GREECE—MEMORANDUM OF ECONOMIC AND FINANCIAL POLICIES

A. Strategy and Outlook

1. **Greece has made progress since the onset of the crisis in 2010, but continues to face three crucial challenges:**

- **Restoring growth.** Greece is in its fifth year of recession, with unemployment reaching unprecedented levels, particularly among youth. Restoring growth and bringing jobs back requires a deep restructuring of the economy, to shift the engine of growth from consumption to exports and investment in the tradables sector.

- **Securing fiscal sustainability.** Despite the adjustment we have undertaken so far, further efforts are needed to restore fiscal sustainability. These will have to spread the adjustment burden fairly across the Greek population. Achieving a sustainable level of debt within the eurozone is vital to reduce vulnerabilities and protect Greek citizens from even-deeper cuts that would otherwise prove necessary.

- **Securing the financial system.** The deep recession combined with the recent public debt restructuring has taken a toll on banks' capital. Recapitalization of the banking system is needed to restore depositor confidence and to lay the groundwork for a resumption of bank lending.

2. **The short term economic outlook remains difficult, but the adjustment process is now moving faster.** Delays in policy implementation and uncertainty during the election period have resulted in a deeper recession than envisaged under the program, while slow progress in structural reforms have not sufficiently addressed price rigidities. However, our external deficit is projected to shrink at a faster pace than expected, and competitiveness gains, measured by unit labor costs, are also expected to come at a faster pace.

3. **Against this backdrop, we have adapted policies in the program to better help achieve our goals and in particular to more rapidly stabilize the economy:**

- **We have made it a priority to implement structural reforms designed to reduce prices and encourage employment.** Product and service market reforms have been front-loaded to increase competition, help reduce prices and thus help protect real household incomes. Privatization will also move forward at an accelerated rate to move assets to the private sector and thereby facilitate new investment. Non-wage labor costs will be reduced, to support hiring and to lessen pressure for nominal wage cuts.

- **We will make a renewed near-term push to correct Greece's poor business environment**. When confidence returns, the government bureaucracy must not stand in the way of new investment and the jobs that this would bring. Accordingly, licensing reforms will be fully implemented, export procedures simplified, and the administrative burden of Greece's complex tax system will be simplified.

- **The government has programmed more time for fiscal adjustment, to help smooth the recession.** By taking an extra two years to reach our fiscal targets, we expect the pace of fiscal consolidation to drop from 3 to 1½ percent of GDP per year. This will limit the negative growth impacts in 2013-14, when the economy needs to find a firmer footing, while still preserving a good adjustment pace.

- **Several initiatives will help support demand in the near-term**. Increased absorption of EU structural funds will help to sustain public investment, while new loans from the EIB to banks will help support new lending to small and medium enterprises (SMEs). The program provides resources to gradually clear government arrears, and we expect this to help improve liquidity in the corporate sector. And to complement our work to recapitalize banks, we are introducing measures to help banks efficiently work out debts with truly distressed borrowers.

- **We are enhancing our social safety net to help cushion those who are most deeply affected by Greece's recession.** We will leverage available EU structural funds and internal resources to increase resources devoted to job training initiatives. We have also increased the amount of resources available for unemployment insurance.

4. [Paragraph on financing to be added]

5. **With our revised policies we expect to be able to stabilize the economy and start a recovery in the next 12-18 months.** Output would still contract by over 6 percent in 2012, and about 4¼ percent next year, before starting to recover, on a quarter-over-quarter basis, in [2013/2014]. Moderate inflation in 2012 would give way to mild deflation in 2013. The current account would fall to a deficit of around [3] percent of GDP by 2014. But to meet or, hopefully, exceed these projections, we recognize the critical importance of strong and timely program implementation, to support a return of confidence.

6. **Greece has a positive outlook over the medium term**. Growth is projected to accelerate once the envisaged fiscal adjustment advances and structural reforms translate into improved competitiveness. Over the medium term, inflation in Greece is expected to remain below levels in our trading partners and our competitiveness gap should close. This should help deliver a current account surplus around 2017. [*Details on debt outlook to be added*].

B. Structural reforms

7. **The government is determined to reinvigorate structural reforms to strengthen the basis for economic growth.** In particular, we are committed to comprehensively

liberalize product and service markets by removing unnecessary restrictions and barriers to entry that currently impede competition and downward price adjustment. We also continue to recognize the importance of ambitious business environment reforms to remove barriers to investment. In addition, with the unemployment rate unacceptably high, we are determined to implement fully recent labor market reforms and to take further steps to improve the functioning of the labor market and facilitate employment creation.

8. **As a matter of priority, we will accelerate liberalization of product and service markets.** Citizens have made significant sacrifices by accepting lower wages and benefits. Productions costs in the economy have declined, but output prices have not dropped commensurately. This has to change. To deliver more efficiency and productivity across the economy, and higher competitiveness, we will adopt a package of liberalization measures as a **prior action** for the review (Annexes I.1-I.2) and we have also defined several next steps:

- **Retail market.** Prices of many essential food products are high relative to comparators. We will thus adopt far-reaching changes to repeal unnecessary restrictions, deriving mainly from sanitary, labor, and transport regulations. These changes will allow a wider class of goods to be sold by more efficient retailers, and reduce their operating costs. This in turn should help contribute to lower prices and more choice for consumers.

- **Fuel market.** To allow downward adjustment of prices, legal changes will, inter alia, allow small fuel retailers to import fuel without needing to construct large fuel storage facilities; and permit independent retailers to buy directly from refineries and to transport their own fuel. Taxes on diesel and heating oil will be equalized. We will guard against smuggling and fraud by introducing new control mechanisms in fuel distribution and retailing.

- **Transportation services.** To reduce transportation prices and strengthen the competitiveness of our tourism sector, we will adopt a number of measures, including: (i) removing restrictions on the rental of pickup trucks, vans, chauffeur services; (ii) allowing shuttle services by hotels and tour agencies using small vehicles (less than 12 seats) and tour packages for small vans and off-terrain vehicles; (iii) liberalizing maritime transportation (including by increasing the flexibility of routing and labor arrangements in shipping and ferry services).

- **Regulated professions and services.** Our review of earlier efforts has revealed areas where further and more ambitious efforts are needed. Our upfront actions will address several areas (Annex I.2), with a focus on eliminating inconsistencies between sector specific legislation and the 2011 law on professions, minimum fees for services, and mandatory use of services in selected professions. We will also tackle a new group of 9 professions and activities of economic importance. This will include: custom brokers, stevedores in ports, tourist agencies, private education establishments, and [electricians] (Annex I.3). As a general principle, the government is committed not to extend new reserved activities to specific professions.

> ➢ **Next steps:**We remain committed to liberalizing all regulated professions by end-2012 per the 2011 law on professions (EFF **structural benchmark**). To confirm our progress in this area, by March 2013 we will complete a study of the 20 largest professions examining the degree to which they have been liberalized, including results with respect to new entrants and price changes.
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> ➢ We will undertake a new round of liberalization of transportation services by [end-February 2013], with the aim to further strengthen the competitiveness of our tourism sector. We will address restrictions and price rigidities affecting airports and seaports, and inter-urban travel.
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> ➢ Finally, prices of a number of key goods and services are high in Greece compared to other EU countries, particularly those for construction materials (including cement and steel), and the housing and commercial rental markets. Accordingly, using the OECD toolkit, and with the help of the Hellenic Competition Commission and other regulators, the government will screen the restrictions in these sectors, and also in the important food processing and tourism sectors. We will prepare by date an action plan to promote competition and facilitate price flexibility in these sectors as a matter of priority.

9. **The government will also accelerate improvements in Greece's business environment.** While Greece has passed much legislation in this area, our overall ranking in Doing Business Indicators remains unacceptably low. Our priorities include:

- **Licensing and regulation.** The government will focus in the following three areas. First, by end-November 2012 we will further simplify procedures for establishing companies, including by allowing the use of model company statutes, streamlining background checks on company founders, and reducing the minimum capital requirements of new companies in line with best EU practices. Second, we will publish by end-October 2012 a national trade facilitation strategy with time-bound steps to simplify pre-customs and customs procedures and to increase working shifts (Athens airport and Piraeus port will shift to 24/7 by end-2012). Third, by Q1 2013 we will complete the legal framework for the implementation of licensing laws, especially on manufacturing activities and environmental projects and activities. For the latter we will certify bodies to issue establishment and operating licenses and to lay down the procedures and criteria for licensing.

