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

December 8, 2010

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.

**LETTER OF INTENT**

Athens, December 8, 2010

Mr. Dominique Strauss-Kahn:  
Managing Director  
International Monetary Fund  
Washington DC

Dear Mr. Strauss-Kahn:

In the attached update to the Memoranda of Economic and Financial Policies from May 3 and August 6, 2010 (MEFPs), we describe progress and policy steps towards meeting the objectives of the economic program of the Greek government which is being supported by a Stand By Arrangement. The policies of the government remain fully oriented toward securing fiscal sustainability, safeguarding the stability of the financial system, and boosting potential growth and competitiveness, while ensuring that the adjustment effort is fair and equitable.

We continue to make progress with our economic program:

- The end-September quantitative performance criteria have all been met. The fiscal program has continued to meet deficit and expenditure targets through the adoption of measures as foreseen in the program, and through a strategy of state budget under execution. This has addressed weak revenue collections, although there have been other problems with the implementation of our fiscal program, including arrears in non-central government agencies (deviating from the program indicative target). We believe that by reinforcing this approach we can meet the end-December deficit and spending targets, although the indicative target on arrears may continue to be missed. This and the revision of fiscal data by Eurostat, means that the headline ESA95 deficit target will almost certainly be missed. In the memorandum we focus on laying out a strong 2011 budget to support the delivery of our fiscal adjustment program, and achievement of our 2011 target.
- Underlying fiscal institutional reforms are broadly on track. Benchmarks have been met covering the establishment of revenue administration task forces (charged with formulating anti-evasion plans); the legal establishment of commitment controls (done with delay via a Presidential decree); the publication of general government reports on cash spending and arrears; and the publication of public enterprise financial data. Still, budget execution problems in 2010 underscore the challenges we face in these areas, and we have set out an ambitious schedule of next stage actions in the memorandum.

- The financial system remains stable, with our August legislation approving additional state guarantees supporting liquidity, and the FSF serving as a backstop to any capital needs that may arise. Our policies remain focused on preserving banking system liquidity and to addressing known weaknesses in banking entities in which the state has significant stakes, as discussed in the memorandum.
- Progress continues with structural reforms to improve the efficiency of the Greek economy. Of late, our focus has been on the transportation sector, and successes have included reforms to liberalize the trucking industry, and passage of the Greek Railways Law to restructure the railway system. With a first stage of reforms now behind us, we are working on an ambitious schedule of next stage reforms, as set out in the memorandum.

On this basis, we request completion of the second review under the Stand-By Arrangement, and the third purchase under this arrangement in the amount of SDR 2,162.7 million. As set out in Table 1, we request that ceilings and floors for the quantitative performance criteria under the arrangement be established for March 31, 2011 and June 30, 2011. Completion of the fourth and fifth reviews, scheduled for May 2011 and August 2011 will require observance of the quantitative performance criteria for end-March 2011 and end-June 2011 respectively. As detailed below, we also propose new structural benchmarks: in the fiscal area, to support stronger tax administration, foster better expenditure control, and complete the identification of remaining fiscal measures that will ensure that the deficit targets up to 2014 are achieved; in the financial sector area, to unbundle the HLCF; and in the structural area to support the completion of labor market reforms (Table 2).

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

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

/s/

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George Papaconstantinou

Minister of Finance

/s/

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George Provopoulos

Governor of the Bank of Greece

**LETTER OF INTENT**

Athens, November 22, 2010

Mr. Jean- Claude Juncker  
President  
Eurogroup  
Brussels

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

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

Dear Messers. Juncker, Rehn and Trichet,

In the attached update to the Memoranda of Economic and Financial Policies (MEFP) and Memoranda of Understanding on Specific Economic Policy Conditionality (MoU) from May 3 and August 6, 2010, we describe progress and policy steps towards meeting the objectives of the economic programme of the Greek government which is being supported by financial assistance provided by the euro-area Member States in the context of the loan facility agreement. The policies of the government remain fully oriented toward securing fiscal sustainability, safeguarding the stability of the financial system, and boosting potential growth and competitiveness, while ensuring that the adjustment effort is fair and equitable.

We continue to make progress with our economic program:

- The end-September quantitative performance criteria have all been met. The fiscal program has continued to meet deficit and expenditure targets through the adoption of measures as foreseen in the program, and through a strategy of state budget under execution. This has addressed weak revenue collections, although there have been other problems with the implementation of our fiscal program, including arrears in non-central government agencies (deviating from the program indicative target). We believe that by reinforcing this approach we can meet the end-December deficit and

spending targets, although the indicative target on arrears may continue to be missed. This and the revision of fiscal data by Eurostat, means that the headline ESA95 deficit target will almost certainly be missed. In the memorandum we focus on laying out a strong 2011 budget to support the delivery of our fiscal adjustment program, and achievement of our 2011 target.

- Underlying fiscal institutional reforms are broadly on track. Benchmarks have been met covering the establishment of revenue administration task forces (charged with formulating anti-evasion plans); the legal establishment of commitment controls (done with delay via a Presidential decree); the publication of general government reports on cash spending and arrears; and the publication of public enterprise financial data. Still, budget execution problems in 2010 underscore the challenges we face in these areas, and we have set out an ambitious schedule of next stage actions in the memorandum.
- The financial system remains stable, with our August legislation approving additional state guarantees supporting liquidity, and the FSF serving as a backstop to any capital needs that may arise. Our policies remain focused on preserving banking system liquidity and to addressing known weaknesses in banking entities in which the state has significant stakes, as discussed in the memorandum.
- Progress continues with structural reforms to improve the efficiency of the Greek economy. Of late, our focus has been on the transportation sector, and successes have included reforms to liberalize the trucking industry, and passage of the Greek Railways Law to restructure the railway system. With a first stage of reforms now behind us, we are working on an ambitious schedule of next stage reforms, as set out in the memorandum.

On this basis, we request the disbursement of the third installment of financial assistance by the euro-area Member States, pooled by the European Commission in the amount of EUR 6 500 million, in line with the loan facility agreement. We are committed to respect the nominal deficit ceilings for 2011-2014 established by Article 1(2) of Council Decision 2010/320/EU, while we request that ceilings established in Article 1(3) for government debt are revised to reflect the recent revision of fiscal statistics on the occasion of the validation of our data by Eurostat. Moreover as set out in Table 1, we request that ceilings and floors for the quarterly quantitative performance criteria under the arrangement be established for March 31, 2011 and June 30, 2011. Completion of the fourth and fifth reviews, scheduled for May 2011 and August 2011 will require observance of the quantitative performance criteria for end-March 2011 and end-June 2011 respectively.

