audits. We have introduced a risk analysis system for processing income tax refunds, including by prioritizing the largest refund claims. We have also started monitoring and reporting the age of tax refund claims (see TMU). These steps will help monitor and reduce interest costs for claims older than 90 days that accrue from January 2014 on claims requested as of this date.

- *Installment schemes*. The adopted installment scheme framework has shown to improve payment compliance, and we remain committed to its implementation by strengthening enforcement. Debtors dropping out of tax or SSC schemes will be subject to immediate action aimed at securing collection. We will complement the monitoring framework inter alia with information on the number of taxpayers and the associated debt that have dropped out of the schemes and on the enforcement measures undertaken against them. As of April 2014, we started publishing monthly the monitoring framework for the tax and SSC installment schemes.

- *AML*. To monitor the implementation of Law 3691/2008, as from April 2014, the SGPR started publishing on a monthly basis, information about cases transmitted to the FIU for failure to pay confirmed debt over €50,000, including on the number of cases, and related aggregated amounts by maturity. We have introduced KPIs on the number of AML on-site inspections by the Bank of Greece (TMU Table 2A). We will create the necessary legal framework by June 2014 to strengthen coordination and information sharing for investigations of financial and economic crimes.

- *SSC collection*. We completed a comprehensive review of the weaknesses in SSC collection, including enforcement, and issued ministerial decisions to define "collectible" SSC debt cases for the transfer to KEAO of debt from OAEE, ETAA, and OGA (consistent with the KPI definition). We will refrain from extending the payment deadlines for SSC. To ensure full functionality of the joint collection center (KEAO), we have (i) assigned 350 full-time staff to KEAO (we will assign another 250 by June 2014); (ii) created a single SSC debt database; and (iii) established an advisory board that incorporates heads of major funds and of KEAO as well as MOL leadership. By end-June 2014, we will issue secondary legislation to quarantine uncollectable debt. To strengthen SSC compliance and collection, we issued necessary decisions between MOF and MLSSW, started to match PAYE and APD data, and have initiated the off-setting of VAT and income tax refunds against SSF debts.

- *Integrating SSC to tax administration*. We commit to integrating SSC filing, payment and collection into the tax administration by July 2017, and will: (i) complete by September 2014 the business case for integration of filing, payment and collection; (ii) implement by December 2015 a central registry of contributors; and (iii) harmonize by December 2016 the contribution base across major funds and with PIT.

- *Customs revenue collection*. By end-May 2014, we will reinforce customs law enforcement capabilities at the SGPR by: establishing specialist teams dealing with tobacco; and strengthening the surveillance teams' capability to track illegal trade to its final destination. We will also develop by June comprehensive anti-smuggling strategies to contain revenue losses from tobacco smuggling, and will do the same for fuel smuggling by end-September 2014. We will, by end-2014, acquire modern technical detection and surveillance equipment.

4. We have refined the 2014 KPIs to focus our efforts on those areas that are most likely to yield revenue gains. We have adjusted our tax administration KPIs to maintain the strong improvement momentum in 2013 while being realistic. To serve taxpayers more efficiently, we have introduced three new indicators on tax refunds. Given the weak collection performance in the SSFs, we have established payment compliance and debt transfer targets for the individual SSFs, and debt collection and enforcement targets for KEAO (Table 2B). Performance relative to the targets will be published on a monthly basis.

Public Financial Management

5. Reforms continue to focus on improving the budget process and expenditure controls, clearing arrears, and strengthening budget reporting and cash management.

- *Budget legislation*. We are taking a two-stage approach to reforming the organic budget law (OBL). In the first stage, we submitted to parliament the OBL to transpose the Fiscal Compact, including the requirement that the MTFS set binding multi-year expenditure ceilings for line ministries and the health sector, introduce a binding balanced budget target for local governments and performance targets for SOEs, adopt provisions to freeze 10 percent of discretionary appropriations in the first half of the year, and impose penalties for government entities that fail to provide timely reporting. In the second stage, we will: (i) complete a full review of the budget process legislation by September 2014, including ensuring budgetary independence of regulatory and other independent bodies; and (ii) amend the OBL by October 2014 (**structural benchmark**) to ensure that it is fully in line with the ongoing PFM reform program and good international practice. We will discuss and agree with the EC, ECB and IMF a specific rule on revenue over-performance effective after the program period for inclusion in the OBL and, in any event, will agree with them whether the size and nature of any windfall revenue and fiscal over-performance in the previous year allows for a greater spending envelope in the current year, subject to there being no projected gaps. We have defined the terms of reference of a qualified working group in GAO to coordinate with the senior management of the Ministry of Finance and line ministries on implementing PFM reforms and will make it operational by June 2014.

- *Budget Process*. By September 2014, we will review the internal MTFS and budget preparation processes to ensure its conformity with the revised legislation above. The review will include the procedures for preparation and implementation of the MTFS and the linkages between the strategy and the annual budget process. By March 2015, we will revise the government Budget Classification structure and Chart of Accounts with a view to use it for preparing the 2016 budget (**structural benchmark**).

- *Fiscal Council*. We have submitted to parliament legislation to establish an independent Fiscal Council, and will appoint the Board by end-July 2014. The Council will assess macro forecasts and assumptions for budget and MTFS preparation, monitor compliance against targets and rules, and provide independent ex ante policy analyses and assessments of fiscal developments and challenges.

- *GDFS*. To facilitate the functioning of newly-established general directorates for financial services (GDFS) in line ministries, we have set up a specialized unit in GAO to support

Accounting Officers and their staff in the units. By end-June 2014, GAO will establish and run a capacity-building program to provide guidance and support to GDFS staff in carrying out their responsibilities. We will fully staff the GDFSs in line ministries by June 2014.

- *Streamlining payment processes*. Following recent changes to our IT and administrative processes, to ensure its robustness, we have reviewed and taken steps to strengthen the disaster recovery plan and will conduct system audits and testing in high volume conditions by September 2014. We will conduct a review of the PIB financial processes by June 2014 to identify whether PIB payments conform to the Late Payment Directive requirement and, if not, propose necessary changes. In parallel, we will streamline the procedures related to PIB execution, as appropriate to modern financial management of a multi-year investment program, in line with international best practices. PIB procedures will be subject to effective checks and balances with good design and a transition process to the improved procedures. The final outcome will be fully compatible with the ERP project, thus ensuring integrated monitoring of the whole state budget execution. The Hellenic Court of Auditors (HCA) and GAO produced a note on the role and scope for streamlining the HCA's ex ante audits in financial control, and (i) we will submit to the Council of State a Presidential Decree in May 2014 following the HCA plenary approval of an increase in the ex ante audit threshold from the current €15,000 to €30,000 for State budget spending, and review its impact and re-submit an amendment by November 2014 to increase the threshold for general government expenditures to €45,000 so as to reduce the total volume of ex ante audits in excess of the current 70 percent, subject to approval of the HCA plenary; and (ii) submitted legislation to expand pre-contractual audits by the HCA. We have re-prioritized our medium-term action plan to meet the requirements of the Late Payment Directive, and after appropriate testing will extend the use of the FMIS to line ministries' GDFSs and the HCA, including electronic transfers of documents, by end-2014. This includes the implementation of necessary IT applications by October 2014. Further, we will pass legislation by June 2014 to ensure that all hospital medical claims will be submitted electronically to EOPYY starting January 2015. We will also develop a comprehensive plan by June 2014 to clarify the transfers from SSFs to EOPYY, and establish a timetable to conduct full audits on all claims from January 2014, with a view that all grants from MOF to cover public hospital deficits and EOPYY payments to public hospitals will be settled afterwards, based on the total amount of claims fully audited by EOPYY.