- **Judicial reform**. We will continue with measures to reduce case backlog and improve the efficiency of the judicial system. We will develop by [end-January

2013] an action plan with specific measures to reduce the non-tax case backlog. Every quarter, starting from end-October, we will publish a report on progress in backlog reduction, and update each quarter thk plauce the tax case backlog (with priority on cases exceeding €1 million) starting from [end-Septemberefforts to streamline the judicial process, a paper outlining the main proposals for amendments to the Code of Civil Procedure will be prepared by [end-March 2013].

- **Next steps.** With assistance from the OECD we will screen legislation in a number of areas (including the agriculture, energy, fisheries, and pharmaceutical sectors, as well as public procurement) with a view to reduce the administrative burden. On the basis of the findings of these reviews, we will propose by end-September 2013 the needed amendments to our legal framework. We will also, by end-September 2013, produce a comprehensive list of nuisance taxes and levies, and approve a plan to incorporate them into the central government budget (along with the associated spending), and to eliminate the majority of them in a budget neutral way in the 2014 budget (**structural benchmark**).

10. **The government intends to build on recent labor market reforms to further improve the functioning of the labor market and encourage job creation**: The labor reforms adopted in February 2012 under the program have already helped to lower unit labor costs. The government will sustain the reforms and apply them uniformly across the sectors to which they apply. However, the minimum wage system in Greece remains complex and delinked from broader labor market conditions, while non-wage labor costs remain excessive, contributing to pressure for excess nominal wage declines and placing barriers in front of employment creation. We have specified measures to tackle these issues, and the next steps towards a stronger labor framework for Greece:

- **As a prior action for the review (Annex II), the government [has established] a timetable to reform Greece's minimum wage.** Under the new framework, the basic minimum wage and the maturity and marital allowances currently set in the national general collective agreement will be progressively replaced by a minimum wage mechanism legislated by the government after consultation with social partners and other stakeholders and independent experts. This system, which will become effective by April 1 2013, will include a single-rate statutory minimum wage as the binding floor for new labor agreements and contracts, and the legally-binding maturity coefficients and allowances linked to the minimum wage will be phased out by [April 2015], with the first step to become effective at end-March 2013. The current freeze on the basic minimum wage will remain in place during the program period, and thereafter any adjustments will take account of economic circumstances, in particular the level of unemployment.

- **To reduce non-wage labor costs, we will take a number of actions:**

- **Tax wedge.** By November 30, 2013, as a new program **structural benchmark**, we will adopt legislation reforming the system of social security contributions to: (i) broaden the base for contributions; (ii) simplify the contribution schedule across the various funds; (iii) shift funding away from nuisance taxes and onto contributions; and (iv) reduce contribution rates by an average of 3.9 percentage points. The reforms will be phased in on January 1, in 2014, 2015, and 2016 and will be revenue neutral and preserve the actuarial balance of the various funds. As an intermediate step, by end-September 2013 we will complete actuarial studies of possible changes and propose an action plan.

- **Other non-wage labor costs.** As a **prior action** for the review, the government has adopted legislation to reduce other non-wage labor costs. The changes will bring Greece closer to EU partners, and include (Annex II): (i) greater efficiency of labor arrangements within the overall 40 hour weekly limit on working time (covering the maximum number of workdays, working hours, and shift and leave restrictions); (ii) a reduction in administrative burden (related to extensive reporting and preapproval requirements of work arrangements); and (iii) lower dismissal costs (with grandfathering for existing workers, subject to a cap).

- **We will work to strengthen the safety net for those who become unemployed**. As discussed below in the fiscal policy section, the government is enhancing unemployment benefits to help mitigate any short-term impact that labor market reforms may have. We will also work to improve the effectiveness of our training and job-matching programs, focusing on the young and the long-term unemployed (and better leverage any available structural funds to this end).

- **Next steps.** As a general principle, we are committed to address any remaining features of our labor market that fall short of best European practices. As a first step, an independent assessment of the labor inspectorate will be completed by end-2012, with a particular focus on effective and efficient control procedures to fight undeclared work. On that basis the government will specify an action plan to implement procedures to more effectively detect cases of undeclared work, and to eliminate activities that increase administrative costs for firms without serving a justifiable public policy objective.

11. **In light of the deep problems we have had to date with fully implementing structural reforms, the government will strengthen its management and monitoring mechanisms in this area.** We will fully staff the directorate of planning, management, and monitoring of reforms at the [Office of the Prime Minister] and publish on a quarterly basis monitoring indicators for each reform initiative on the government’s website.

C. Privatization

12. **It is a priority of the government to restart and invigorate Greece's privatization program.** Greece has been too slow to date in achieving the benefits this can bring. Shifting government assets to the private sector should improve efficiency and reduce prices and catalyze needed investment. It will also help to cover budget financing needs, reduce public debt, and improve market sentiment. The program in this area covers the identification of assets, their transfer to the Privatization Fund, measures to overcome obstacles to sales, and measures to strengthen the institutions executing the work.

13. **We have made progress in specifying assets for privatization** (Appendix II). The list includes state enterprises and concessions in gaming, utilities, and infrastructure, and will also contain bank assets either in possession of the government or to be acquired during the recapitalization process. These assets have an estimated value of €[26] billion. Further, we have screened 81,000 real estate properties with an estimated value of €[20-28] billion. An updated privatization plan has been presented to parliament in the context of the 2012–16 MTFS.

14. **The government has taken steps to restart the sales process.** Implementation of selected steps defined in the bullets below (Annex III) will be a prior action for the review:

- **Transfer of assets.** The Privatization Fund (HRADF) will be given full and direct ownership of the non-real estate assets included in Annex III. It will also be given full and direct ownership of the real estate assets Kassiopi, and Afantou, the 28 government buildings that will be sold and leased back, and Astir Vouliagmenis. All line ministries and other relevant entities will provide their property registry to the General Secretariat for Public Property.

- **Legal framework.** To enable transactions to proceed without further delays, we will: (i) remove restrictions to private ownership and control of firms; (ii) create or extend licenses or amend concession contracts (water companies, State Lottery); and (iv) initiate the process to obtain the zoning and land planning permits (ESCHADA) for two real estate projects (Afantou and Kassiopi). As a general principle, upon privatization of each object, we will amend all statutory provisions (including on labor relations) to fully align them with private sector law.

- **Advisors.** We will appoint all the necessary advisors to prepare the assets that are in the privatization plan for 2012-13.

- **Tender process**. Government stakes in OPAP, the state lottery, and IBC have been put up for tender.

15. **We expect significant further progress in the period ahead:** By end-2012, we will establish regulatory frameworks for airports, the State Lottery, and for ports and water. Furthermore, Egnatia Motorways will be put to tender; and we will fully identify and describe 40 new real estate assets that comprise the privatization projects for real estate lots 2 and 3. These 40 real estate assets will be transferred to the HRADF by March 2013. We will fully identify and describe all the remaining assets in the pool of 3150 assets that have been preselected and pre-valued by the HRADF. We will transfer full and direct ownership of all commercially viable assets amongst these to the HRADF by end-2013, targeting [250] transfers per quarter beginning in March 2013. There will be no transfer or withholding of any real estate assets to entities other than the HRADF, including municipalities and the recently established pension fund SPV, or other dedicated legal entities, until such time as the assets necessary to supply the privatization plan have been secured.

16. **The government is committed to insulate the privatization process from political pressures.** We are taking steps to strengthen the transparency and accountability of the HRADF. To this end the HRADF will publish: (i) a semi-annual update of the Asset Development Plan, which will include a Portfolio Overview, with a description of the assets it manages for privatization a timeline of planned tenders and targeted total receipts for the current and next year; and (ii) quarterly reports on its steps to facilitate privatizations, and financial accounts (including a profit and loss statement, a cash flow statement, and a balance sheet), no later than 60 days after the conclusion of every calendar quarter.

17. **We have adjusted our targets for privatization proceeds to reflect recent delays and the general deterioration of Greek asset prices.** We expect it to take more time (beyond 2020) to realize the full amount of proceeds of €50 billion, but we will proceed as quickly as possible. We expect, cumulatively (from June 2011), at least €6.6 billion through 2014, €10 billion (cumulative) through 2016, and €25 billion through 2020. We will continue to monitor progress via quarterly indicative revenue targets. In line with these cash targets, we will refrain from selling assets in exchange for government bonds.