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

This letter is being copied to Mr. Strauss-Khan.

/s/

/s/

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George Papaconstantinou

Minister of Finance

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George Provopoulos

Governor of the Bank of Greece

## GREECE: MEMORANDUM OF ECONOMIC AND FINANCIAL POLICIES

### The Outlook

- 1. The government continues to expect the economy to begin to turn around in 2011.** Economic performance in 2010 has been slightly weaker than expected, and GDP is now projected to decline by 4.2 percent. In 2011, we expect a full year GDP decline of 3 percent, but the economy should bottom out during the first half of the year, with improvements in net exports supporting a gradual recovery, and an accelerated current account improvement.
- 2. Wage and price inflation are beginning to moderate, setting the stage for improvements in competitiveness.** Since the second quarter of 2010, inflation at constant tax rates has fallen below the euro area average, for the first time since Euro adoption. For the year as a whole inflation is expected to reach 4¾ percent on average, declining further to 2¼ percent in 2011. Meanwhile, moderate collective wage agreements and arbitration decisions in recent months have slowed unit labor cost growth in the business sector, and this should translate into stronger competitiveness vis-à-vis our major trading partners.
- 3. Revisions to historical Greek fiscal data have been completed, and debt dynamics remain broadly as projected.** Eurostat has published revised general government debt and deficit data for 2006-09, and has lifted all its reservations on the published statistics. The revisions have increased Greece's 2009 deficit to 15.4 percent of GDP, and debt to about 127 percent of GDP (compared to the earlier estimates of 13.6 and about 115 percent). To a large degree they reflect a broadening of the definition of general government to include consistently loss-making state enterprises. In this sense, the public sector balance sheet has been less affected, and we continue to expect debt to reach a firmly declining path by 2014 as projected in the program.
- 4. The objectives underpinning the government's program remain unchanged, and the present memorandum focuses on fleshing out the policies for 2011.** The key priorities remain restoring fiscal sustainability, safeguarding financial sector stability, and boosting competitiveness, to create conditions for sustained growth and reducing unemployment.

### Fiscal Policies

- 5. While there are challenges to surmount, the government's fiscal policy remains anchored on reducing the general government deficit to below 3 percent of GDP by 2014.** More total adjustment will be needed to reach our medium-term general government deficit target, in light of revisions to 2009 fiscal data.
- 6. For 2010, the government intends to meet the program's cash fiscal targets.** We do expect a revenue shortfall of some €4 billion, due to the recession and lingering

weakness in tax collection. However, we expect to be able to fully offset this by under executing spending relative to the May program ceiling, while being able to reduce the stock of arrears that has accumulated within year. Still, this will not secure achievement of our ESA95 deficit target, which unlike the cash target, now incorporates the deficits of state enterprises, arrears and a variety of other cash-to-accrual adjustments. Thus, on an ESA95 basis we expect the deficit to decline to 9½ percent of GDP. However, the overall change in the deficit of 6 percent of GDP in 2010 remains unprecedented in Greece, and larger than the initially targeted change.

7. **For 2011, the government’s fiscal policy has been set to deliver the program target of a €17 billion general government deficit.** This would imply a deficit of about 7½ percent of GDP. Achieving this target will help to minimize our financing needs, support confidence in Greece’s adjustment program, and facilitate a resumption of market access. To offset negative cyclical and structural effects on revenue and expenditure from the recession, and reduce the deficit, some 6¼ percent of GDP in adjustment will be needed, to be delivered by the carry-over from measures implemented in 2010, the measures coming into effect for 2011 specified in the May program, and the effect of newly specified measures (2½ percent of GDP, discussed below). The state budget would deliver a primary cash deficit excluding guarantees of 1¾ percent of GDP, with revenues expected to amount to 26 percent of GDP. Transfers to the social security sector have been set consistent with the need to fully fund health and social benefits and reduce accounts payable. Stronger financial management arrangements (discussed below) should help prevent new arrears, and we will also stay current on our tax refunds. Arrears on lump sum payments to retiring civil servants will be gradually reduced in a manner consistent with our financing plan.

8. **The design of the 2011 fiscal adjustment program has been guided by the need to preserve fairness, support the economy, and improve government efficiency.** To preserve fairness, adjustment measures have been targeted at those best able to share the burden, and specific initiatives have been introduced to support the unemployed and the most vulnerable. To support the economy, reliance on new tax measures has been minimized in favor of base broadening initiatives (although there have been some refinements of earlier tax measures), and we have focused primarily on eliminating wasteful public sector spending:

- **Our primary emphasis has been on tackling two key structural problems, health spending and state enterprises.** These reforms will yield large benefits over the medium term, but will already deliver dividends in 2011:
  - *Health sector reforms (projected savings in 2011 of ½ percent of GDP).* Greece for too long has paid a higher than necessary price for the health services it receives. To rectify this, reforms were introduced in 2010, and these have already begun to yield noticeable dividends, particularly in the area of drug spending. The

near-term reform initiatives, to be phased in during the first half of 2011, follow three directions: (i) in the area of drug spending, extending electronic prescriptions to the main social security funds (by March 2011), and expanding the negative list of prescribed drugs; (ii) administrative reforms, including introducing electronic archiving of medical referrals to private centers (by March 2011), unifying packages of provisions across different funds (June 2011), and centralizing procurement in some of the largest funds; and (iii) reductions in net hospital operating expenses, realized through full applications and increases in co-pays, whole day operation, and reductions in utilities and supplies of services.