- *Cash management*. With information provided by the Bank of Greece, the Ministry of Finance and relevant line ministries, including the size and volatility of monthly cash balances of the 20 sub-sector entities with the largest average cash balances in 2013, as a **prior action**, we implemented an interim repo borrowing framework with some of the entities to help alleviate the state's financing needs in 2014, by allowing the Bank of Greece acting in its capacity to manage the liquidity of some of the entities to enter into repo transactions with the PDMA, in compliance with the monetary financing prohibition. This includes analyzing cash balances of SSFs and EBFs in the Bank of Greece and in commercial banks to identify resources that could be lent to the state, and reinvesting maturing EFSF bonds held by SSFs in government securities. The contracts related to both these operations should clearly specify that these securities cannot be further traded for the duration of the contracts by the counterparties. We will complete a review of the accounts of the state in commercial accounts by end-May and will recommend the closure of all unnecessary accounts by end-July 2014. By end-July, after further assessing the legal framework of the relevant entities, we will develop a plan for cash management reform to be fully implemented as of January 1, 2015.

- *Arrears clearance*. We have reduced arrears from €9.4 billion at end-2012 to €4.7 billion at end-2013. We are committed to clearing arrears from existing resources for 2012–13, while preserving resources from the special allocation for clearing the pre-2012 stock. We are extending the timeline of clearance of pre-2012 arrears to Q3 2015 and accordingly will complete a targeted audit of general government accounts payable by end-2015. We have launched the external audit of EOPYY's liabilities, which will be completed by end-June 2014 for inpatient care liabilities and September 2014 for outpatient care liabilities, and will finalize the audit of all pre-2013 EOPYY liabilities by end-2014. The completion of the audit—in close coordination with the HCA—will help validate EOPYY's arrears and prepare them for clearance.

- *Reporting*. We published, for the first time, a monthly fiscal report including complete above-the-line data for all subsectors of general government, based on the new Monthly Fiscal Reporting System and in line with international statistical (GFSM2001/ESA95) classifications. Furthermore, we are taking steps to address the statistical discrepancies between above- and below-the-line data in government finance statistics. In particular, by May 2014, the Statistics Department of the Bank of Greece and GAO will sign an MOU to implement at least a quarterly comparison exercise between individual government units' data on deposits and loans collected for monetary and financial statistics purposes, and the corresponding information collected through GAO's Monthly Fiscal Reporting System. This MOU will fully respect European and national legislation regarding the protection of confidential statistical information. The first comparison exercise will be finalized by September 2014 for end-June data of about 60-100 entities. No individual data shall be shared with GAO without an explicit consent of the affected individual units provided to the Bank of Greece. In terms of institutional coverage, the reference will be the government units' registry of the National Statistical Service (ELSTAT).

6. We have introduced new KPIs for 2014 to focus on the speed of processing government payments and social sector PFM issues. We have set a new target for the timely payment of invoices received by the state government, and added three KPIs on PFM in the social sector to ensure (1) timely transfers of health insurance premium collection from IKA to EOPYY, (2) timely claims submission from public hospitals to EOPYY, and (3) timely full audits of medical claims at the EOPYY. The quarterly targets are in Table 3.

Greece: Technical Memorandum of Understanding

May 14, 2014

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 program performance and the information that we will provide to ensure adequate monitoring of the targets.

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 January 31, 2012. In particular, the exchange rates for the purposes of the program are set: €1 = 1.3176 U.S. dollar, €1 = 100.63 Japanese yen, and €1.1772= 1 SDR.

General Government

3. **Definition**: For the purposes of the program, the general government includes all units classified as government units in the registry of the National Statistical Service (ELSTAT), in accordance with the rules specified in the *European System of Accounts 1995* (*ESA95*) and the *ESA95 Manual on Government Deficit and Debt*.[1] [2]

Quantitative and Continuous Performance Criteria, Indicative Targets, and Continuous Performance Criteria: Definitions and Reporting Standards

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

4. **Definition**: The modified general government primary cash balance (MGGPCB) is defined as the modified general government cash balance (MGGCB) minus general government interest payments. The MGGCB is defined as the sum of the cash balances of the state budget and the changes in the net financial assets of the local government, social budget entities (including pension funds, employment funds, health insurance, and hospitals), extra budgetary funds (EBFs), and state owned enterprises (SOEs).

[1] Starting in September 2014, the conceptual references will be the *European System of Accounts 2010* (*ESA10*) and the *ESA10 Manual on Government Statistics.*

[2] On sectorization, both manuals are consistent with Government Finance Statistics Manual (2001) (GFSM2001).

- **The ordinary state budget.** The cash balance of the ordinary state budget will be measured from above the line, based on: (i) gross ordinary budget revenues (recurrent and non-recurrent), minus tax refunds; minus (ii) ordinary budget expenditures as published monthly on the official website of the General Accounting Office of the Ministry of Finance.

- **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.

- **Other Sectors (EBFs, SOEs, local governments, and social budget entities).** The changes in the net financial assets of the remaining sectors of the general government will be measured from below the line, adjusted for valuation changes, and based on data provided by the Bank of Greece. The below the line data will further be adjusted for interest payments and changes in net financial assets that are not traced by the Bank of Greece, specifically, net foreign financial assets, and changes in Loan and Consignment Bank accounts relating to LGs.

- **Adjustments**: The MGGPCB will exclude:

  - the part of the public investment budget (revenues and expenditures) of the State related to EU structural funds and their co-financing;

  - all transfers related to the Eurogroup decisions of February 21, 2012 and November 26, 2012 in regards to income of euro area national central banks, including the BoG, stemming from their investment portfolio holdings of Greek government bonds;

  - receipts from privatization; however, for the entire program period where this is applicable, sales of those gaming licenses, telecom licenses, sales of aircrafts, and extension of the airport concession that were established in the context of the May 2010 SBA 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;

  - payments related to support of the bank system that are part of the program's financial sector strategy;[3]

[3] Any financial operation by the central government to support banks, including the issuance of guarantees or provision of liquidity, will be immediately reported to the IMF, European Commission, and ECB staff.

- any called guarantees to entities outside the general government related to liquidated public enterprises above what is already expected in the fiscal program for the current fiscal year;

- any payments from banks that would undermine their solvency or liquidity, unless the Bank of Greece confirms that such a payment would be compatible with the preservation of adequate capital buffers and liquidity going forward, including by verifying consistency with banks' business plans as included in the stress test. The two exceptions to this are the capital concentration tax and the guarantee fee structures currently in place.

- any flows related to the special appropriation for arrears clearance.

5. Supporting material: All of the following will be provided within four weeks of the end of each reporting months:

- For the State, EBFs, and SOEs, 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 currency cash balances of the central government at the central bank of Greece, and all other sources of cash financing including capital transactions.

- For local governments, the Ministry of Finance, in collaboration with the Ministry of Interior, will provide monthly data on revenues and expenditures, as collected in the Ministry databank.

- For the social budget, the Minister of Finance, in collaboration with the Ministry of Labor and Ministry of Health, will provide monthly data on revenues and expenditures in the social security funds, the central healthcare fund (EOPYY) and public hospitals.

- For EBFs, SOEs, local government, and the social budget, the Ministry of Finance, in collaboration with other ministries, will provide monthly data on interest expenses.

- Finally, the Bank of Greece will provide detailed monthly data on net acquisition of assets and liabilities of all non-State subsectors of the General Government as defined above: local authorities, social budget entities, extra-budgetary funds, and state enterprises included in the definition of general government.

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

6. Definition. The state budget primary spending consists of ordinary state budget expenditure minus interest paid by the state budget, minus any arrears payments made related to the special appropriation for arrears clearance. Ordinary state budget expenditure includes called guarantees to entities inside and outside the general government.

- **Adjustments**: State budget primary expenditure will exclude payments related to support of the bank system that are part of the program's financial sector strategy.[4] Expenditures related to EU structural funds and their co-financing will also be excluded.

7. Supporting material. The General Accounting Office of the Ministry of Finance will provide monthly expenditure data, as defined above.