D. Fiscal Policy

18. **The government is determined to bring the fiscal deficit to a sustainable position in a socially balanced and fair manner.** We remain committed to achieve a general government primary surplus of

19. **Our fiscal adjustment path has been extended to help soften the impact of the recession.** Our revised targets for the general government primary balance involve a deficit of 1½ percent of GDP in 2012, and an evenly-paced improvement in the primary balance thereafter—by 1½ percent of GDP each year to 2016. In nominal terms, we expect the overall balance to improve from a deficit of €x billion in 2012, to a deficit of €x billion in 2013, to an endpoint [deficit/surplus] of €x billion in 2016.

20. **The new adjustment path, and different macroeconomic background, has implications for the amount and phasing of needed measures**. Needed measures now amount to €13½ billion during 2013-14, comprising €[3] billion to replace previously agreed measures where yields are declining, and €10½ billion in net new measures. Taking into account a cyclical rebound, and depending on our success with improving government efficiency, we could need €[x-y] billion in measures to close the gap during 2015-16. The figure for 2013-14 is larger than what we expected at the time of program approval, reflecting the longer and deeper recession, as well as delays in implementing earlier measures, and health spending pressures. Without the extension of the fiscal adjustment period, the measures needed for 2013-14 would have amounted to an estimated €x billion (including €y billion in 2013).

21. Our adjustment strategy targets known structural problems in the operations of the general government :

- First and foremost we need to **improve revenue collections** to ensure the adjustment burden is shared fairly across the Greek population. Thus the government has adopted a far-reaching tax administration reform strategy, which we are already implementing, and which is explained in detail in the next section. We will aim for revenue gains from this source of 1½ percent of GDP, the full effects of which are expected to materialize gradually through 2016.

- Secondly, the strategy focuses on **improving government efficiency**. We have already reduced central government operating expenditures over the last 2 years, but there remains some scope to cut further, particularly in the health sector. There also remain inefficiencies in the outer reaches of the general government—the myriad extrabudgetary funds, local governments and state enterprises that have not fully caught up with the adjustment effort. This process of rooting out inefficiency will involve adjustments to the high level of government employment.

- Third, the strategy aims at **reductions in spending items that grew disproportionately prior to the crisis.** Despite measures taken already, pensions and social transfers remain high by European standards. We need to reduce them to a level that Greece can afford to finance internally, but we need to avoid horizontal cuts and target cuts to those who are not as vulnerable.

- Fourth, we intend to establish **a more efficient tax system**. We need to broaden the base by closing loopholes and adjusting allowances in a way that raises revenue while making the tax system more fair and equitable. We expect this effort to also help our tax collection efforts, by preventing under-reporting.

22. **Building on this strategy, our adjustment package through 2014 focuses mainly on permanent spending reductions.** In 2013, we need to take €9.2 billion of measures, and we recognize that the reduction of the wage bill, pensions and social transfers contained in this package (€6.3 billion) is essential to its credibility. Passage of the 2013 budget and updated MTFS will be a **prior action** for the review, and adoption of key reforms from those listed in the following bullets will as also be a **prior action** for the review (Annex V):

- **Public sector wage bill.** We aim to reduce the wage bill by €[x] billion by 2014:

  - ➢ **Public sector employee compensation.** We will adjust the wage grid for special regimes (judges, diplomats, doctors, professors, police, airport personnel, and general secretaries), with effect from [August 1, 2012]. In addition, with effect in 2014, we will integrate parliamentary staff into the new wage grid, reduce the labor costs associated with elected positions, and eliminate seasonal bonuses and freeze the payment of performance bonuses in the public sector.

  - ➢ **Public administration reform.** To achieve a leaner more efficient state, we have initiated a rigorous evaluation of administrative structures and personnel. We will combine this assessment with mobility, attrition, reduction of temporary contracts, disciplinary procedures, and mandatory redundancies. This should help reduce the public sector workforce by 150,000 by 2015, relative to the end-2010 level, while allowing room to hire staff with critical skills to support specialized government operations. The key building blocks for this include:

- **A rigorous assessment**. The Ministry of Administrative Reform will complete a functional review for government ministries, including staffing plans, by December 2012, and individual staff performance assessments by end-2013. This reform process will be extended to extra budgetary funds and regional and local administrations in 2013.This will identify entities to be merged or closed, staff that are redundant, staff that are not fully qualified for their positions, and open positions where new staff are needed.

  Mobility and exits, Entity closures and cancelation of redundant positions will be pursued, and all affected employees will be either dismissed or transferred to the mobility scheme. To facilitate this, new legislation will be passed to allow mobility in the interest of the service, and we will utilize the existing legal scheme for mobility and exits (where staff can remain for up to a year with a reduced rate of pay, substituting for severance, while they are transferred, retrained, or transition to the private sector). While we will miss the end-2012 targets to place 15,000 staff in this scheme, we intend to place at least [5000] general government employees into this program (as a **prior action** for the review), and at least a further [5000] per quarter in 2013 (proposed as a new program **quantitative performance criteria**). To facilitate renewal of the public sector workforce we expect a large share of those entering this scheme to ultimately transition to the private sector.

- **Hiring controls and plans**. To ensure that our efforts to redeploy and reduce personnel are effective, we will take steps to optimize hiring. We will limit automatic sources of hiring, by limiting intake into public service academies, removing job guarantees for graduates of such academies , removing job guarantees for private sector teachers, and by putting a sunset to existing lists of eligible graduates. We will keep our staffing plans up to date to inform about critical skill requirements. If we are unable to meet our personnel reduction targets, notwithstanding our hiring controls, we will increase targeted redundancies.

- **Pension reform.** Although the recent pension reform addressed long-run issues, short-term pressures remain high, with pensions still increasing as a share of per capita GDP. We therefore will take the following measures effective January 1, 2013, which will yield €[x] billion during 2013-14: (i) introduce actuarially-fair rules for lump-sum pensions; (ii) introduce a progressive reduction in monthly pension incomes above €1000; (iii) eliminate seasonal bonuses for supplementary and main pensions; and (iv) reduce pension increases due to automatic wage promotion for those indexed to wages of special regimes. In addition we will increase the statutory retirement age to 67. As a supporting step, to allow identification of pensioners' total pension income, we will finalize the national registry of pensions, and sanction funds that do not deliver the required information to this.

- **Better targeting of social spending.** Our social programs are poorly targeted and have limited impact on poverty levels, and health spending is excessive relative to peers. Our reform agenda is expected to yield net savings of [x] percent of GDP:

    - **Health spending.** We will continue to reduce public pharmaceutical spending towards 1 percent of GDP, in line with other EU countries. To this end, we [have activated] the automatic claw-back mechanism that maintains outpatient pharmaceutical spending within budget limits. In 2013, we will: (i) expand co-payments; (ii) restrict entry of non-generic drugs in the positive list and expand over-the-counter products; (iii) further reduce the price of off-patent and generic drugs; (iv) reduce average profit margins of pharmacists to 15 percent; (v) reduce hospitals' operational spending (and consolidate and merge underutilized facilities); and (vi) increase contributions by farmers for their healthcare.

    - **Other social benefit programs.** Based on technical assistance advice, we intend to introduce a well designed income-tested system that will reduce spending by [x] percent of GDP. Specific measures include: (i) replacing various untargeted family benefits and allowances with one means-tested family benefit program; (ii) reducing special and seasonal unemployment benefits for certain professions and geographic areas; and (iii) increasing the age eligibility and income-testing of social solidarity supplements.

  - **Improvements in efficiency.** Within the central government, we expect to realize savings from reductions of grants to political parties, rationalization of the operating expenditures of social security funds, cuts in lower priority investments, and a general rationalization of the educational system (tertiary institutions). These will yield savings close to €[0.7] billion. We have also cut transfers to public entities outside the general government, alongside their efforts to reduce wasteful investment spending. For local governments, a reduction of €[0.2] billion is planned, for extra-budgetary funds, €0.3 billion, and for state enterprises €[0.3] billion. These cuts will be supported by stronger fiscal frameworks (discussed below). Finally, to contain contingent risks in the energy sector, we will take measures including raising a solidarity contribution on renewable energy providers.