- *State enterprise reforms (projected savings in 2011 of 1/3 percent of GDP).* The government recently published state enterprise accounts, showing that costs, in particular wages, are well out of line with private sector and international norms. Low cost recovery from users of their services and over-employment further contribute to their losses. We have already made progress towards improving their balance sheets in 2010, in particular through the use of attrition to reduce over-employment and by reductions in wages. In 2011 we will continue to tackle excessive wages and cost recovery. Legislation will be enacted by end-February 2011 to on average reduce wages by 10 percent and limit allowances to 10 percent of basic pay. Tariffs will be increased in the public transportation area by at least 30 percent to improve cost recovery. We will also finalize the restructuring plan for loss-making railway enterprises to help them reach the breakeven point in 2011. But these actions are only a beginning, and further work will be needed, as discussed below.
- **Beyond these two significant reforms, there are a number of other initiatives towards realizing our intended adjustment objective and design:**
  - *Elimination of unproductive and untargeted spending (projected savings in 2011 of 1/3 percent of GDP).* Line ministries and public entities have been asked to cut spending by 5 percent on the basis of guidance from the Ministry of Finance. In the area of public employment we will further reduce short term contracts in the public sector by at least 15 percent (with monitoring by the Ministry of Interior and Ministry of Finance). Two costly universal household subsidies are to be better targeted to the needy, the fuel subsidy (which is also a source of tax fraud) and the family allowance.
  - *Better management and use of state assets, particularly in the collection of tax claims (projected gains in 2011 of 3/4 percent of GDP).* Special task forces are in place for the collection of fees, penalties, and arrears. Procedures for settling tax disputes will be accelerated, supported by our plan for tax administration reform (below) as well as reform of judicial processes. We will also realize some

resources through renewal of telecommunication licenses and through airport concessions.

- **Previously identified policy reforms for 2011 are on track for implementation.** Most prominently, by end-year we will table legislation to reform the VAT (increasing the reduced and low rates and broadening the base as planned, and with some other adjustments to VAT rates for hotel accommodation and pharmaceuticals). We will reduce net local government transfers to secure the savings realized by the Kallikratis reforms. And we will also continue implementing the 1:5 hiring rule for the public sector, with intra-public sector employee transfers accounted for within this envelope.

9. **The government will identify the remaining measures necessary to realize the 2014 deficit target in the March medium-term budget strategy paper.** Present estimates suggest a need to identify about 5 percent of GDP in additional structural measures to be implemented over 2012-14. The strategy paper will be accompanied by a plan to be discussed during the third review that will lay out a time bound action plan to realize the necessary fiscal reforms to close the medium-term fiscal gap (publication in April of the budget strategy paper and plan will be supported by a new program structural benchmark). The plan will address:

- Restructuring plans for large and/or loss-making state enterprises. Implementation of these plans will be targeted to commence in the second quarter of 2011.
- The closure of unnecessary public sector entities, for instance, extrabudgetary funds that have outlived their original purpose. Implementation of the plan will commence in the second quarter of 2011.
- Tax reform to improve the simplicity, efficiency and administration of the system. The necessary legislation will be enacted by end-2011.
- Reforms to public administration. The functional review which will inform this aspect of the plan is well underway. The reforms themselves will be implemented beginning in the context of the 2012 budget.
- The public wage bill, including the right-sizing of employment by cost efficient means and simplification of public sector remuneration schemes. Implementation of the plan will commence by mid-2011.
- Military spending, in particular to contain procurement expenses. Implementation of the plan will begin with the 2012 budget, without prejudice to national defense capabilities.

10. **To support fiscal adjustment, the government is intensifying the work towards strengthening fiscal institutions:**

- **Revenue administration reforms.** Improving tax administration and distributing the tax burden more equitably remains essential for fairness in the adjustment program. Task forces have been established (meeting an end-September structural benchmark) and these have drawn up an anti-evasion plan. Beyond the arrears collection measures noted above, the near-term institutional reform priorities are to implement the anti-evasion plan, address barriers to effective tax collection, and design medium-term reforms.
  - *Anti evasion plan.* Based on the work of the task forces, the government will launch the anti-evasion plan by January 2011, including with a public communications campaign. The plan will include quantitative performance indicators to hold the revenue administration accountable. Information about the achievements of the plan will be regularly published.
  - *Barriers to reform.* Legislation will be enacted to remove barriers by end-February 2011, and we propose that this be supported by a new program structural benchmark. The legislation will: (i) streamline the administrative tax dispute and judicial appeal processes; (ii) remove impediments to the exercise of core tax administration functions (e.g. centralized filing enforcement and debt collection, indirect audit methods, and tax returns processing); and (iii) introduce a more flexible human resource management system (including the acceleration of procedures for dismissals and the prosecution of cases of breach of duty)..
  - *Designing medium-term reforms.* As a first step, the government will broaden the role of the anti-evasion steering committee to overview medium term reforms and will set up special taskforces for each key reform topic with the objective of articulating a plan by end-March 2011.
- **Public financial management reforms.** Improving PFM remains essential to strengthen budget implementation and to eliminate wasteful spending. Commitment registers have been introduced in all general government units in November; and the government has started to publish monthly reports on cash spending and arrears for general government entities (in both cases meeting program structural benchmarks). The next steps in the three pillars of our reform program include:
  - *Strengthening spending controls.* We will appoint financial accounting officers in all line ministries and major general government entities, with the responsibility

to ensure sound financial controls (by end-March 2011). We propose that this be supported by a new program structural benchmark.

- *Increasing transparency.* We will publish on a monthly basis consolidated general government reports with revenue, expenditure, and intra-governmental transfers for each sub-sector of the general government (beginning in March 2011);
- *Enhancing budgeting.* Informed by the March budget strategy paper, we will prepare a full medium-term fiscal strategy for 2012-14, to be submitted to parliament in May. The strategy will include targets for the deficits of the general government and its subsectors, and will provide estimates for underlying measures.

11. **We anticipate completion of the pension reform in 2011, with full realization of projected savings.** The National Actuarial Authority will complete an assessment of the effect of the 2010 pension reform on the main pension funds by end-December and of the largest auxiliary pension funds by end-March (and we propose that the program structural benchmark be shifted to end-March). To ensure that both the main and auxiliary pension funds are sustainable (with the increase in total pension spending limited to 2½ percentage points of GDP over the period 2009-2060) we have already committed to adjust the parameters of the main pension system as necessary, and will separately reform the auxiliary pension and welfare funds. Any needed adjustments will be completed by end-June 2011, and implemented not later than end-2011, in consultation with pension experts from the Fund, the European Commission, and the ECB, as foreseen in Law 3863.

12. **Program financing remains in line with our needs, and we are taking steps to secure additional resources.** We have successfully conducted monthly auctions of 3 and 6 month T-bills, with yields improving from levels seen before the program, and renewed interest from foreign investors. We intend to gradually increase the size and maturity of our T-bill issuance program, as market conditions warrant, and introduce a bond targeted to expatriate Greeks. In addition, we are developing a comprehensive plan to divest some government assets (discussed below). With these resources we intend to build up our Treasury balance to €10 billion over time, with these resources to serve as a reserve buffer.