C. Ceiling on the Stock of Domestic Arrears (Performance Criterion)

8. Definition. For the purpose of the program, domestic arrears are defined as: (i) unpaid invoices of the general government as defined by El Stat that are 90 days past their due date; plus (ii) the entire stock of tax refund claims that have received an AFEK but excluding those under legal dispute. In case no due date is specified on a given supplier contract, an unpaid commitment is considered to be in arrears 90 days after the receipt of the invoice.

9. Supporting material. Monthly data on arrears of the general government will be provided by the Ministry of Finance within four weeks after the end of each month. The Ministry of Finance will publish this information on its website. The expenditure arrears data will continue to be based on survey data, until data from commitment registers are assessed in the future by the IMF, EC, and ECB staff to provide comprehensive and reliable information. These reports will also include data on accounts payable overdue by 0–30, 31–60, and 61–90 days for the central government (line ministries and Decentralized Prefectures) based on the commitment registers. Tax refund arrears data (including the age of tax refund claims) will be based on information provided by General Secretariat for Information Systems and General Secretariat for Public Revenue. The Ministry of Finance will fill out the tax refund template provided for this purpose on a monthly basis.

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

10. Definition. The overall stock of central government debt will refer to central government gross debt, as defined in the Excessive Deficit Procedure (EDP), i.e. covering the state, extra budgetary funds and state owned enterprises consistent with the registry of the National Statistical Service (ELSTAT). Holdings of intra-government debt will be consolidated. The ceiling reflects total outstanding gross liabilities in the form of deposits, debt securities, and loans. It will exclude accounts payable and will be measured at nominal value as defined in the EDP. The program exchange rates will apply to all non euro-denominated debt.

11. Adjusters. The ceiling on the overall stock of EDP central government debt will be adjusted upward (downward) by the amount of any upward (downward) revision to the stock of end-December 2013 EDP central government debt of €326.6 billion.

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[4] Any financial operation by the central government to support banks, including the issuance of guarantees or provision of liquidity, will be immediately reported to the IMF, EC, and ECB staff.

12. 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 EDP definition no later than 30 days after the end of each quarter.

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

13. Definition. The ceiling on the new general government guarantees shall include all new guarantees granted by any entity that is classified under international statistical standards (ESA95, GFSM 2001) under general government, but exclude guarantees to entities whose debt is covered under the ceiling on the stock of general government debt as defined above. The ceiling includes any guarantees to the Institute for Growth but shall exclude: (i) guarantees related explicitly to financial stability goals of the program (e.g., government-guaranteed bank bonds or emergency liquidity assistance (ELA)); (ii) guarantees related to EIB financed loans; (iii) guarantees related to guarantees provided by the EIB through the trade finance facility up to an outstanding amount of €500 million; (iv) guarantees granted by ETEAN (up to a total outstanding amount of €50 million provided these are fully backed by an equivalent amount of bank deposits); (v) guarantees granted under a risk sharing instrument of the EU structural funds (see COM (2011) 655 final) that do not create contingent liabilities for the Greek State; and (vi) guarantees granted for natural disasters to individuals and businesses which have been proven suffered damages less any amounts benefitted as compensation insurance up to an outstanding amount of €30 million. New guarantees are guarantees extended during the current fiscal year, but for those for which the maturity is being extended beyond the initial contractual provisions, only 50 percent of the full value will be counted. Modification of existing guarantees (without changing the maturity, amount of guarantees, and beneficiaries of the loan) will not be treated as new guarantees.

14. 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 general 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)

15. 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 general government units, which has not been made within seven days after falling due. For purposes of this program, the term "falling due" means the date in which external debt payments are due according to the relevant contractual agreement, including any contractual grace periods. The performance criterion will apply on a continuous basis throughout the program period.

16. 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.

G. Floor on Privatization Proceeds (Indicative Target and Performance Criterion)

17. Definition. Privatization proceeds will be defined as the cash receipts from the asset sales carried out by the privatization agency (HRADF), cash receipts from direct government sales, and cash receipts from the sale of any bank participations through the HFSF, the HRADF, or from the government directly. 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) and super/ extraordinary dividends (i.e., in excess of profits of the previous year) from entities under privatization paid to HRADF. Proceeds will be valued in Euros and will be measured as the inflows of cash received related to those transactions and deposited in the Segregated Account at the Bank of Greece within 10 days after the settlement of the transaction.

18. Supporting material. Monthly information on the cash receipts from asset sales into the segregated account will be made available by the GAO, in collaboration with the HRADF, within 30 days after the end of each month.

H. "Program" Deficit and Overall Monitoring and Reporting Requirements

19. Definition. For the purpose of the program, the primary balance is defined as general government EDP balance (EDP B.9) minus ESA 95 general government consolidated interest payable (EDP D.41), adjusted for the factors delineated in paragraph 20.

20. Adjustments. For the purposes of the program, the accrual revenue from the real estate levy collected through the PPC of a given year will include cash receipts within the year plus amounts pertaining to the given year received through March of the following year. In addition, the EDP deficit (EDP B.9) will exclude the following:

- 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 program;
- costs related to banking support as defined in MGGPCB above;
- all transfers related to the Eurogroup decisions of February 21, 2012 and November 26, 2012 in regard to income of euro zone national central banks, including the BoG, stemming from their investment portfolio holdings of Greek government bonds
- any other transactions related to debt-reducing measures agreed in the context of the program, such as the reduction of Greek Loan Facility (GLF) interest margin which are counted below the line in the debt sustainability analysis.

- any called guarantees to entities outside the general government related to liquidated public enterprises above what is already expected in the fiscal program for the current fiscal year.

- any payments from banks that would undermine their solvency or liquidity, unless the Bank of Greece confirms that such a payment would be compatible with the preservation of adequate capital buffers and liquidity going forward, including by verifying consistency with banks' business plans as included in the stress test. The two exceptions to this are the capital concentration tax and the guarantee fee structures currently in place.

21. Overall monitoring and reporting requirements. Performance under the program will be monitored from data supplied on a quarterly basis to the EC, ECB, and IMF by ELSTAT, 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.

I. Floor on Mandatory Exits (Indicative target)

22. Definition: Employees counted as mandatory exits to the private sector will originate from those that: (i) are employed by the general government (ESA95 definition) on a permanent employment contract or on a contract of indefinite duration; and (ii) have no entitlement to early retirement within the next 3 years. Mandatory exit means that the employee leaves the public sector on an involuntary basis, but includes exits from the "availability" scheme to the private sector. Mandatory exits are not entitled to severance pay or any other form of compensation (if not provided for under the legislative framework as of April 2014). Payments during the time in availability will count against any severance entitlements.The count of mandatory exits will exclude those employees that leave the public sector because the entity they belong to is being privatized under the HRADF privatization program or that leave as part of a restructuring ahead of such privatization. Further, employees that are separated from the public sector whose jobs are outsourced will not qualify to be replaced under the 1:1 hiring rule. Mandatory exits cannot be rehired into the public sector except via a merit-based selection procedure by ASEP, open to external candidates.

J. Floor on Entrants for Future Exit in the "Availability" Scheme

23. Definition: Employees counted toward this measure have no entitlement to early retirement within the next three years and eight months, qualify for the definition of entrants to the availability scheme (paragraph 24 below). After April 1, 2014, if all previous exit targets have been observed, the floor on the minimum staff will be adjusted downward by any additional exits above the cumulative end-March 2014 target of 5,000 exits from other eligible sources.

K. Floor on Entrants to the Availability Scheme

24. Definition: Employees counted as transferred to the availability scheme will originate from those that are employed by the general government (ESA95 definition) on a permanent employment contract or on a contract of indefinite duration. Exceptionally, it will also include employees of the tax authorities from the Ministry of Finance who were subject to mandatory transfers without entering into the availability scheme (i.e., before the scheme was in place). Entrance into the availability scheme is defined when the employee's payment is reduced to

75 percent of the remuneration in the case of "availability," or to one-third of the remuneration in the case of "disciplinary suspension." It does not include employees that belong to entities that are in the process of being privatized under the HRADF privatization program or that are part of a restructuring ahead of such privatization. See TMU Tables 1A and B.