- **Revenue increasing reforms**. Changes will cover both direct and indirect taxes:

    - We [have submitted to parliament] and will enact a reform of the personal, capital, and corporate income taxation regimes (proposed as a **structural benchmark** for end-2012). The reform will target higher collections from individuals and entities that have paid a disproportionately low share of the tax burden. To this end, we will increase taxation on the self-employed, broaden the income tax base by abolishing selected tax credits and allowances and strengthen the taxation of farmers. We will eliminate the top 3 PIT rates and [align the existing temporary solidarity surcharge], and extend it through [2018]. We will maintain a single corporate income tax rate and align it with the highest PIT rate. Finally, we will introduce a flat capital income tax rate to replace the now-diverse levies on various types of capital income, calibrated to be revenue neutral. Our tax measures in this area will be designed to yield a net total amount of €[x] billion in revenues.Several reforms of indirect taxes are designed to yield €[y] billion in revenues, including a reduction in the diesel excise subsidy for farmers; a reduction in tax refunds to farmers; an equalization of the excise for liquid petroleum gas and diesel for transportation and heating purposes; restructuring of the taxation of cigarettes in line with EU best practices; and [introduction of taxes on lottery winnings]. We will consult with the EC/ECB/IMF on any proposed changes in tax rates or bases.

23. **To cushion the impact of our fiscal adjustment on the most vulnerable, we have strengthened social spending programs.** Support for the unemployed will be increased by €55 million by 2014, through two new programs (now being piloted): (i) an income-tested benefit scheme that targets long-term unemployed and provides income payable for a year; and (ii) a minimum income guarantee scheme targeting families in areas with difficult socioeconomic profiles. We will also expand our job-training and job matching programs, to be financed where possible by better leveraging available EU structural funds.

24. We have specified a strategy to fully achieve our 4½ percent of GDP primary surplus target by 2016. We expect revenues to revive once the economy enters its recovery phase, and we anticipate gains from stronger revenue administration (as noted above). Our drive to improve government efficiency will also continue, and we expect to achieve savings from a series of additional spending reforms designed to eliminate government waste (including increasing revenues of state-owned enterprises, contracting out local government services, and eliminating ineligible pension and social benefits recipients through data cross-checks). To the extent that a fiscal gap remains, there are several strategies that we could pursue to close this, including …[*authorities to specify areas they could target to achieve savings or raise revenues*].

25. **We are committed to deliver our fiscal targets but stand ready to adjust if we over or under-perform, or if cyclical conditions change.** If in future our tax administration reforms and government restructuring do not deliver the expected dividends and new measures prove necessary, we will…[*specify mechanism for automatic expenditure cuts*]. The cuts would focus on additional targeted reductions in the public wage bill and pension expenditures. In the event of over-performance that is projected to be sustained, we would adjust our budgetary ceilings, with a particular focus on helping low-income earners, and supporting Greece's recovery.

In this event, we may also make our intermediate deficit targets more ambitious to achieve our medium term objective earlier and accelerate debt reduction.

E. Fiscal Institutional Reforms

26. **Strengthening fiscal institutions is a crucial part of the government's reform program.** Chronic nonpayment of taxes has eroded the fairness of the system, forced high tax rates and additional expenditure rationalization. Meanwhile, the public sector has failed to pay its bills and tax refunds on time, driving up procurement costs and damaging corporate sector liquidity. The reform efforts undertaken to date have yielded only limited results, and we are committed to boosting them, while recognizing that it will inevitably take time for benefits to be fully realized.

27. **We are committed to markedly reduce tax evasion.** To help accomplish this, we intend to build an independent revenue administration with a modern operating structure and methods. Implementing selected key reforms (Annex VI) outlined in the bullets that follow will be a **prior action** for the review:

- **We will appoint a new Secretary General of the tax administration by [date]**. We will pass legislation to define the role and qualifications of the Secretary General. Concerning qualifications, this will be a person with senior management experience, expertise in tax matters, and an impeccable reputation (including a strong tax compliance history). We will also pass interim legislation, and the Minister of Finance will use this to delegate decision making powers to the Secretary General. These powers will include the competence to make operational decisions, direct and control local offices, manage human resources, replace underperforming senior managers, manage the budget of the tax administration, and manage all information with due confidentiality.

- **Establishment of independence.** Legislation to establish the new semi-autonomous tax agency will be adopted by parliament by end-February 2013 (**structural benchmark**). This will specify the degree of autonomy, legal powers of the head of the administration, governance framework, the relationship framework with other agencies (including the Financial Intelligence Unit (FIU)), the framework for the receipt and use of information by the tax administration (including controls against sharing confidential operational information with the Minister of Finance), accountability, and initial staffing of the organization. The agency will become operational in March 2014.

- Establishment of key functional units. We will make fully operational key enforcement areas, by: (i) transferring 100 experienced auditors to the large taxpayer unit; and (ii) by establishing one functional unit, with at most two locations, responsible for high-wealth individuals (and transferring 50 experienced auditors to it). We will also strengthen collection functions by establishing specialist debt management units in larger local tax offices and allocating at least 10 percent of local staff to this function by end-2012.

- Consolidation of tax administration operations. We will close and merge 150 small local tax offices by end-March 2013. By end-June 2013, about 120 functioning offices will remain. The full list of offices to be closed will be published by end-December. We will then centralize and focus audit, filing enforcement, and debt management for small and medium taxpayers in the largest tax offices and on a regional basis. The remaining office network will be customer service centers, with no audit and enforcement functions.

- **Simplifying procedures and record keeping.** We will repeal the Code of Books and Records and adopt a simpler set of accounting and record keeping rules by end-2012. To reduce the costs of administration and compliance, by end-June 2013 we will also adopt a new Tax Procedures Code (**structural benchmark**). This will incorporate procedural reforms in all major administrative areas that are necessary to support modern tax administration (e.g., tax filing, audit and penalties, enforcement powers and debt collection). It will also incorporate a new streamlined administrative dispute resolution process.

- **Upgrading personnel.** We will increase the number of staff devoted to audit by 2,000 by June 2013, by: (i) hiring 200 externally by [end-March 2013]; and (ii) by admitting staff with audit experience and selecting other qualified staff following interviews. Candidates will, on a selective basis, be subjected to an audit of their assets. The head of the tax administration, once appointed, will set appropriate performance targets for the formal grading of all auditors, and introduce twice-yearly performance assessments. Temporary annual contracts will provide for [new] auditor staff to be terminated upon failure to achieve the targets.

- **Introduction of an effective anti-corruption framework.** We will publish our anti-corruption plan on [*date before mid-November*]. To immediately begin to implement it, we will pass legislation to overhaul personnel management (including procedures for rotation of staff in sensitive positions). By end-2012, we will adopt a code of conduct for the tax administration (including rules about conflicts of interests and declaration of interests), and a system to facilitate transparency and reporting of misconduct, protect whistle blowers, and centralize the decision on disciplinary actions in the internal affairs unit. By end-March 2013, we will define measures to ensure continuous monitoring of the implementation of the code of conduct.

- **Improvements in operating procedures.** To allow us to focus our resources where they will yield the greatest dividends and facilitate a risk based approach to auditing, we will legislate the removal of the requirement that all tax declarations for the previous 10 years must be audited (while retaining the right to continue to audit earlier years and the discretion to audit any amount of declarations from these earlier years). We will also expand the sources of third party information used in assessments. The tax and AML laws will be revised to: (i) enable the central authority in charge of revenue administration to be informed of all the cases sent by the FIU to local tax offices and to the Corps for the Prosecution of Financial Crime; and (ii) to provide that relevant information on large cases of failure to pay confirmed debt shall be transmitted to the FIU.

- **Fiscal identification number.** By June 2013, we will require that all Ministries which have a fiscal relationship with taxpayers utilize their identification number for financial transactions with them. Looking further ahead, by June 2014 we will introduce a central agency to consolidate and link all of the different identification numbers now employed across various government agencies.