### **Financial sector policies**

13. **The program has to date been successful in maintaining the stability of the financial sector, and the focus remains on fully securing the system's liquidity and solvency.** Private banks have had some success recently in raising capital in the markets. While the system remains under pressure from rising NPLs and ongoing losses, capital remains fully adequate. The challenge is to help the banks deleverage in an orderly fashion, and at a pace that will not exacerbate the recession, and to make sure capital support mechanisms are fully operative.

14. **The Bank of Greece will continue to safeguard banking system liquidity.** The legislation enabling a new tranche of government guaranteed bank bonds in the amount of EUR 25 billion was voted at the end of August, and Greek banks are now able to issue, if needed, those additional securities. The Bank of Greece, in close cooperation with the ECB will continue close monitoring of the liquidity situation of the banking system and stands ready to take the appropriate measures to maintain sufficient system liquidity.

15. **The FSF is available to support bank capital as necessary.** The institution will be adequately staffed by end-January 2011, and to facilitate this, adjustments will be made to the terms and conditions of employment. The overall size of the FSF amounting to €10 billion is adequate to support the stability of the financial system. On current projections, banks are not expected to turn to the FSF in the near future. Concerning funding of the FSF, an account at the Bank of Greece has been opened into which €1.5 billion has already been disbursed. An additional €1 billion will be transferred by end-January to a dedicated government account opened by the General Accounting Office, available to be released to the FSF if program reviews of bank capital suggest that the resources are necessary.

16. **The government has devised a program to address the stability and efficiency of the banking entities under its control.** The strategic review and due diligences for these entities was completed in November. During implementation of the program, in depth restructuring plans for the banks will be finalized with the European Commission. These will, *inter alia*, mitigate the distortion of competition stemming from the receipt of state aid with a view to preserve financial stability and increase efficiency.

- **ATE Bank will be thoroughly restructured as a stand-alone institution.** Our priority for this bank is to transform it into a more efficient, leaner and well capitalized financial institution with reduced lending to public entities, and enhanced corporate governance. In parallel, the management will announce a rights issue by end November 2010. Without prejudice to the opinion of the supervisor, and in compliance with capital market regulations, an updated assessment of the capital needs of the bank will take place by the end of January 2011. This will be based on an additional review of the loan portfolio by an audit firm. The recapitalization of the bank will take place shortly thereafter. If necessary, the restructuring plan will be strengthened, so as to safeguard capital adequacy without increasing the need for further recapitalization. The government intends to keep this capital increase fiscally neutral, potentially by drawing from the resources available from the surplus of reserves within the Hellenic Loan and Consignment Fund (HLCF).
- **The HLCF will be unbundled.** Legislation, to be passed by end-March 2011, will separate the core consignment activity from the commercial activities (we propose this to be a new program structural benchmark).

- **The government will consider the disposal of its direct holding in Hellenic Postbank and its indirect holdings in Attica Bank.** These holdings would be sold when the government sees the conditions as appropriate, also taking into account prudential supervisory requirements in the selection of prospective buyers.

17. **The authorities will provide all banks with the flexibility needed for unavoidable reductions in their cost base.** By end-February 2011, the authorities will table legislative changes that will place all registered bank employees under the same private sector status, regardless of the bank ownership type. Broader reform of the system of collective bargaining (discussed below in paragraph 20) is expected to increase flexibility in setting wages and employment conditions in the financial sector as well. .

18. **Banking supervision and insurance supervision are being strengthened.** Prudential supervision has performed well since the beginning of the global financial crisis, contributing to the preservation of financial stability in Greece. The Bank of Greece has now made preparations for a smooth take-over of responsibilities for the supervision of the insurance sector as of 1 December, 2010. The process of recruitment of additional supervisory staff has also been launched with a view to ensure full staffing by end-March. Meanwhile the Bank of Greece convened the Colleges of Supervisors for the four major domestic banks during October 2010. The understanding of the risk and liquidity situation of the banks involved and their branches or subsidiaries improved, and discussions are continuing on the sharing of confidential bank information.

### **Structural reform policies**

19. **Securing Greece's competitiveness and reinvigorating growth remain key to our program strategy, and to this end the next wave of structural reforms is advancing.** We have successfully adopted some reforms recently, most notably with the deregulation of the trucking industry. However, much more remains to be done to encourage entrepreneurship, move away from regulation towards market principles, make the country a more attractive destination for investors, improve capacity to sell goods and services abroad, and create wealth for Greece's citizens. To these ends the government is determined to embed more flexible wage formation, ensure ease of access to markets, promote price competition, and facilitate investment.

20. **Labor market reforms are now reaching their completion stage.** The government will finalize and pass legislation to reform the arbitration system, in particular to introduce symmetric access to arbitration services and to secure the independence of the arbitration committee (OMED). At the same time draft legislation has been prepared to reform the system of collective bargaining, including to eliminate the automatic extension of sectoral agreements to those not represented in negotiations, and guarantee that firm level agreements take precedence over sectoral agreements without undue restrictions. The tabling of this legislation in parliament, targeted for end-2010, will be supported by a new

program structural benchmark. Once these changes have been made, we expect that wages will more closely align with firm level productivity, underpinning more robust competitiveness in the future.

21. **Deregulation of restricted professions and the wider service sector will be complete soon.** The government will prepare legislation, taking into account the opinion of the competition authority, to remove restrictions to competition, business and trade in restricted professions and comply with the European Union's services directive. The legislation, to be adopted by end-February 2011, will focus on high economic impact professions (including lawyers, notaries, engineers, architects, auditors, pharmacists, and other high economic impact services as appropriate). For other professions, the government will remove unnecessary restrictions in a legally robust manner. When making a determination about necessity, economic justifications will be favored and advocacy from the competition authority will be sought. The overall goal of the reform will be to move to EU best practice.

22. **The government remains committed to actions to unlock the potential in key industries:**

- **Tourism and retail trade.** The government has commissioned reports, due by year-end, analyzing the potential contribution of reforms in the tourism and retail trade sectors to GDP and employment growth, and to disinflation (that is, to the extent that the factor underlying wide price margins can be addressed). The government stands ready to follow up on the recommendations in the studies.
- **Privatization of state assets** The government has prepared a draft privatization plan for the divestment of state assets and enterprises. The plan, which will be adopted by end-year, identifies a number of state assets targeted for partial and full privatization, including real estate, with a view to raise at least €7 billion over the next three years with at least €1 billion in 2011. A full inventory of state property will be completed by mid-2011 to assess the potential for higher medium-term targets. The Special Secretariat for Privatization within the Ministry of Finance will be instructed to proceed using different methods, as justified by the type of asset involved, including direct sales, auctions and concession agreements.