25. Supporting material. The Ministry of Administrative Reform and E-Governance (MAREG) will report on a monthly basis (15 days after the closing of each month) for the availability scheme on entrants (number, entity they previously belonged to, reason for entry, number of entrants which will exit) and departures (number, reasons for departure, new entity transferred to or exit), and the stock of employees currently in the scheme (grouped by the months of their entrance). Further, MAREG will report monthly (15 days after the closing of the month) on exits, the number, the general government entity they came from, the reason for the exit, if any. MAREG will report on a monthly basis (15 days after the closing of the month) the stock of general government employees defined as in the Census Data Base.

MONITORING OF STRUCTURAL BENCHMARKS AND KEY PERFORMANCE INDICATORS

L. Benchmark on Progress in Revenue Administration

Progress in revenue administration in 2014 will be defined as reaching or exceeding the targets set in TMU Table 2A.

Definitions:

- **A completed audit** is defined as an audit formally reported as finalized in the ELENXIS audit case management system, including signed off by the audit supervisor, and the taxpayer assessment has been issued, or the audit report states that no underpayment has occurred.
    - Audit reports which are brought to the Tax Dispute Administration Resolution Committee (Article 70A Committee) for settlement which have been brought between 1 January 2013 and 31 July 2013 are defined as a completed audit when the case is submitted to the committee.
    - High Wealth Individual (HWI) audits carried out on a legal person owned or controlled by the high wealth individual will also be regarded as an HWI audit case if the audit is carried out by the auditor(s) who carry out the audit of the relevant high wealth individual. Furthermore, audit of off-shore companies with the aim of identifying the natural person owing or controlling the offshore company will also be regarded as an HWI audit case. These audits will be reported separately.
- The **assessment amounts** from the audit reports submitted to the Article 70A committee until 31 July 2013 are included when reporting on the assessment performance for HWI and Large Taxpayer Unit (LTU) audits. The assessment amount is only included for reporting on the LTU and HWI audit case collection performance when the final

assessment is issued following the decision of the committee. These amounts shall be adjusted for any difference between the audit report assessment amount and the final assessment amount.

- **Risk-based audits** for large taxpayers and high wealth individuals are defined as audits selected on a risk basis using the ELENXIS audit management system.

- **Collection** on HWI and LTU full scope audits and partial audits are amounts collected from such LTU and HWI audits completed during the year or previous years.

- **Collection of tax debt** does not include debts such as calls on loan guarantees, fines, etc., of non-tax nature for which the tax authority is responsible for collecting on behalf of other public sector entities.

- In 2014, **new tax debt collection** includes collection of debt accrued in the month of December, 2013.

- **Large taxpayer full scope audit** is an audit of the taxpayer's compliance with obligations in relation to at least income tax, withholding taxes and VAT for a period of at least one income tax year.

- **Large taxpayer partial audit** is a large taxpayer audit which does not qualify as a full scope audit.

- **An audit of assets of a manager or official working in the revenue administration (including both tax and customs administration)** includes an audit of all assets, both movable and immovable, including those of his/her spouse. This will include but will not be limited to an examination of all his/her financial accounts for a period of up to 10 years from a current date, all immovable assets compared against information from State registries and of the acquisition of all moveable assets. The purpose of this audit will be to trace and justify the legal acquisition of these assets. These audits will be conducted annually by the Internal Affairs Directorate of the MoF. **SGPR managers** are defined as general directors, directors and head of departments of both the headquarters and the local offices of the SGPR. **Other SGPR officials** are defined as SGPR officials other than the managers defined above, including advisors and consultants to the SGPR. The above-mentioned definitions cover both former and current officials.

- **AML on-site inspections targeted at banks** at higher risk of misuse by tax evaders are conducted by BoG's Banking Supervision Department to test the implementation of AML/CFT requirements, particularly in relation to customers at risk of tax evasion, as defined in section 5.15.11 Decision 281. The on-site inspection includes a test of implementation against a sample of 200 customers identified by the supervised bank as meeting the definition of section 5.15.11 Decision 281, last paragraph, and 100 randomly selected self employed. As contemplated by the AML Law, breaches of compliance identified during on-site inspections shall result in appropriate administrative sanctions being imposed on banks.

26. Supporting material. Monthly information on risk-based full-scope audits and partial audits of large taxpayers, self employed and high wealth individuals, and VAT non-filers, collection of assessed taxes and penalties, collection of tax debt, and audits of asset declarations SGPR managers and officials, tax refund claims paid or rejected, will be made available by the Minister of Finance no later than two weeks after the end of each month. The monthly submission will also include, for each local tax office and special unit, the number of audits, hours spent on audits, assessed tax specified for income tax and VAT, assessed penalties and surcharges, collected tax amount from assessments, collected penalties and surcharges from assessments, specified for partial and full scope audits. Quarterly information on AML on-site inspections will be made available by the Bank of Greece.

M. Benchmark on Progress in Collections of Social Security Contribution

Progress in collecting social security contribution in 2014 will be defined as reaching or exceeding the targets set in TMU Table 2B.

27. Definitions:

- **Social security fund payment compliance** is defined as the ratio of the amount of current year social security contribution paid to the fund divided by the amount invoiced or declared for each reporting period, expressed as a percentage.

- An **active debtor** is defined as a debtor with a debt component that is unimpeded (excluding disputes, bankruptcies, state owned entities and municipalities), less than 180 days since becoming due, with the debtor's total debt exceeding EUR 5,000.

- In a **debt transfer** from a social security fund to KEAO, all the debt, both old and new, of the same active debtor should be transferred.

- An **advanced collection action** means an action taken by KEAO following the second automated notice that has been issued by KEAO, which may include enforced debt collection or classifying the debt as un-collectible. If the taxpayer starts repaying debt after the first automated notice, the latter is also considered an advanced collection action.

28. Supporting material. For each of the four main social security funds IKA, OAEE, ETAA and OGA, a monthly submission no later than two weeks after each month-end is required on the following: total amount of social security contribution paid (flow), total amount of social security contribution invoiced or declared (flow), total amount of active debtors' debt transferred (measured as of the transfer date, flow), total amount of active debtors' debt held by the fund at the month-end (measured as of the month-end, stock). For KEAO, a monthly submission no later than two weeks after of each month-end is required on the following: total amount of active debtors' debt on which an advanced collection action is taken within 3 months of the transfer (flow), and the amount of active debtors' debt held by the KEAO at the month-end (stock).

N. Benchmark on Progress in Public Financial Management

Progress in implementing public financial management reforms in 2014 will be defined as reaching or exceeding the floor targets and staying at or below the ceiling targets as set in TMU Table 3.

29. Definitions:

- **Invoices received by the state** are the invoices or other equivalent documents consisting of a request for payment that have been submitted (accompanied by a submission document) by ministries to the fiscal audit offices for payment, which include the information on the date when line ministries received the invoice from suppliers or the dates as specified in the Late Payment Directive.

- **Actual IKA-to-EOPYY transfer** is the amount of cash transfer to EOPYY and the expenditures paid by IKA on behalf of EOPYY during a period in 2014. It is expected to be the amount of cash transfer only in 2015. **The amount that should be transferred from IKA to EOPYY** is the revenue collected by IKA on behalf of EOPYY during the same period, calculated as 4 percent on the higher amount of monthly gross pensions received by each pensioner, and 6.45 percent on monthly insurable earnings of each worker. The exact amount of insurable earnings is calculated ex post based on monthly filings of Analytical Periodic Declarations.

- **Medical claims submitted by public hospitals to EOPYY** are claims (invoices and associated documents) using KEN-DRGs and/or hospital fees submitted to EOPYY for insured patients on inpatient services with at least one night stay. No more than one claim is allowed for each inpatient service.