- **Accountability to the public:** We will launch an easily accessible website by end-2012 which will publicize, on a monthly basis, information enabling the public to be informed about the tax debt assessed and recovered. It will include summary statistics on key performance indicators, including on tax evasion cases sent to the FIU and to prosecution by the tax administration**.**

28. **Parallel to our work with the revenue administration we will work to improve the collection of social security contributions.** We [have finalized] a reform plan to modernize collections, with a focus on boosting revenue and recovery, overhauling business processes, performance standards, and inter-agency relationships, and improving the reporting of information that is needed for validating payments and administering benefits. The plan also defines phases for consolidating collections, and eventually integrating them into the tax administration. We [have established] a working group between the Ministry of Labor and the Ministry of Finance to advance the reform. As a first step, by Q1 2013, we will also review penalties and sanctions to ensure that they sufficiently deter evasion and fraud.

29. **The government will not introduce any new amnesties or incentive schemes to collect tax arrears or social contributions.** In this context, the PIT installment scheme introduced in 2012 will remain a one-off arrangement to smooth out the liquidity impact on households of the recently introduced PIT and solidarity charge measures, and we will not extend the deadline for the existing social security amnesty. However, we will rationalize the existing debt payment arrangement system by tightening the criteria to determine ability to pay and targeting only taxpayers under temporary financial stress, but with a good compliance history and reasonable prospects of business viability.

30. **The government is determined to secure tighter control over all general government spending and to prevent the accumulation of arrears.** Our strategy

focuses on improved budgeting, stricter controls on expenditure commitments, and better fiscal reporting and monitoring:

- **Budgeting and fiscal framework.** To further streamline and strengthen the preparation process, we will issue a circular by end-February 2013 regulating the calendar, deadlines, and the role of all institutions in formulating the next MTFS (2014–17) and the 2014 budget. We will also further develop our fiscal framework to: (i) introduce and make operational a domestic stability pact for local governments; and (ii) establish a system to agree with state-owned enterprises (within the general government definition) on monthly budget targets and on sanctions for non-observance of targets. We will adopt the necessary legislation by end-2012. Finally, to ensure independent oversight of the budget process, we will operationalize the parliamentary budget office.

- **Spending controls.** Establishing commitment-based spending controls remains a key milestone toward preventing overspending and accumulation of domestic arrears at different levels of general government. To this end:

    - **Commitment registers.** As a **prior action** for the review, we will ensure that EOPYY reports from its commitment register through the e-portal for at least two consecutive months (retroactive reports included). By [end-2012], we will ensure that commitment registers will be in operation in 90 percent of general government entities (with all commitments recorded into the register at the moment they are made, and all columns of the register complete and reconciled). By March 2013, we will also expand the scope of data captured by the General Accounting Office's e-portal to include the whole expenditure cycle. The Ministry of Finance will continue to monitor the effectiveness of the commitment registers by conducting targeted inspections in the public entities covered by the system.

    - **General Directorates of Financial Services (GDFS).** We [have issued] a joint ministerial decision to implement GDFS in all line ministries and thus unify all financial services functions under the recently appointed accounting officer. Moreover, by [end-2012] a [Presidential decree] will specify the financial authority and powers of accounting officers in discharging their responsibilities. Thus by [end- 2012] all line ministries will have established a well-structured and functional GDFS solely responsible for managing and supervising all financial functions, including: preparation of the ministry's MTFS and budget proposals; consolidation of budgets of supervised entities; and monitoring and reporting of the ministry's budget execution.

- **Fiscal reporting.** We remain committed to further improving the quality of fiscal reports. In this regard: (i) we have established a new Social Budget Monitoring Committee to improve the fiscal surveillance of the social security and health sectors, which has begun monthly monitoring of the social budget against fixed quarterly targets. By end-2012 the committee will introduce a comprehensive budget monitoring framework, including improved reporting and control systems of EOPYY and hospital budgets; and (ii) by end-March 2013 we will verify and validate the quality of the detailed fiscal data collected from a recent pilot project before expanding it to all significant general government entities.

31. **The government will clear domestic arrears as quickly as feasible to help improve liquidity**. The conditions which a government unit must meet to allow funds for arrears clearance to be disbursed will include: (i) verification of arrears claims (by fiscal audit units and the court of audit); (ii) establishment by the unit of a fully functioning commitment register; and (iii) reporting of at least three months of consistent data on commitments, payments, and arrears. We will ensure that subvented agencies which meet these conditions can clear their arrears even if their parent agency does not meet the conditions. We will ensure that arrears do not delay the execution of the pharmaceutical spending clawback. Once we achieve the clearance of all verified arrears, we will at that point commence a targeted audit of general government entities' accounts payable, to verify whether arrears remain and to identify any entities that did not properly comply with the conditions set for clearing arrears (completion of the audit will be a **structural benchmark** for end-December 2013).

32. **We will strengthen monitoring of off-balance sheet activities.** We will establish by [June 2013] a system for monthly financial reporting by state-owned enterprises (SOE) currently outside the general government. Furthermore, we will set conditions under which the right of such SOEs to receive any new general government transfers or loans will be contingent on the adoption of structural measures to restore financial soundness, including through spending cuts and fee increases in consultation with the supervising ministry and the MoF.

33. **We will continue to monitor implementation of our fiscal institutional reforms via quantified indicators.** We propose two new **structural benchmarks** for end-June and end-December 2013 covering achievement of revenue administration indicators, including audit targets. We propose a new **structural benchmark** for end-June 2013 covering achievement of public financial management indicators, including implementation of spending controls across line entities. The attached Technical Memorandum of Understanding provides details on the quantity targets.

Table 1. Greece: Quarterly Performance Criteria and Indicative Targets (2012-16 Program)
(billions of Euros, unless otherwise indicated)

[Insert table]

Table 2. Greece: Structural Benchmarks under the EFF

Measure	Macro critical relevance	Status
End-March 2012		
1. A ministerial decree shall be issued to provide the technical details of the banks' recapitalization framework	To strengthen financial sector	Completed with delay as prior action for 1st review
2. Bank of Greece to complete a strategic assessment of banks' business plans	To strengthen financial sector	Completed with delay
End-June 2012		
3. Government to adopt a budget-neutral tax reform package, including: (i) the repeal of the Code of Books and Records and its replacement by simpler legislation; (ii) the elimination of several tax exemptions and preferential regimes; (iii) simplification of the VAT and of the property tax rate structure; (iv) a more uniform tax treatment of capital income; and (v) a simplified personal and corporate income tax schedule.	To simplify the tax system, improve its efficiency, and broaden the tax base	[Not observed]
4. Government to complete the review of social spending programs to identify 1 percent of GDP in savings, while at the same time making proposals to strengthen safety net.	To help achieve medium-term fiscal targets	[Completed with delay]
5. Government to complete the reviews of public administration to identify 1 percent of GDP in savings	To help achieve medium-term fiscal targets	[Completed with delay]
6. Government to meet quarterly performance indicators for revenue administration	To improve tax collection	[Not observed]
7. Government to meet quarterly performance indicators public financial management.	To contain arrears	[Not observed]
End-September 2012		
8. Government to complete the strategy for strengthening social security collections	To improve social security collections	[Completed with delay]
9. Government to adjust pensions, with protections for low income pensioners, and the social security contribution base, to permit a fully funded reduction in rates (cumulatively 5 percent from January 1, 2012)	To improve unit labor costs and competitiveness	[Not observed]

Table 3. Greece: Prior Actions

Measure	Macro critical relevance
Structural	
1. Government to take measures to liberalize key product and service markets (Annexes I.1-I.3).	To strengthen competitiveness and promote employment.
2. Government to adopt measures to enhance labor markets including by establishing a timetable to overhaul the setting of minimum wage, and by reducing labor market exit costs and non-wage costs (Annex II).	
3. Government to adopt steps to strengthen the institutional framework for privatization, transfer ownership of assets to the Privatization Fund balance sheet, and eliminate legal obstacles for privatization (Annex III).	
Financial	
4. Government and Bank of Greece to communicate capital needs to banks, and request that they finalize the process by end-April 2013.	Maintain financial sector stability.
5. Government and Bank of Greece to finalize the design of the program for bank recapitalization and resolution and communicate this to banks.	
6. HFSF to take steps to strengthen governance in the financial system (Annex IV).	
Fiscal	
7. Government to adopt and publish the 2013 budget and the medium-term fiscal strategy (2013-16)	
8. Government to enact and implement measures needed to reach the 2014fiscal deficit targets (Annex V).	To help restore fiscal sustainability.
9. Government to implement measures to strengthen the tax administration (Annex VI).	
10. EOPYY to report, using commitment registers, [2] consecutive months of fiscal data.	