23. **The government also remains committed to improvements in the business environment to unlock the potential for investment in Greece.** We expect to have these reforms in place by early 2011. In November, parliament approved fast-track investment legislation, which we expect to be an effective tool to accelerate procedures for large scale projects, and in particular FDI. To support investment more generally, we are amending legislation to accelerate licensing procedures for enterprises' physical establishments (in particular, by setting binding deadlines, and defining clear standards for applications). The government is also taking steps to eliminate key legal and technical hurdles to the full

operation of one-stop-shops by end-March 2011, including adapting IT systems and ensuring compatibility of legislation across the government entities involved. Finally, to promote more competitive markets and help prevent future barriers to entry, the government will table by end-year legislation aimed at reinforcing the independence and effectiveness of the competition authority.

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

	2010					2011			
	Jun-10		Sep-10		Dec-10	Mar-11	Jun-11	Sep-11	Dec-11
	Progr. 1/	Act. 6/	Progr. 1/	Act.	Progr. 1/	Progr. 2/	Progr. 2/	Progr. 2/ 7/	Progr. 2/ 7/
<b>Performance Criteria (unless otherwise indicated)</b>									
1. Floor on the modified general government primary cash balance	-5.0	-3.9	-4.0	-3.5	-5.7	-2.0	-4.3	-3.7	-3.2
2. Ceiling on State Budget primary spending	34	28	50	42	67	15	30	45	63
3. Ceiling on the overall stock of central government debt	342	317	342	328	342	394	394	394	394
4. Ceiling on the new guarantees granted by the central government	2.0	0.3	2.0	1.2	2.0	1.0	1.0	1.0	1.0
5. Ceiling on the accumulation of new external payments arrears on external debt contracted or guaranteed by general government 5/	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
<b>Indicative Targets</b>									
6. Ceiling on the accumulation of new domestic arrears by the general government 5/	0.0	1.0	0.0	0.8	0.0	0.0	0.0	0.0	0.0

1/ Cumulatively from January 1, 2010 (unless otherwise indicated).

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

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

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

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

6/ Includes updated data on non-state balances, following reclassification of entities between non-state sectors, including reclassification between entities included and excluded in the program cash monitoring.

7/ Indicative targets.

Table 2. Greece: Structural Conditionality for 2010 and Proposed New Structural Conditionality

Measures	Macrocritical relevance	Status
<b>End-September structural benchmarks</b>		
1. Adopt a comprehensive pension reform that reduces the projected increase in public spending on pensions over the period 2010-60 to 2½ percent of GDP.	Improves fiscal sustainability.	Legislation has been approved by parliament. An actuarial assessment including supplementary plans will evaluate the need for further adjustments to pensions to secure the full reduction in public pension spending, in order to deliver the full reduction to 2½ percent of GDP.
2. Establish a commitment register in all line ministries and public law entities. Begin publishing monthly data on general government in-year fiscal developments (including arrears).	Reduces budget overruns.	Commitment register established in some public sector entities. publishing of monthly data begun with delay
3. Publish 2009 financial statements of the ten largest loss-making public enterprises, audited by chartered accountants, on the official website of the Ministry of Finance.	Increases transparency of fiscal risks to fiscal sustainability.	Done with small delay
4. Put in place an effective project management arrangement (including tight MOF oversight and five specialist taskforces) to implement the anti-evasion plan to restore tax discipline through: strengthened collection enforcement and recovery of tax arrears—coordinated with the social security funds—of the largest debtors; a reorganized large taxpayer unit focused on the compliance of the largest revenue contributors; a strong audit program to defeat pervasive evasion by high-wealth individuals and high income self-employed, including prosecution of the worst offenders; and a strengthened filing and payment control program.	Achieves revenue targets and enhances sustainability of the consolidation by increasing burden sharing of the adjustment.	Done
<b>End-December structural benchmarks</b>		
1. Publish a detailed report by the ministry of finance in cooperation with the single payment authority on the structure and levels of compensation and the volume and dynamics of employment in the general government.	Reduces wage escalation. Improves transparency of public sector employment.	Census of civil servants started in July. Report expected to be published in January
2. Adopt new Regulation of Statistical Obligations for the agencies participating in the Greek Statistical System.	Enhance confidence in fiscal reporting and support the formulation of fiscal policy.	MoUs between data-providing institutions and ELSTAT have been drafted and most are signed. These will form the basis for the regulation.
3. Prepare a privatization plan for the divestment of state assets and enterprises with the aim to raise at least €1 billion a year during the period 2011-2013.	Reduces state intervention in the real economy; improves market efficiency; and cuts fiscal contingencies.	Privatization plan publicly announced. Authorities have decided to target a higher amount of €7 billion over three years, with at least €1 billion in 2011.
4. The National Actuarial Authority to produce a report to assess whether the parameters of the new system significantly strengthen long-term actuarial balance.	Reduces budgetary costs of ageing and improves long-term fiscal sustainability. Increases labor force participation.	Rescheduled from end-June 2010 to end-December for main social security funds, and end-March 2011 for remaining supplementary funds, in recognition of size of task and to allow more data collection.
<b>Proposed structural conditionality for the upcoming 6 months</b>		
1. Table legislation to reform the system of collective bargaining, including to eliminate the automatic extension of sectoral agreements to those not represented in negotiations, and guarantee that firm level agreements take precedence over sectoral agreements without undue restrictions (by end-December).	Increases the flexibility of the labor market.	
2. Pass legislation to: (i) streamline the administrative tax dispute and judicial appeal processes; (ii) remove impediments to the exercise of core tax administration functions (e.g. centralized filing enforcement and debt collection, indirect audit methods, and tax returns processing); and (iii) introduce a more flexible human resource management system (including the acceleration of procedures for dismissals and of prosecution of cases of breach of duty) (by end-February)	Removes legal and administrative impediments to tax collection.	
3. Appointment of financial accounting officers in all line ministries and major general government entities (with the responsibility to ensure sound financial controls). ( by end-March)	Improves control and transparency of budget expenditures.	
4. Pass legislation to separate the core consignment activity from the commercial activities of the HCLF (by end-March)	Fosters banking sector stability.	
5. The National Actuarial Authority to produce a report to assess whether the parameters of the new system significantly strengthen long-term actuarial balance. (by end-March)	Reduces budgetary costs of ageing and improves long-term fiscal sustainability. Increases labor force participation.	Shifted from end-December
6. Publish the medium-term budget strategy paper, laying out time-bound plans to address: (i) restructuring plans for large and/or loss making state enterprises; (ii) the closure of unnecessary public entities; (iii) tax reform; (iv) reforms of public administration; (v) the public wage bill; and (vi) military spending. (by end-April)	Supports fiscal consolidation	