- **Full audits by EOPYY** are designed to reach a final decision on the validity and amount due on a submitted health insurance or medical claim; they do not include pre-audits that only check patients' insurance and tax liability information.

30. Supporting material. Monthly summary information on the following: (i) the numbers and processing time of invoices received, invoices paid, and invoices rejected upon verification by the state government (including ministry of finance and line ministries), as well as invoices that have been neither paid nor rejected since the date of receipt of the invoice or the other dates as specified in the Late Payment Directive for a period longer than the ceiling days specified in the Late Payment Directive, (ii) the amount of IKA-to-EOPYY cash transfer, expenditure paid by IKA on behalf of EOPYY, and revenue collected by IKA on behalf of EOPYY , (iii) the number of medical claims submitted by public hospitals to EOPYY, and the number of inpatient services with at least one night stay, and (iii) the number of full audits conducted by EOPYY on 2013 and 2014 claims submitted by private entities (including private hospitals, clinics, diagnostic centers, etc) for insured patients.

MONITORING OF OTHER FISCAL INDICATORS

O. Monitoring of Tax and SSC Installment Schemes

31. Definitions – The framework for monitoring tax and SSC installments under the "fresh start" and "basic" schemes has two sections to monitor participation, one focused on values and a second focused on the number of debtors.

i. Values-Based Indicators: Stocks: (i) the outstanding stock of debt (including principal and surcharges) accumulated before end-2012, (ii) the amount of this debt (including principal and surcharges) that is currently in the Fresh Start scheme, and (iii) the amount of this debt (including principal and surcharges) current in the Fresh Start scheme that has also been legally "verified".

ii. Flows: (i) the amount of debt (including principal and surcharges) that has entered into the scheme during that month, (ii) the increase in the amount of debt (including principal and surcharges) that has been legally "verified" during the month, (iii) the total amount actually paid thus far under the scheme and, of this, the amount that refers to upfront full payment (including principal and surcharges paid), and (iv) the amount that has become delinquent during the month.

a. Number of Debtor-based Indicators

iii. Stocks: (i) the current number of debtors with outstanding debt accumulated before end-2012, (ii) the total number of applications for participation in the scheme thus far, and (iii) the total number of applications which have been legally "verified".

iv. Flows: (i) the total number of applications submitted for participation in the scheme during that month, (ii) the number of applications that have been legally verified during that month, (iii) the number of debtors that made an upfront full payment, the number of debtors that made their installment payment and the number of debtors that are newly delinquent as of that month, and (iv) the number of debtors that have made their last installment payment.

32. Supporting material. For new installment schemes, there will be a weekly report that includes a subset of the data outlined in paragraph 28 and will be received by Tuesday after the week to which it refers. It will include the following variables: i) number of debtors currently in the scheme, ii) total debt currently under the scheme, iii) amount paid year to date, and iv) amount of payment contractually expected in the rest of the year based on amount of debt in the scheme at that time, and v) number of debtors and amount of debt that have dropped out of the installment scheme year to date. Then, the SGPR and the MoL will report on a monthly basis (within three weeks of the closing of each month) the full set of indicators defined in the monitoring framework for the "fresh start" and "basic" installment schemes.

33. The report by the MoL of the SSC installment schemes will provide information on installment schemes under KEAO as well as individual information for installment schemes in the two largest SSFs (IKA, OAEE) not covered by KEAO. The MOL report will also include data about the old installment schemes for which repayments are still collected by the funds.

P. Monitoring of SSC Debt Collection

34. Definitions

- The monitoring framework for SSC debt collections includes: (i) the stock of debt and collection of SSC debt accumulated by December 31, 2013; (ii) the stock of debt and collection of SSC debt incurred during the current year; and (iii) the number of debt assessments completed by the SSFs.

- The monitoring framework for debt collection by KEAO also includes the number and value of legal collection actions (letter notifying the opening of the enforced collection action, garnishments, seizure writs issued, immovable property seizure, movable property seizure, mortgage and liens, auctions, and bankruptcies and liquidations).

35. Supporting material. The MoL will report according to the monitoring framework for SSC debt collection and for debt collection by KEAO on a monthly basis (three weeks after the closing of each month). The MoL will provide individual information separately for the four largest SSFs (IKA, OAEE, ETAA, OGA).

Q. Monitoring of SDOEs Stock of Pending Audits and Investigations Outstanding as of October 30, 2013

36. Definitions. The stock of pending audits and investigations in this context is understood as tax- and customs-related audit cases that were opened by the SDOE through October 30st, 2013 and are related to the tax and customs competences that were subsequently transferred to the SGPR. As of October 31st, 2013, 10,968 such pending audits were identified.

37. Supporting material. The SDOE will report on the stock of aforementioned pending audits on a monthly basis (one week after the closing of each month) starting from March 2014.

R. Monitoring of the Performance of Commitment Registers

38. Definition.

- The monitoring framework for the performance of commitment registers includes: (i) the percentage of institutional units (State and general government entities) reporting on the E-portal of GAO all the prescribed items with financial information of the circular on commitment registers at the end of each month, based on data from their commitment registers; and (ii) the discrepancy between the total arrears to third parties of non-state general government entities reported under the E-Portal of GAO using data from commitment registers and the total arrears reported through monthly surveys, i.e., the sum across all entities of the absolute value of (arrears monthly survey less arrears E-portal) divided by total arrears

- The reporting institutional units (state and general government entities) include any unit under the general government as defined by ELSTAT whose overall annual spending exceeded €1 million in the most recently closed financial year. The universe of reporting institutional units is updated in the 4th month after an update to the register of general government entities is published.

- Entries under the e-portal include all fields with financial information as prescribed in the GAO circular on the maintenance of commitment registers of Feb 28, 2014 (protocol number 2/18993/DPDSM, section K); this includes inter alia cumulative appropriations released, commitments made, the sum of invoices received, payments made, and the age profile of unpaid invoices past due date, including arrears.

39. Supporting material. Monthly summary information from the e-portal, surveys, and other sources on performance against the above indicators will be published by the General Accounting Office of the Ministry of Finance no later than four weeks after the end of each month. Data submission based on surveys will include data back to end-2011. Survey information will continue to be provided after December 2013 unless discrepancies between survey and e-portal data are fully eliminated. An authoritative list of entities included under general government as defined by ELSTAT (including annual spending in the most recently closed financial year) will be made available by ELSTAT whenever an update to the register is being published.

S. Monitoring of Unprocessed Pension Claims

40. Definition:

- An **unprocessed pension application** is an application filed by an insured or entitled person for receiving an old age, disability or survivors' pension. The pension claim will be counted as unprocessed if a decision on the validity and amount due under the claim has not been reached by the end of the month following the month in which the application was filed.

41. Supporting materials: Monthly data on unprocessed pension applications (number and total value of claims of the application) for IKA, OAEE, ETAA, and OGA will be provided by the Ministry of Labor.

T. Regulated Professions

42. The targets on professions, as discussed in the MEFP paragraph 27 are delineated in TMU Table 4.

Table 1A. Greece: Annual Overall Employment Ceilings for the General Government, 2012–16

(Number of persons)

	2012	2013	2014	2015	2016
General government	**707,609**	**653,746**	**635,227**	**623,219**	**606,170**
Ordinary staff	629,114	599,207	581,886	570,271	553,619
Other staff	56,588	36,372	36,037	36,037	36,037
Chapter A entities	20,446	16,587	15,723	15,330	14,933
Chapter A fixed term contracts	1,461	1,580	1,580	1,580	1,580
Memorandum items:					
Chapter A entities not classified as general government	18,603	17,365	16,491	16,093	15,691
Total public sector (excluding ESPA and self financed other staff)	726,212	671,111	651,717	639,311	621,860
ESPA and self-financed other staff	15,343	47,570	44,946	44,946	44,946

Source: MAREG.

Note: Public sector is defined as the general government as well as legal entities of private law supervised by local governments or the state, and excluding Chapter B companies.