Table 4. Greece: Existing and Proposed Structural Benchmarks

Measure	Macro critical relevance
End-December 2012	
1. Government to meet quantified quarterly performance indicators for revenue administration	• Fiscal sustainability (revenue)
2. Government to meet quantified quarterly performance indicators for public financial management	• Fiscal sustainability (budget)
3. Government to complete the screening and cleaning of existing legislation covering the list of professions and economic activities covered in Annex II of KEPE's "Second Report on the Impact of Liberalizing Regulated Professions"	• Growth/competitiveness
4. TT bank to be resolved with the transfer of its good assets, all deposits and ECB/ELA financing to a core bank (via P&A), and weak assets to be left in a bad bank (¶xx). [Proposed]	• Financial stability
1. Adopt legislation reforming the Income Tax Code, that will: (i) increase taxation on the self employed by increasing the information to be applied in the presumptive taxation and the tax rate to be applied; (ii) broaden the tax base by eliminating insurance, mortgage interest, and rental tax credit under the PIT; (iii) eliminate the top 3 personal income tax brackets above 35 percent and [align the existing temporary solidarity surcharge], and extend it through [2018]; (iv) maintain a single corporate income tax at a flat rate of 35 percent and align it with the highest PIT rate; (v) eliminate the imputed income taxation for farmers and introduce income taxation at a rate of 6 percent based on actual income according to books and records; and (vi) increase the tax on bank deposit interest from 10 percent to 15 percent (to take effect in 2014	• Fiscal sustainability (revenue)
End-February 2013	
5. Adopt a law establishing a new semi-autonomous tax agency, which will specify the degree of autonomy, the governance framework, accountability, and initial staffing of the organization (¶xx). [Proposed]	• Fiscal sustainability (revenue)
End-April 2013	
6. All 4 core banks to meet the capital requirements set by the Bank of Greece. (¶xx). [Proposed]	• Financial stability
7.	•

End-June 2013	
8. Government to meet quarterly performance indicators for revenue administration (¶xx). [Proposed]	• Fiscal sustainability (revenue)
9. Government to meet quarterly performance indicators for public financial management (¶xx). [Proposed]	• Fiscal sustainability (budget)
10. Adopt a new Tax Procedures Code to harmonize, simplify and modernize tax procedures (¶xx). [Proposed]	• Fiscal sustainability (revenue)
11. Complete resolution of all undercapitalized or insolvent non-core banks (¶xx). [Proposed]	• Financial stability
End-July 2013	
12. Banks to update their restructuring plans and submit them for validation by DG-Competition (¶xx). [Proposed]	• Financial stability
End-September 2013	
13. 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 (¶xx). [Proposed]	• Growth/competitiveness (business environment)
End-November 2013	
14. 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; (iii) shift funding away from nuisance taxes and onto contributions; and (iv) reduce contribution rates by 4 percentage points. The reforms will be fully phased in by January 1, 2015 and will be revenue neutral and preserve the actuarial balance of the various funds (¶xx). [Proposed].	• Growth/competitiveness (business environment)
End-December 2013	
15. Government to meet quarterly performance indicators for revenue administration (¶xx). [Proposed]	• Fiscal sustainability (revenue)
16. Bank of Greece to complete a follow-up stress test for all 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 (¶xx). [Re-phased from end-June].	• Financial stability
17. Ministry of Finance to complete a special audit of general government accounts payable, to verify whether any arrears remain, and to review compliance with the conditions set for clearing arrears (¶xx). [Proposed].	• Fiscal sustainability (debt)

Annex I.1: Product Market Actions

Fuel market

- Allow independent gas stations to own and operate tanker trucks above 8 tons, and use any tanker size to pick up (imported) fuels, provided that safety standards for the transportation of fuel are respected.
- Allow gas stations to hire a public use tanker for fuel transportation without needing to qualify for their own private use tankers.
- Pass law and issue two MDs to implement fuel storage directive 2009/119/EC, which provides the legal framework for a central fuel storage agency and buying certificates in other member countries. Also allow fuel retailers to contribute a fee toward the national fuel reserve instead of maintaining their own physical storage.
- Issue technical specification and set the timetable for the implementation of the input-output measurement system in all fuel stations—with a deadline for Athens and Thessaloniki region of March 2013, other large cities by September 2013, and the rest of the country by March 2014.
- Issue the implementing MD on GPS systems in fuel trucks, to be effective end- 2012.

Retail market

- Allow sale in supermarkets of pre-packaged food products, including meat, seafood, cheese and charcuterie.
- Allow sale in grocery stores of non-food products, including infant milk, tobacco, newspapers, and magazines.
- Allow mixed shops to sell goods other than food, subject to hygiene and food safety standards.
- Eliminate all restrictions on minimum space requirements for sale of food products
- Allow a delink of the working hours of all employees in establishments (as defined in Law 1037/1971 and related implementing legislation) from opening hours of the establishment.
- Adjust the law to clarify that shift breaks are allowed in all retail establishments (including those with continuous working schedule).

Transportation

- Remove restrictions on rental of pickup trucks, vans and chauffeur services.
- Allow shuttle services by hotels and tour agencies using small vehicles (less than 12 seats) and tour packages for small vans and off-terrain vehicles
- Amend maritime employment Law 3276/1944 to allow firm-level labor agreements and temporary contracts in the domestic ferry industry.
- Restrict obligatory ticket discounts for ferry service only to [disabled persons, retirees, children and students].
- Remove requirement that vessels must be manned for periods outside their minimum routing obligations.
- Limit the period for pre-approval by Ministry of Shipping of changes in timetables and vessel size for ferry services to [1-month], subject to minimum service standards.

Annex I.2 Regulated Professions Actions

Liberalization of professions/economic activities covered in previous reviews:

- Stevedores for land operations: Repeal fixed fees for loading/unloading services; remove the Stevedore Work Regulatory Committee from acting as licensing authority.
- Sworn-in valuers: Eliminate minimum fees, the numerus clausus, and the nationality requirement; allow legal entities to practice the profession; and open areas reserved in exclusivity to sworn-in valuers.
- Accountants and tax consultants: Clarify that professional identity cards (IDs) will be issued automatically within 3 months; issue indefinitely valid IDs; and clarify that SAEP is responsible for the recognition of professional qualifications.
- Temporary employment agencies: Abolish the requirement for minimum number of employees. Allow the provision of consulting and training activities.
- Private labor consultancy offices: Allow employees other than the Director to carry out mediation activities; and eliminate the requirement for minimum office space and technical equipment.
- Lawyers: Eliminate minimum wages for private sector salaried lawyers (except trainees). Repeal provisions requiring the mandatory presence of a lawyer for legal transactions before a notary, and allow other legal professions to conduct title deed searches.
- Real estate brokers: drop the probationary period for real estate brokers.
- Tourist guides: Eliminate restrictions that prohibit individuals from serving as tourist guides unless they have a specialized education.
- Actuaries: discontinue current practice of Hellenic Actuarial Society to determine indirectly the number of successful candidates in the examinations.

Annex I.3 Regulated Professions Actions

Remove the following restrictions on the following professions/businesses:

- Stevedores at ports: simplify authorization procedures, repeal fixed fees for loading and unloading services; and allow stevedores to be employed under private sector law.
- Customs brokers: repeal minimum fees; lift geographical restrictions, nationality requirements, and age limit; allow legal persons to represent others at customs, allow all natural and legal persons to complete custom formalities without employing services of a custom broker; and remove the need to renew the custom broker license every year.
- Kiosks and cantinas in public buildings: remove restrictions for licenses in favor of particular groups.
- Tourist offices: eliminate prior authorization scheme, minimum office space requirements, and bank guarantees.
- Private education establishments: Remove restrictions to private education consistent with the opinion 20/VI/2012 of the Hellenic Competition Commission.
- Private providers of primary care services: Amend sector specific law to eliminate inconsistencies with the 2011 law on professions.
- Electricians: Reduce number of specialties, and increase mobility of electricians within the same level category.
- Press distribution agencies: Remove prior authorization scheme; and expand the number of economic activities carried out.
- Energy inspectors: remove minimum fees, amend sector specific law to repeal minimum fees for energy inspection services, simplify licensing and open profession to holders of related university degrees.