**GREECE: TECHNICAL MEMORANDUM OF UNDERSTANDING**

December 8, 2010

1. This Technical Memorandum of Understanding (TMU) sets out the understandings regarding the definitions of the indicators subject to quantitative targets (performance criteria and indicative targets), specified in the tables annexed to the Memorandum of Economic and Financial Policies. It also describes the methods to be used in assessing the program performance and the information requirements to ensure adequate monitoring of the targets. We will consult with the Fund, European Commission and ECB before modifying measures contained in this letter, or adopting new measures that would deviate from the goals of the program, and provide the European Commission, ECB and the Fund with the necessary information for program monitoring.

2. For program purposes, all foreign currency-related assets, liabilities, and flows will be evaluated at “program exchange rates” as defined below, with the exception of the items affecting government fiscal balances, which will be measured at current exchange rates. The program exchange rates are those that prevailed on April 30, 2010. In particular, the exchange rates for the purposes of the program are set  $\text{€}1 = 1.3315$  U.S. dollar,  $\text{€}1 = 125.81$  Japanese yen,  $\text{€}1.135 = 1$  SDR.

**General Government**

3. **Definition:** For the purposes of the program, the general government includes:

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

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

- Local government comprising municipalities, prefectures, and regional governments including their basic and special budgets, including all agencies and institutions attached thereto, which are classified as local governments according to ESA 95.
- Social security funds comprising all funds that are established as social security funds in the registry of ELSTAT.
- Other extra budgetary entities included by ELSTAT under general government, which are not yet counted under central government.
- This definition of general (central) government also includes any new funds, or other special budgetary and extra budgetary programs that may be created during the program period to carry out operations of a fiscal nature. The government will inform IMF, European Commission and ECB staff of the creation of any such new funds, programs, or entities immediately. The general (central) government, as measured for purposes of the program monitoring in 2010, shall not include entities that are re-classified from outside general (central) government into general (central) government during the course of 2010. During the course of 2011, such reclassified entities will be included, as specified below. Entities that are reclassified during the course of 2011 from outside general (central) government into general (central) government will be excluded for the 2011 program monitoring.

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

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

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

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

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

- **The change in the stock of arrears from line ministries.** The change in stock will be measured on a cumulative basis, from January 1, 2011 onwards as the stock of arrears prevailing at the time of measurement of the PC minus the stock of arrears prevailing at end-December 2010. The stock at end-December 2010 will be adjusted for any arrears which were incurred before end-December 2010. The stock of arrears of line ministries or other spending bodies with a vote in the budget (including the Secretariat General of Information/Secretariat General of Communication, Secretariat General of Prefectures, Presidency of the Hellenic Republic, and the Hellenic Parliament) will include any arrears (as defined under subsection C) related to the activities of the ordinary and investment budgets. Data will be in line with the monthly publications of state budget arrears, published on the Ministry of Finance website.
- **The change in net financial assets of local governments** is defined on a transactions basis, as the change in the total of financial assets minus financial liabilities of local authorities adjusted for valuation changes by the Bank of Greece.
  - Financial assets include (but are not limited to) deposits of local governments in the Bank of Greece and deposits of local governments in domestic credit institutions. Deposits will be measured at face value excluding accrued interest in line with recording for monetary survey data.
  - Financial liabilities include (but are not limited to) short and long term loans from domestic credit institutions to local governments, measured at face value, consistent with recording for monetary survey data.
- **The change in net financial assets of social security funds** is defined on a transactions basis, as the change in the total of financial assets minus financial liabilities of social security funds, adjusted for valuation changes by the Bank of Greece; minus the change in the stock of arrears of public hospitals (NHS hospitals) to entities outside of the general government.
  - Financial assets include
    - Deposits of social security funds in the Bank of Greece and deposits of social security funds in the domestic credit institutions and deposits held either directly or indirectly through the IKA mutual fund. Deposits are measured at face value excluding accrued interest, consistent with reporting requirements for monetary survey data.
    - Holdings of shares quoted on the Athens Stock Exchange held by social security funds either directly or indirectly through the IKA mutual fund).

- Direct or indirect holdings of Mutual Fund units issued by Greek management companies (other than the IKA mutual fund).
    - Holdings of central government bonds, including short and long-term securities issued domestically, long-term securities issued abroad operated from Bank of Greece accounts, and indirect holdings through the IKA mutual fund. Holdings will be measured at nominal value.
    - Bank bonds issued abroad.
  - Financial liabilities include the short and long term loans from domestic credit institutions to the social security funds, measured consistently with monetary survey data.
  - The change in the stock of arrears of public hospitals (NHS hospitals) to entities outside of the general government. Data on arrears of hospitals should be available within four weeks of the end of each month. The change in stock of arrears will be measured on a cumulative basis, from January 1, 2011 onwards as the stock of arrears prevailing at the time of measurement of the PC minus the stock of arrears prevailing at end-December 2010, and will exclude the 5.34 billion hospital arrears to pharmaceutical companies which were incurred by end-2009. The stock of arrears of public hospitals will include any arrears (as defined under subsection C) related to the activities of the 135 NHS hospitals. Data will be in line with the monthly publications of hospital arrears, published on the Ministry of Finance website.
- **The change in net financial assets of ETERPS** is defined on a transactions basis, as the change in the total of financial assets minus financial liabilities of ETERPS, adjusted for valuation changes by the Bank of Greece.
  - Financial assets include
    - Deposits of ETERPS in the Bank of Greece and deposits of ETERPS in domestic credit institutions. Deposits will be measured at face value excluding accrued interest in line with recording for monetary survey data.
    - Holdings of shares, held by ETERPS, quoted on the Athens stock exchange.
    - Holdings of Mutual Fund units issued by Greek management companies.
    - Holdings of central government bonds.