Note: The number of general government and non-general government employees in Chapter A entities will be updated as they are integrated into the Census Data Base. These include previously unrecorded employees of municipal and private law legal entities.

Note: The above ceilings are based on GAO projections and reflect the measures of the latest MTFS as well as other assumptions that may be updated in cooperation with the EC/ECB/IMF.

Table 1B. Greece: Availability Scheme, 2013–14

(Number of people)

	Staffing Plans: Total Personnel Covered 1/ 2/		Personnel Entered Into Mobility Scheme 3/ 4/		Personnel Exits from Government 5/ 6/	
	Target	Actual	Target	Actual	Target	Actual
2013						
Q1	...	0	...	0	...	0
Q2		211,000	...	...	...	2,500
Q3	400,000	198,991	12,500	8,401	2,000	704
Q4	207,754		12,500	7,460	2,000	336
Total 5/	**607,754**	**409,991**	**25,000**	**15,861**	**4,000**	**3,540**
2014						
Q1	...	167,115	...	8,011	1,000	3,034
April 2014 7/				1,470		77
Q2	...	...	...	...	4,000	...
Q3	...	...	...	...	5,000	...
Q4	...	...	...	...	1,000	...
Total	**0**	**167,115**	**0**	**9,481**	**11,000**	**3,111**
Sum total	**607,754**	**577,106**	**25,000**	**25,342**	**15,000**	**6,651**

Source: MAREG, SPA

1/ As reported by Census and data on private law legal entities.

2/ 18,920 employees are excluded from the staffing plans as their employment structures can not be evaluated--for example judges and clergy.

3/ As reported by SPA. The Census Database reports 25.522 employees placed under the availability status as it includes 78 temprorary injuctions and 102 employees whose wage adjustment could not be verified by SPA as they were not paid by SPA.

4/ The Q3-2013 mobility numbers include 3,572 employees from the restructuring of the Tax Offices.

5/ As reported in the Census Database. Single Payment Authority (SPA) confirms 6,651 exits. The above figures exclude 1.708 contracts that were terminated due to rejection of temporary injunctions and 100 estimated exits as a result of the closure/merging of 22 entities in April 2014, according to Law 4250/2014, which is currently under implementation.

6/ Actuals are gross exits and do not exclude individuals within three years of early retirement. The authorities report that they have achieved the end-March 2014 cumulative target of 5,000 exits and are in the process of verifying the employment history of these persons to ensure compliance with the TMU definition of exits.

7/ As of April 24th, 2014.

Table 2A. Greece: Key Performance Indicators on Tax Administration, 2014

Indicator	2014 Target 1/		
	End-Jun.	End-Sep.	End-Dec.
Debt collection			
Collection of tax debts as of the end of the previous year (millions of euros)	1,000	1,500	2,000
Collection of new debts in the current year (percent of new debt in the year)	16%	21%	25%
Tax audits and collection of large tax payers			
Number of risk-based full scope audits in the year 2/	250	375	500
Number of risk based partial audits in the year 3/	340	510	680
Collection of full scope audits in the year (percent of assessed tax and penalties)	65.0%	65.0%	65.0%
Collection of partial audits in the year (percent of assessed tax and penalties)	65.0%	65.0%	65.0%
Audits and collection of high wealth individuals			
Number of completed risk-based audits in the year 4/	307	513	720
Collection of assessed audits (percent of assessed tax and penalties)	50%	50%	50%
Internal control and human resource integrity			
MoF audit of assets of SGPR managers 5/	48	87	125
MoF audit of assets of other SGPR officials 5/	63	107	150
Taxpayer service			
Percent of VAT tax refund claims paid or rejected within 90 days 6/	70%	80%	90%
Percent of income tax refund claims paid or rejected	30%	55%	75%
Ceiling on stock of total tax refund claims (with or without AFEK) 7/	2.4	2.2	2.0
Prevention of the laundering of tax evasion proceeds			
Number of AML on-site inspections targeted at banks at higher risks of misuse by tax evaders 8/	3	6	9

Sources: Greek authorities; and IMF staff.

1/ Cumulative targets from January of each year.

2/ If the actual amount of tax and penalty assessed is less than €250 million in March, the targeted number of audits in June will be increased to ensure achievement of overall annual amount of tax and penalty assessed of at least €1000 million.

3/ If the actual amount of tax and penalty assessed is less than €80 million in March, the targeted number of audits in June will be increased to ensure achievement of overall annual amount of tax and penalty assessed of at least €320 million.

4/ If the actual amount of tax and penalty assessed is less than €72 million in March, the targeted number of audits in June will be increased to ensure achievement of overall annual amount of tax and penalty assessed of at least €288 million.

5/ The audit is performed by the Internal Affairs Directorate of the MoF. SGPR managers are defined as general directors, directors and head of departments of both the headquarters and the local offices of the SGPR. Other SGPR officials are defined as SGPR officials other than the managers defined above. The above-mentioned definitions cover both former and current officials.

6/ For claims received on or after 1 January 2014 only. The 90-day period refers to the period between a claim is made and the final payment to the claimant is completed or the claim is rejected. The percentage is calculated as follows. The numerator is the total number of tax refund claims paid or rejected within 90 days during the period. The denominator is the sum of the numerator and the total number of tax refund claims pending more than 90 days on the test date.

7/ In billions of euros.

8/ The inspection is performed by the AML Unit within the Supervision of Credit and Related Financial Institutions Department (SCFID) of the Bank of Greece.

Table 2B. Greece: Key Performance Indicators on Social Security Contributions, 2014

Indicator	2014 Target 1/		
	End-Jun.	End-Sep.	End-Dec.
Social Security Fund Payment Compliance			
Percent of total invoiced or declared current-year SSC amount paid to the fund 2/			
IKA	90%	...	93%
OAEE	58%	...	70%
ETAA	78%	...	85%
OGA	40%	...	50%
KEAO Collection Performance and Enforcement			
Collection of SSC debts transferred to KEAO 3/	100	200	350
Percent of Advanced Collection Action taken within 3 months of the transfer of active debtors' debt 4/	25%	35%	50%
Timeliness of debt transfer to KEAO			
Percent of active debtors' debt transferred to KEAO 5/			
IKA	95%	95%	95%
OAEE	40%	60%	95%
ETAA	40%	60%	95%
OGA	95%	95%	95%

Sources: Greek authorities; and IMF staff.

1/ Cumulative targets from January of each year.

2/ For each reporting period, social security fund payment compliance is calculated as the amount of current year SSC paid to the fund divided by the amount invoiced or declared, expressed as a percentage.

3/ In millions of euros.

4/ The percentage is calculated as follows. The numerator is the total amount of active debtors' debt where an advanced collection action is taken within 3 months of the debt transfer to KEAO. The denominator is the sum of the numerator, and the stock of total active debtors' debt on the test date which has been held by KEAO for more than 3 months without taking advanced collection actions. An active debtor is defined as a debtor with a debt component that is unimpeded (excluding disputes, bankruptcies, state owned entities and municipalities), less than 180 days since becoming due, with the debtor's total debt exceeding EUR 5,000. An advanced collection action means an action taken by KEAO following the second automated notice that has been issued by KEAO, which may include enforced debt collection or classifying the debt as un-collectible. If the taxpayer starts repaying debt after the first automated notice, the latter is also considered an advanced collection action.

5/ The percentage is calculated as follows. The numerator is the amount of total active debtors' debt that is transferred during the period from a social security fund to KEAO. The denominator is the sum of the numerator and the stock of total active debtors' debt that has been identified but still held by the social security fund on the test date.