Annex II: Labor Market Actions

Setting of minimum wage
• The government will establish a timetable to reform Greece's minimum wage. Under the new framework, the basic minimum wage and the maturity and marital allowances currently set in the national general collective agreement will be replaced by a minimum wage mechanism legislated by the government after consultation with social partners and other stakeholders and independent experts. This system, which will become effective by end-March 2013, will include a single-rate statutory minimum wage as a legally binding floor, and the legally-binding maturity coefficients and allowances linked to the minimum wage will be phased out by [April 2015], with the first step to become effective at end-March 2013. .
Non-wage labor costs
• Concerning dismissal costs, the government will [action] to reduce the notification period to 3 months and cap minimum statutory severance pay at 12 months (while preserving the existing link between tenure and minimum severance for tenures below the cap). If the cap has already been surpassed on the date of the reform the amount accrued will be grandfathered, but with the amount beyond 12 months subject to a cap of 6 times the national monthly minimum wage. In addition, to secure equal and fair treatment for all employees and occupations, in those where severance costs set by law are in excess of the rule just described, the compensation for severance will be aligned with the rule just described. • The Ministry of Labor will reduce administrative burdens by [action] to eliminate the requirement for ex-ante submission of work schedules to labor inspectorates and removing preapproval by labor inspectorates of overtime work (except for preapprovals for underage workers). • The government will increase work efficiency, within the overall limits of the work week (40 hours), by: (i) allowing on a contractual basis agreements on compensatory work time arrangements between the employee and employer outside of the context of collective agreements; (ii) applying the general rules on the number of maximum workdays to sectors not now covered by the general rules; (iii) resetting the minimum daily rest to 11 hours; (iv) allowing the consecutive two week leave requirement to be taken anytime during the year in seasonal sectors.

Annex III. Privatization-Related Actions

Strengthen institutional framework for privatization
• Government to present an updated privatization plan to Parliament with the 2012-16 MTFS. • HRADF to publish a semi-annual update of the Asset Development Plan, which will include a portfolio overview with a description of the privatization assets, a timeline of planned tenders and targeted total receipts for the current and next year. • Amend paragraph 3 article 16 of the Articles of Association of the HRADF in order to stipulate that the "due cause" required for substituting members of the Board of Directors is defined in particular by the undue suspension or by the intentional compromising of the objectives of the HRADF with acts or omissions of its Board members. • Amend Law 3986/2011 to require publication of quarterly reports of the HRADF on activities and financial accounts, including a detailed profit and loss statement, cash flow statement, and balance sheet, within 60 days of the end of each quarter.
Transfer ownership of assets to the Privatization Fund
• Transfer to the portfolio of privatization assets of the HRADF the full and direct ownership (shares or concession rights) of: Egnatia Motorways, the regional ports of Elefsina, Lavrio, Igoumenitsa, Alexandropolis, Volos, Kavala, Corfu, Patras, Heraklion, and Rafina. • Sign contract between the HRADF and MoF for the use of the voting rights for ELVO. • Issue a Ministerial Decision that secures that the proceeds of the sales of the Digital Dividends are transferred to the HRADF. • Line ministries/government entities to provide the General Secretariat of Public Property with full access to the inventory of all real estate assets owned by the State.
Eliminate legal obstacles for sale of assets
• Amend/repeal statutory provisions of companies that diverge from private company law (PPC, OLP and OLTH port authorities, HELPE, EYATH and EYDAP, ports, etc.), including any restrictions on voting rights of private shareholders. • Launch ESCHADA process (issue environmental study) for Afantou and Kassiopi.
Advisors/Tenders
• Launch tender for the appointment of advisors, consistent with existing procurement rules, for EAS, ELVO, South Kavala Natural Gas, Trainose.

Annex IV. Actions to Strengthen Financial Sector Governance

• The HFSF will complete a due diligence of core banks. This will include a review of governance, such as loans to related parties, asset quality, and risk concentration and any findings of interest to the supervisor will be communicated to the BoG. These will be addressed promptly, including removal of board members and managers, and/or suspension of private shareholders (which would prevent them from participating in bank recapitalization framework),
• The HFSF will communicate a terms of reference for bank monitoring trustees to the banks, with instructions for the trustees to begin work no later than [mid-January 2013].
• Amend HFSF by-laws to clearly stipulate that the HFSF Board, including the observers, must be informed of all decisions of the core banks having an impact on the HFSF's rights as a shareholder/investor, as soon as received by and through the senior executive of the HFSF, and a minimum [1] day in advance..

Annex V. Fiscal Measures

Public sector wage bill:

- Adopt legislation to reduce monthly wages of employees under special wage regimes (excluding Christmas, Easter and summer bonuses), effective [August 1, 2012], with the following marginal reduction schedule: 2 percent for wages below €1000; 10 percent for €1000-1500; 20 percent for €1500-2500; 30 percent for €2500-4000; and 35 percent for wages above €4000.
- Adopt legislation to reduce the State wage bill by €151 million in 2013 and additional €34 million in 2014, including by reducing the allowances for employees serving abroad (by €43 million in 2013), reducing the wage bill for consultants (by €11 million in 2013), and introducing a hiring freeze at the Ministry of Citizen protection.
- Adopt legislation to introduce a new wage grid for special regimes, including for parliamentary staff, yielding savings of €14 million in 2013 and an additional €194 million in 2014.
- Adopt legislation to eliminate the public sector seasonal bonuses of employees at the state and local governments, and at legal entities of public and private law, to produce savings of €424 million in 2013.
- Place [5,000] civil service employees into the mobility and exit scheme.
- Adopt legislation to abolish all exemptions from the public sector wage grid reform introduced in 2011, reducing expenditure by €15 million in 2013.
- Adopt legislation to suspend, through 2016, the fiscal bonus of public sector employees, saving €13 million in 2013 and an additional €66 million in 2014.
- Adopt legislation to suspend, through 2016, the performance bonus of public sector employees, saving €36 million in 2013 and an additional €178 million in 2014.
- Adopt three bills that: (i) permit the mandatory depositions of teachers from one region to another; (ii) merge school units; and (iii) move administrative staff from the rest of public sector to the Ministry of Education. Upon adoption of the bills, issue a ministerial decision to reduce the number of non-permanent teaching staff annually from 15,226 to 2,000 teachers.
- Reduce the limit on the number of non-permanent teachers by 90 percent in university and technical colleges (under the implementation of the plan "Athena").
- Adopt legislation to reduce the local government wage bill by €75 million (to take effect in January 2013)
- Extend the 1:5 hiring rule for the general government through 2016.
- Adopt legislation to align the wage grid of all state-owned enterprises in Chapter A with the new wage grid for state employees reducing average wages to no more than €1900 per month (including all social security contributions, allowances, overtime and non-wage benefits), effective January 1, 2013.
- Adopt legislation that provides mandatory staff transfers (horizontally and vertically) within the general government and from one region to another;
- Issue MD to limit intakes into professional academies to a total of [500] per year, and remove the job guarantee after graduation. Adopt legislation that all hiring offers from ASEP expire after three years if

the actual hiring has not taken place.

- Repeal the provision that provides a full pension to government employees with 20 years of service in case of service in case of layoff.

Pensions

- Increase the retirement age by 2 years, with effect as of January 1, 2013. The increase will be applied to the statutory retirement age (and any other retirement age for special groups). This increase will not affect the fulfillment of the full pension entitlement at 40 years.
- Reduce, as of January 1, 2013, new lump-sum benefits by 23 percent for public employees who received lump-sum pensions and introduce a 3-percent tax on main pensions of public retirees who have already received their lump-sum pensions within the 15 years prior to 2010.
- Ministry of Finance and the Ministry of Labor to issue a joint Ministerial decree to introduce a pension register by December 2012. The decree will require that SSFs submit pension data to the entity managing the register by the 10th of each month to aggregate each pensioner's main and supplementary pensions, and note that payments to funds will be withheld for non-compliance with data submission requirements.
- Adopt legislation to implement, using the pension register, the following pension reductions as of January 1, 2013: (i) reduce the overall monthly pension incomes (main and supplementary pensions) per pensioner between €1000-1500 by 3 percent; €1500-2000 by 5 percent; and above €2000 by 12 percent (respecting a no re-ranking rule); (ii) for special wage regimes, apply a cut equivalent to the cuts to wages in special wage regimes.
- Further rationalize pensions by: (i) eliminating all seasonal bonuses of supplementary and main pensions; (ii) means-testing pensions for unmarried daughters that were entitled to a pension before the 3865/2010 Law; (iii) eliminating special pension benefits of trade unionists; and (iv) using completed cross-checks to abolish ineligible pension benefits in 2013.