- Other bonds issued abroad.
- Financial liabilities include the short and long term loans from the domestic credit institutions to ETERPS, measured consistently with monetary survey data, or other lending from the Bank of Greece.
- **The change in net financial assets of reclassified public enterprises (RPEs)** is defined on a transactions basis, as the change in the total of financial assets minus financial liabilities of RPEs, adjusted for valuation, minus the amount of guarantees called from entities which are consolidated within the general government.
  - Financial assets include
    - Deposits of RPEs in the Bank of Greece and deposits of RPEs in the credit institutions (domestic and foreign). Deposits will be measured at face value excluding accrued interest.
    - Holdings of shares, held by RPEs quoted on the Athens Stock Exchange.
    - Holdings of Mutual Fund units issued by Greek management companies.
    - Holdings of central government bonds.
    - Other bonds issued abroad.
  - Financial liabilities include the short and long term loans from the domestic credit institutions to RPEs, measured consistently with monetary survey data, short and long term loans from the foreign banking system, as well as loans from the EIB or other official lenders.

## 6. **Other provisions.**

- For the purpose of the program, the primary expenditure of the central government that is monitored excludes payments related to bank support, when carried out under the program's banking sector support and restructuring strategy. Transactions that may be excluded from the balance include loans to financial institutions and investments in equity of financial institutions (requited recapitalization); unrequited recapitalization; and purchases of troubled assets. However, any financial operation by central government to support banks, including the issuance of guarantees or provision of liquidity,

will be immediately reported to IMF, European Commission and ECB staff.

- For 2010, the change in the net financial assets of social security funds will be increased by the change in net financial assets of AKAGE (on a cumulative basis from January 1, 2010 onward, adjusted for valuation changes) in case these are not yet included in the net financial assets of social security funds.
- For 2010, the following items will be excluded from calculations:
  - Capital transfers to social security funds or other entities by bonds;
  - Settlement of past debt;
  - Called guarantees;
  - Changes in the stock of arrears of public hospitals (NHS hospitals) to entities outside of the general government;
  - Change in net financial assets of ETERPS; and
  - Changes in the stock of arrears to line ministries.
- The change in net financial assets of RPEs will be excluded during 2010, as well as for the end-March and end-June PCs in 2011. However, for the measurement of the end-September and end-December 2011 PCs, the change in net financial assets of RPEs will be included, measured on a cumulative basis from January 1, 2011 onward.
- Capital transfers to social security funds or other entities by bonds shall exclude bond issuance for settlement of end-2009 health related arrears, and the settlement related to the judiciary liabilities, and to the compensation for former Olympic Airways employees.

## 7. **Supporting material.**

- Data on cash balances of the ordinary and state budgets will be provided to the European Commission, ECB and IMF by the General Accounting Office in the Ministry of Finance within three weeks after the end of each month. Data will include detailed information on revenue and expenditure items, in line with monthly reports that are published since January 2010 on the official website of the Ministry of Finance. Data will also include data on capital transfers to social security funds or other entities in bonds, and called guarantees.

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

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

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

9. **Other provisions.** Capital transfers to social security funds by bonds and called guarantees from outside the general government will be excluded from primary spending during 2010. The change in the stock of arrears of line ministries will also be excluded during 2010 for the monitoring of the PC. However, for 2011 onward, such exclusion will no longer apply.

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

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

11. **Definition.** For the purpose of the program, domestic arrears are defined as the unpaid invoices that have past the due date by 90 days. In case no due date is specified on the supplier contract, an unpaid commitment is considered to be in arrears 90 days after the

initiation of the invoice. Data will be provided within four weeks after the end of each month. The continuous non-accumulation of domestic arrears is defined as no accumulation of arrears at the end of every month during which quarter the indicative target is being monitored for commitments that were entered into from January 1, 2010 onward. This does not include the arrears which are being accumulated by the Civil Servants' Welfare Fund.

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

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

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

14. **Other provisions.** For 2010, the definition of central government debt will exclude the reclassified public enterprises, debts of extrabudgetary funds, and other ESA 95 adjustments.

15. **Adjusters.** For 2010, the ceiling on the overall stock of central government debt will be adjusted upward (downward) by the amount of any upward (downward) revision to the stock of end-December 2009 central government debt of 298.9 billion. For 2011, the ceiling on the overall stock of ESA95 central government debt will be adjusted upward

(downward) by the amount of any upward (downward) revision to the stock of end-December 2009 ESA95 central government debt of 322.9 billion.

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

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

17. **Definition.** The ceiling on the new central government guarantees shall include new guarantees granted by the state, as well as new guarantees granted by any other entity that is classified under ESA95 under central government, but exclude guarantees to entities whose debt is covered under the ceiling on the stock of central government debt as defined in paragraph 13 and 14. The ceiling shall exclude guarantees to support banks and exclude guarantees related to EIB financed loans. New guarantees are guarantees extended during the current fiscal year. The latter shall include also guarantees for which the maturity is being extended beyond the initial contractual provisions.

18. **Other provisions.** The end-September 2010 PC on new central government guarantees shall exclude any new guarantees extended by entities (including TEMPME) other than the state. For the end-December 2010 PC on new central government guarantees, these factors shall be included on a cumulative basis starting October 1, 2010.

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

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

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

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

### **G. Overall Monitoring and Reporting Requirements**

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

### **II. MONITORING OF STRUCTURAL BENCHMARKS**

23. **Pension reform.** Parliament adopted separate laws reforming pensions for the public and private sector in mid-July, ahead of the end-September deadline under the program. An actuarial evaluation of this law is currently underway. The National Actuarial Authority will complete an assessment of the effects of the reform on the main pension funds by the end of December 2010, which will be expanded to include the largest auxiliary pension funds (including ETEAM, TEADY, MTPY) by end of March 2011. This actuarial assessment will determine whether further adjustments to the pension system would be needed to contain the increase in pension spending 2010-2060 at 2.5 percentage points of GDP. Any needed adjustments to the parameters of the main pensions and the reform of the auxiliary and welfare funds will be completed by end of June 2011 in consultation with the EC/IMF/ECB; and enacted by end of December 2011.

## GREECE

**Memorandum of Understanding**  
**on**  
**Specific Economic Policy Conditionality**  
(second update)

22 November 2010

The quarterly disbursements of bilateral financial assistance from euro area Member States are subject to quarterly reviews of conditionality for the duration of the arrangement. The release of the tranches will be based on observance of quantitative performance criteria and a positive evaluation of progress made with respect to policy criteria in the MEFP and in this Memorandum. These criteria have been updated and further specified during the November 2010 review.