Table 3. Greece: Key Performance Indicators on Public Financial Management, 2014

Indicator	2014 Target 1/		
	End-Jun.	End-Sep.	End-Dec.
a. Ceiling on average period for expenditure payments or rejection after receipt of invoices by state government, including ministry of finance and line ministries. 2/			
Ceiling on number of days	40	30	29
b. Floor on percentage of actual IKA-to-EOPYY transfer of the amount that should be transferred. 3/			
Floor on percentage	97%	98%	99%
c. Floor on percentage of number of claims submitted by public hospitals to EOPYY for insured patients. 4/			
Floor on percentage	50%	75%	85%
d. Floor on the percentage of full audits conducted by EOPYY on 2013 or 2014 claims received by EOPYY from private entities for insured patients. 5/			
Floor on percentage	50% (2013) 0% (2014)	99% (2013) 0% (2014)	... 50% (2014)

Sources: Greek authorities; and IMF staff.

1/ Cumulative targets from January 2014 unless otherwise specified. The KPIs apply to transfers, services, invoices, claims etc provided in 2014 only unless otherwise specified. Invoices and claims provided before 2014 are excluded unless otherwise specified.

2/ Applies to each quarter only. The average period is calculated on all the invoices paid or rejected during the quarter, and invoices still pending beyond the ceiling on number of days on the test date. The period for each invoice is measured from when the invoice is received to the final payment, or to rejection upon verification, or to the test date if it is still pending beyond the ceiling.

3/ The ratio in percentage is calculated as follows. The numerator for 2014 is the amount of cash transfer to EOPYY and the expenditure paid by IKA on behalf of EOPYY during the period. The denominator is the revenue collected by IKA on behalf of EOPYY during the period. It is expected that the numerator will be the amount of cash transfer only in 2015.

4/ The ratio in percentage is calculated as the number of relevant claims (invoices and associated documents) using KEN-DRGs and/or hospital fees submitted to EOPYY for insured patients divided by the number of inpatient services with at least one night stay. No more than one claim is allowed for each inpatient service.

5/ The June and September targets apply to the full audits of 2013 claims submitted by private entities (including private hospitals, clinics, diagnostic centers, etc), and the December target applies to the full audits of 2014 claims submitted by private entities.

Table 4. Greece: Actions on Regulated Professions

Profession	Restrictions to be Eliminated	Timing
Actuaries	• Amend legislation to set the certification exams to be conducted by any public or private sector body accredited by ESYD.	• End-March 2014
	• Start examinations	• End-May 2014
Technical professions (56 professions)	• Submit to the Council of State the Presidential Decree on replacing of professional experience by seminars organized by approved bodies, and on fees for the seminars replacing professional experience.	• End-April 2014
Sales of fertilizers, propagation and plant-protecting material (10 professions)	• Submit to the Council of State the Presidential Decrees (2) setting the standards for training courses	• End-April 2014
	• Issue secondary legislation to establish the training courses	• End-May 2014
	• Establish training courses for sales	• End-June 2014
Geo-technicians (agronomists, foresters, geologists, ichthyologists)	• Adopt legislation to abolish mandatory issuance of professional IDs and of membership to the Geo-Technical Chamber	• End-April 2014
	• Abolish mandatory presence of geo-technicians for municipalities of more than 5,000 inhabitants	• End-March 2014
Lawyers	• Clarify the reference in the Code of Lawyers to the minimum wage for salaried lawyers	• Prior action
	• Adopt legislation to abolish from the code of lawyers the severance pay in case of voluntary exit and introduce a provision similar to that of Article 7 of Law 2112/1920 in the Code of Lawyers (so that any unilateral adverse alteration of the terms of the salaried contract that is harmful to the lawyer is deemed as termination of contract on behalf of the employer)	• Prior action
Engineers (including architects and land surveyors)	• Adopt legislation to amend unjustified or disproportionate requirements reserving certain activities to specific professions according to the opinion of the HCC	• End-June 2014
	• Complete a screening exercise to list all existing primary and secondary legislation that needs to be either amended or abolished in order for the new legal framework to be implementable	• End-June 2014
	• Submit to the Council of State the Presidential Decrees defining standards for complex activities	• End-June 2014
	• Adopts implementing provisions consistent with the timeline foreseen in the legislation	• End-November 2014
Firms trading Petroleum	Wholesale: Adopt legislation to require the installation of inflow-outflow systems throughout the refining and wholesale trading supply chain	• End-April 2014
	Retail: Complete the installation of inflow-outflow systems in:	
	• urban areas	• End-April 2014
	• rest of Greece	• End-August 2014
Mediators	• Adopt legislation to open mediator's professions to non-lawyers.	• Prior action
Health professions	• Day care clinics:	
	• Adopt legislation to establish day care clinics	• End-April 2014
	• Adopt all necessary secondary legislation to define the technical standards for establishing day care clinics	• End-May 2014
	• Adopt legislation to (i) reduce minimum square requirements, (ii) allow co-establishment of all primary health care providers with the exception of chain professions necessary for a treatment of a patient	• End-May 2014
Hairdressers/manicurists	• Review the licensing requirements for hairdressers/manicurists in line with EU best practices	• End-April 2014
	• Adopt legislation to align licensing requirements for hairdressers/manicurists with EU best practices	• End-June 2014
Stevedores	• Establish entry-level training	• End-April 2014
	• Start entry-level training	• End-July 2014
TV technicians	• Repeal existing licensing system	• End-April 2014
Energy inspectors	• Conduct certification exams	• End-May 2014
Pharmacies	• Implement OECD recommendations on the ownership and operation of pharmacies as specified in MEFP ¶30.	• Prior action
Notaries	• Assess the fees and reserved activities for notaries, and adopt legislation to align them with best practices in the EU	• End-September 2014
Court bailiffs	• Review entry requirements, fixed fees and reserved activities for court bailiffs in line with EU best practices	• End-June 2014
	• Adopt legislation to amend unjustified or disproportionate requirements according to the opinion of the HCC	• End-September 2014
Mortgage registrars	• Review entry requirements, fixed fees and reserved activities for mortgage registrars in line with EU best practices	• End-June 2014
	• Adopt legislation to amend unjustified or disproportionate requirements according to the opinion of the HCC	• End-September 2014
Recreational and sports centers	• Review restrictions to establishing recreational and sports centers (minimum space requirements, restricted list of services offered etc) in line with EU best practices	• End-March 2014
	• Adopt legislation to amend unjustified or disproportionate requirements according to the opinion of the HCC	• End-June 2014
Seafarer	• Review restrictions to entry and conduct of seamen in line with EU best practices	• End-April 2014
	• Adopt legislation to amend unjustified or disproportionate requirements according to the opinion of the HCC including abolishing requirement to withhold the membership union fees from seafarer salaries	• End-April 2014

Source: IMF staff estimates.

Table 5. Greece: Implementation of Recommendations in OECD Competition Assessment Review[1]

OECD Recommendation	Agreed Reforms	Timing	Next steps[2]
Over-The-Counter (OTC) Products			
Fully liberalize prices of OTC medicines and dietary products.	Maintain cap on OTC prices based on the average of the three lowest prices in EU member states, while allowing prices to move freely downwards.	Prior action	If there is no substantial reduction of OTC prices by end-June 2014, retail channels will be liberalized immediately for all OTC products.
Allow sale of OTC medicines and dietary products outside.	Allow sale outside pharmacies (including via internet) for dietary products.	Prior action	
Pharmacies			
Liberalize ownership/operation of pharmacies (e.g., requirements for owner to be pharmacist, one pharmacy per pharmacist, minimum distance between pharmacies, etc.)	Abolish (i) the restriction of one pharmacy per pharmacist; (ii) all geographical restriction on minimum distances between pharmacies; and (iii) prior authorization by Prefecture for establishing a pharmacy.	Prior action	Review by end-September 2014 the practices in other EU countries, and legislate by end-2014 the changes needed to bring the framework in Greece on pharmacy ownership in line with EU best practices.
Milk			
Abolish maximum duration of milk shelf life and determining methodology for pasteurization	Extend the maximum duration of milk shelf life from 5 to 7 days, while introducing an additional definition for milk packaged within 24 hours and 2-day expiration after that.	Prior action	Assess the impact of these reforms by end-2014, and make additional legislative changes immediately if milk prices remain high.
Bread/bakeries			
Eliminate strict definitions for bakeries, bread sale restrictions.	Allow sale of bread in convenience stores.	Prior action	Assess by end-September and if needed adopt by end-2014 changes that bring definition of bakeries in line with EU best practices.