Social benefits

- Adopt legislation to reduce and target pension benefits for uninsured individuals according to whether the beneficiaries rent or not their own dwelling (cut of €50 to owners and €30 to non-owners), aiming to achieve savings (net of income taxes and social security contributions) of €13 million in 2013 and additional €13 million in 2014.
- Adopt legislation to replace existing family benefits with a targeted benefit, reducing spending by €86 million in 2013; and eliminate income tax allowances on 2012 income with the aim of achieving an annual saving of €399 million in 2013.
- Issue a Ministerial decree to restructure the transportation reimbursement scheme for selected categories of patients to equalize the benefits to the 2009 level.
- Issue a Ministerial decree to eliminate seasonal benefits for workers in industries with seasonal employment patterns as to generate annual saving of €70 million starting from 2013.
- Adopt legislation to reduce unemployment benefits targeted to specific geographical areas to achieve

savings of €20 million in 2013.

- Adopt legislation to eliminate the special benefits given to people unemployed because of mergers, to generate annual savings of about €10 million starting from 2013.
- Adopt legislation to target assistance pensions provided by EKAS to persons above 64 years, as to generate savings of €115 million starting from 2013
- Adopt legislation to close two programs for the economic support of farmers, to achieve savings of €25 million in 2013.
- Adopt legislation introducing new social programs, including:
  - Benefits equal to €200 per month payable for up to 12 months to long-term unemployed who exhaust the full length of unemployment benefit (12 months), provided they do not qualify for other training schemes and have family taxable income up to €10,000, with expenditure cap of €35 million.
  - A Minimum Income Guarantee scheme applied in two pilot areas of the country with different socioeconomic profiles, with an expenditure cap of €20 million.

Health

- In order to reduce outpatient pharmaceutical spending in 2012 the government will:
  - Take measures to ensure that the outpatient pharmaceutical expenditure does not exceed €2.88 billion in 2012 (in commitment terms, net of the structural rebates and of the claw-back). Either: (i) activate and collect the proceeds through September 2012 from the automatic claw-back mechanism; or (ii) impose the entry-fee onto the positive list; or (iii) apply across-the-board price cuts.
  - Set, through a Ministerial decree, the new by-monthly claw-back threshold for 2013, ensuring an annual ceiling of €2.4 billion for outpatient pharmaceutical spending, including VAT.
  - Repeal the current provisions of the law which hamper the collection of the rebate from pharmacies in case of delays in payments on the part of EOPYY.
  - Revise the co-payment structure for medicines to exempt from co-payment only a restricted number of [x] medicines related to specific therapeutic treatments.
  - Reduce the price of patented medicines, based on the three EU countries with the lowest prices and re-price medicines now cheaper than €10, including implementing a 10 percent price reduction in the prices of these medicines and issue the quarterly price list update;
  - Extend the application of the 9 percent rebate on pharmaceutical companies (which exists for outpatient and hospital medicines) to the expensive products sold in EOPYY pharmacies.
  - Update the positive list of reimbursed medicines to reimburse only the cost effective packages for chronic diseases, by moving [x] medicines from the positive to the negative and OTC lists and introducing the reference price system developed by EOF.
- Modify the form for e-prescriptions to make it compulsory for physicians to prescribe only by international non-proprietary name for an active substance, rather than the brand name.
- Issue a ministerial decision requiring that pharmacies substitute prescribed medicines by the lowest–priced product of the same active substance in the reference category by pharmacies (compulsory "generic substitution").

- To improve the current financial situation of EOPYY and ensure that the budgetary execution is closer to a balanced budget in 2012 and 2013, adopt legislation, with immediate effect, to:

➢ Restrict the benefit package;

➢ Increase cost-sharing for private care;

➢ Negotiate price-volume agreements with private providers;

➢ Revise the fees for and number of diagnostic and physiotherapy services contracted by EOPYY to private providers with the aim of reducing related costs by at least EUR 80 million in 2013.

➢ Introduce a reference price system for reimbursement of medical devices

➢ Progressively increase the contributions paid by OGA members to the average of those paid by other members of EOPYY.

➢ [Action] to implement higher hospital copayments and realize savings of €160 million in 2013 (details).

2013 budget ceilings:

- Set an expenditure ceiling on operational spending of line ministries (excluding defense, health, and education) so as to reduce it by €200 million in 2013 and an additional €120 million in 2014 relative to [the 2012 budget].

- Reduce subsidies to extrabudgetary funds outside the general government and domestic ferry boats by €115 million in 2013 and additional €97 million in 2014, relative to [the 2012 budget].

- Set a ceiling to reduce operational costs at higher educational institutions, athletic (federations, sports centers) and cultural (theaters, museums, festivals) institutions to achieve savings of €97 million in 2013 and €47 million in 2014.

- Reduce investment spending by €150 million in 2013 and an additional €150 million in 2014.

- Set a ceiling on state transfers to SOEs, to save €250 million in 2013 and additional €125 million in 2014. Set a ceiling on transfers to STASY and ELGA to generate savings of €22 and €5 million in 2013 and 2014, respectively.

- Reduce the transfer of Central Autonomous Funds from the State to local governments by €10 million in 2013 and additional €50 million in 2014 compared to […].

- Reduce transfers from the SATA (account for collective decision for local governments) by €40 million in 2013 and additional €110 million in 2014 compared to […].

General government and contingent liabilities:

- Concerning the energy sector: Pass legislation to (i) introduce a special solidarity surcharge on producer turnover yielding €[x] million per year; (ii) increase the RES special levy to [x]; and (iii) impose an annual fee for holding a production license (whether in use or not)..

Tax reforms

Adopt legislation that:

➢ Reduces the diesel excise duty subsidy provided to farmers from 95 percent to [80] percent of the excise tax;

- Increases the fee for law suits so as to raise an additional €50 million per year.
- Reforms tobacco excise taxation by raising the per unit tax to €80 per 1,000 pieces and reducing the ad valorem tax to 20 percent, while minimum tax is raised to €115 per 1,000 pieces. Rolled tobacco tax will be set at €153/kg or equivalent if an ad valorem element is preserved.
- Mandates signing an MOU between the government and owners of the merchant fleet to ensure payment of tonnage tax aimed at raising €200 million in 2013-16.
- Equalizes the social security earnings ceiling for contributions by raising the ceiling for employees first employed before 1993 to that of employees first employed after 1993, which is €5543 per month.
- Equalizes the excise tax on LPG and motor diesel oil by raising the LPG tax from €200/t to €330/t.
- Imposes a tax on OPAP lottery games—a surcharge of 2-4 percent— sufficient to raise €200 million
- Reduce the VAT refund for farmers to 6 percent of turnover.

Annex VI. Tax Administration Actions

Independence of the tax administration
• Adopt legislation to define the role and qualifications of the Secretary General. Concerning qualifications, this will be a person with senior management experience, expertise in tax matters, and an impeccable reputation (including a strong tax compliance history) • Adopt interim legislation to enable the delegation of powers from the Minister of Finance to the new Secretary General.
Support of core functions
• Increase the audit capacity of the large taxpayer unit by transferring 100 auditor staff to it. • Establish a unit responsible for high-wealth individuals and transfer 50 auditor staff to it.
Anti-corruption strategy
• Adopt legislation to implement a simpler set of accounting and record keeping rules and repeal the Code of Books and Records. • Adopt legislation to overhaul personnel management (covering procedures for rotation of staff in critical tax offices and in mid to senior managerial positions)
Operating procedures
• Adopt legislation to remove the requirement that all tax declarations for the previous 10 years must be audited (but preserve the right of the revenue administration to audit earlier years). • Amend the AML law to: (i) ensure that the central authority in charge of revenue administration is informed of all the cases sent by the FIU to local tax offices and to SDOE; and (ii) to specify the type of information that should be provided by the tax administration to the FIU.

Appendix I. Access and Phasing

[*Table to be inserted*]

Appendix II. Privatization Program

[*Table to be inserted*]