[1] The Greek authorities have committed to implement in full the recommendations in the OECD's Competition Assessment Review of March 2014 (see link), except as specified in this table.

[2] All follow-up changes will be taken in consultation with the EC/ECB/IMF.

Table 5. Greece: Implementation of Recommendations in OECD Competition Assessment Review (concluded)

OECD Recommendation	Agreed Reforms	Timing	Next steps
Sunday trade Consider two options: (i) Allow Sunday trading 11am-8pm without limits on store size; or (ii) experiment by relaxing Sunday trading in selected number of tourist areas (or towns) across Greece.	Allow Sunday trading in 3 new tourist areas	Prior action	Clarify by end-June 2014 that the 3 new tourist areas include: a) in Southern Aegean the entire island of Rhodes and Kos, and Ermoupoli (capital of Syros) b) in Central Macedonia, the historic center of Thessaloniki, including Tsimiski and Xalkidiki and c) in Attika, the historic center of Athens, including Ermou and Omonoia areas, and Rafina (second port of Athens). Review the experience of these reforms, and on that basis decide by end-March 2015 on whether to roll out immediately the recent changes across the country.
Private cars/trucks/busses Eliminate restrictions on licensing/ operation of private cars, trucks and buses.	For a car rental with driver, reduce minimum duration of agreement from 12 to 6 hours, and abolish requirements on social security, high school degree, and foreign language. For private use trucks up to 3 tons for the transport of daily press, abolish restriction for only one license.	Prior action	Assess by end-September and adopt by end-2014 changes to bring the licensing of trucks for private use in line with EU best practices.
Retail Sales Allow retailers to freely determine time and duration of sales periods, and abolish various restrictions on sale offers.	Repeal various restrictions on the sales offers. Introduce a code of conduct providing guidelines on sales and offers.	Prior action September 2014	Assess by end-2014 restrictions on sales periods' time and duration, and adopt by end-March 2015 changes as needed to bring in line with EU best practices.
Olive oil Abolish prohibition to mix olive oil with other vegetable oils in Greece.	Do not make any changes to the existing framework.	NA	NA

Annex Table I.1. Greece: Key Performance Indicators on Tax Administration, 2012–13

Indicator	2012 End-Dec. Actual	2013 End-Jun. Target	2013 End-Jun. Actual	2013 End-Sep. Target	2013 End-Sep. Actual	2013 End-Dec. Target	2013 End-Dec. Actual
Debt collection							
Collection of tax debts as of the end of the previous year	1,099	1,140	847	1,558	1,147	1,900	1,518
Collection of new debts in the current year (percent of new debt in the year)	10.5%	14.0%	13.2%	19.0%	16.2%	24.5%	18.7%
Tax audits and collection of large tax payers							
Number of risk-based full scope audits in the year 2/	76	176	118	386	203	596	324
Number of risk based temporary audits in the year 3/	271	260	290	470	401	680	590
Collection full scope audits in the year (percent of assessed tax and penalties)	64.5%	65.0%	34.9%	70.0%	45.0%	75.0%	54.6%
Collection temporary audits in the year (percent of assessed tax and penalties)	49.2%	45.0%	38.6%	50.0%	52.0%	55.0%	54.8%
Audits and collection of high wealth individuals							
Number of completed risk-based audits in the year 4/	444	280	228	550	327	910	454
Collection of assessed audits in the year (percent of assessed tax and penalties) 5/	78.4%	40.0%	40.9%	55.0%	28.9%	65.0%	22.4%
Internal control and human resource integrity							
MoF audit of assets of managers of local tax offices	...	50	0	80	32	110	54
MoF audit of assets of auditors	...	50	0	90	42	130	72

Sources: Ministry of Finance; and IMF staff.

1/ Cumulative for the calendar year.

2/ The amount of tax and penalty assessed from January to September 2013 was €1,304 million (target: no less than €430 million).

3/ The amount of tax and penalty assessed from January to September 2013 was €177 million (target: no less than €215 million).

4/ The amount of tax and penalty assessed from January to September 2013 was €101 million (target: no less than €115 million).

5/ The 2012 collection rate is higher, mostly because many 2012 cases were settlement cases where immediate partial payment was required.

Annex Table I.2. Greece: Key Performance Indicators on Public Financial Management, 2012–13

Indicator	2012	2013					
	End-Dec.	End-Jun.		End-Sep.		End-Dec.	
	Actual	Target	Actual	Target	Actual	Target	Actual
a. Percent of institutional units (State and general government entities) reporting on the E-portal of GAO total budget allocations (including any revisions), pending outstanding commitments, unpaid commitments, and arrears data (for both ordinary and investment) at the end of each month, based on data from their commitment registers, is above the target.							
2013 entity coverage 1/	85%	80%	93%	94%	95%	97%	97%
b. Discrepancy between the total arrears to third parties of non-state general government entities reported under the E-Portal of GAO using data from commitment registers and the total arrears reported through monthly surveys, i.e. the sum across all entities of the absolute value of (arrears monthly survey less arrears E-portal) divided by total arrears multiplied by 100, is below							
2013 entity coverage 1/	4%	10%	3%	2%	3%	1%	2%
c. Percentage of institutional units (State and general government entities) reporting on the E-portal of GAO all the prescribed items with financial information of the circular on commitment registers at the end of each month, based on data from their commitment registers, is above the target.							
2013 entity coverage 1/	…	65%	84%	78%	90%	93%	95%

Sources: Ministry of Finance; and IMF staff.

1/ Includes new entities in the end-September 2012 ELSTAT register with spending above €1 million.

Annex Table I.3. Greece: Government Pending Actions in Privatization

Asset	A/A	Subject	Responsibility	Necessary Actions	Done	Critical Date
EYATH	**1**	Legislation to align pricing policy of EYATH with that of other water companies.	Ministry of Environment	Pass amendment to article 21 of Law 2937/2001, in order to align the process of the pricing policy of EYATH SA with that of the other water and sewerage services providers as provided for by Law 4117/2013 and the complementary Ministerial Decisions		Apr-14
EYATH	**2**	Water Regulator	Ministry of Finance, Ministry of Administrative Reform and e-Governance; and Ministry of Environment	Put in place full staffing and initiate operations of the Special Secretariat for Water (Regulating authority)		Apr-14
ODIE	**3**	Legislation needed to finalize ODIE tender	Ministry of Finance	Pass legislation on the issues raised by investors as prerequisites to continue in the process: GGR harmonisation; and lease agreement excemption from art. 618 of civil code)		Apr-14
OLP,OLTH &Ports	**4**	Ports Regulator	Ministry of Shipping	Pass law related to establishment and staffing of port regulatory authority		Apr-14
Egnatia Odos	**5**	Setting up additional toll stations in advance of privatization	Ministry of Transport, Infrastructure and Networks	Issue Ministerial Decision for the toll stations that have been specified by the technical advisers at main and vertical axes		Apr-14
TRAINOSE/ROSCO	**6**	Clarification of assets included in TRAINOSE, ROSCO privatization	Ministry of Transport, Infrastructure and Networks	Pass legislation to specify licenses and permits for railway properties and all real estate assets that will be included in the privatization perimeter of TRAINOSE, ROSCO		Apr-14
TRAINOSE/ROSCO	**7**	Transfer rolling stock ownership to HR	Ministry of Transport, Infrastructure and Networks and OSE	Issue joint Ministerial Decision for the transfer of rolling stock ownership from OSE to HR		Apr-14
TRAINOSE/ROSCO	**8**	Valuation of the Rolling Stock not in use owned by OSE or HR	Ministry of Transport, Infrastructure and Networks	Launch tender for valuation of rolling stock not in use		Apr-14