Annex 1 on data provision is part of the Memorandum and its respect will be considered in the assessment of compliance.

The authorities commit to consult with the European Commission, the ECB and the IMF staff on adoption of policies falling within the scope of this Memorandum allowing sufficient time for review and in accordance with the government's established practices. They will also provide them with all requested information for monitoring progress during program implementation (Annex 1). Government provides quarterly a report in line with Article 4 of Council Decision 2010/320/EU.

**1. Actions for the third review (actions to be completed by end Q4-2010)**

**i. Fiscal consolidation**

Government achieves the quantitative performance criteria for 2010 (see Table 1 in MEFP) and endeavours to reach the government deficit target on an ESA95 basis.<sup>1</sup>

Parliament adopts the final budget for 2011 targeting a further reduction in the general government deficit, which in ESA95-based terms will not exceed EUR 17 065 million.

The final 2011 budget provides information and projections on the entire general government sector.

The final budget includes the following measures:

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<sup>1</sup> See Article 1 of Council Decision 2010/320/EU.

***Carryovers into 2011 of measures adopted in May 2010:****Expenditure cuts*

- Wage bill (seasonal bonuses and allowances): at least EUR 400 million;<sup>2</sup>
- Pensions (seasonal bonuses): EUR 500 million;
- Specific reduction in highest pensions: EUR 150 million;

*Revenue increases*

- VAT: at least EUR 750 million;
- Excises on fuel: at least EUR 250 million;
- Excises on tobacco: at least EUR 250 million;
- Excises on alcohol: at least EUR 50 million;
- Luxury good tax: at least EUR 50 million;
- Incentives to regularise land-use violations (Ημι-υπαίθριοι), yielding at least EUR 150 million and increased amounts in 2012 and 2013;

***Measures previously agreed and legislated****Expenditure cuts*

- Reduction in intermediate consumption by at least EUR 300 million compared to the actual 2010 level, on top of savings envisaged in the context of reforming public administration and the reorganisation of local government (see the next measure);
- Implement legislation reforming public administration and reorganising local government with the aim of reducing costs in comparison to current levels by at least EUR 1 500 million in 2013, of which at least EUR 500 million in 2011;
- Reduction in domestically-financed spending in investment by at least EUR 500 million compared to the actual 2010 level, while increasing revenue by giving priority to investment projects financed by EU structural and cohesion funds;
- Freeze in the indexation of pensions, with the aim of saving at least EUR 100 million;
- Reduction in the wage bill through fraud-reducing measures and the establishment of the single payment authority by at least EUR 100 million;
- Reduction in pharmaceutical expenditure by social security funds by EUR 500 million owing to a reduction in pre-tax drug prices; and by hospitals by at least EUR 350 million (see also below).

*Revenue increases*

- Temporary crisis levies on highly profitable firms, yielding at least EUR 1 000 million per year in 2011, 2012 and 2013;
- Enforce the presumptive taxation of professionals, with a yield of at least EUR 700 million in 2011 and increasing returns in 2012 and 2013;

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<sup>2</sup> This figure does not include carryovers from 2010 related to wage cuts in public enterprises.

- Start phasing in a green tax, with a yield of at least EUR 150 million in 2011;
- Expand the base of the real estate tax by updating asset values to yield at least EUR 270 million additional revenue;
- Collect revenue from the licensing of gaming: at least EUR 500 million in sales of licences and EUR 200 in annual royalties;
- Increase taxation of wages in kind, including by taxing car lease payments: at least EUR 150 million;
- Introduce book specification of income for tax purposes yielding at least EUR 50 million;
- Initiate the collection of a special tax on unauthorised establishments (Αυθαίρετα) (at least EUR 300 million per year);

### *New measures*

#### *Expenditure cuts*

- Further reduction in operational expenditure by at least 5 percent yielding savings of at least EUR 100 million;
- Further reduction in transfers yielding savings for the government as a whole of at least EUR 100 million. The beneficiary public entities will ensure the concomitant reduction in expenditure so that there is no accumulation of arrears;
- Means-testing of family allowances from January 2011 on yielding savings of at least EUR 150 million (after deduction of the respective administrative costs) ;
- Reduction in deliveries of military equipment by at least EUR 500 million compared to the actual 2010 level;
- Further reduction in pharmaceutical expenditure by social security funds by EUR 900 million owing to a further reduction in drug prices and new procurement procedures; and by hospitals (also including expenditure in equipment) by at least EUR 350 million;
- Changes in the management, pricing and wages of public enterprises yielding savings of at least EUR 800 million (see below);

#### *Revenue increases*

- Equalisation of taxation on heating oil and diesel oil from 15 October 2011 on, with the aim of fighting fraud and yielding at least EUR 400 million in 2011 net of specific measures to protect the less prosperous population strata;
- Increase in the reduced rates of VAT from 5.5 to 6.5 percent and 11 to 13 percent, yielding at least EUR 880 million; and reduction in the VAT rate applicable to medicines and hotel accommodation from 11 to 6.5 percent with a cost not exceeding EUR 250 million;<sup>3</sup>
- Intensification of the fight against smuggling on fuel (at least EUR 190 million);
- Increase in court trial fees (at least EUR 100 million);
- The implementation of an action plan to accelerate the collection of tax arrears (at least EUR 200 million);
- Speeding up tax penalty collection (at least EUR 400 million);

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<sup>3</sup> Net of savings for social security funds and hospitals that result from lower VAT rate on medicines.

- Collection of revenue that results from the new framework of tax disputes and trials (at least EUR 300 million);
- Revenue from the renewal of telecommunication licences that are about to expire (at least EUR 350 million);
- Revenue from concession licences (at least EUR 250 million).

The final budget contains:

- Detailed expenditure ceilings for each line ministry, local governments, and social security funds consistent with the general government deficit target. For the medium-term fiscal framework for 2012-14, this will be specified in the March 2011 strategy paper;
- Information on monthly revenue per category, and expenditure per Ministry. Updated figures will be regularly made available online.

## **ii. Structural fiscal reforms**

### *Fighting waste in public enterprises*

Government adopts a restructuring plan for the Athens transport network (OASA). The objective of the plan is to reduce operational losses of the company and make it economically viable. State subsidies shall not exceed 40 percent of operational cost in conformity with EU practices. The plan includes cuts in operational expenditure of the company and tariffs increases. The required actions are implemented by end March 2011.

Government adopts an act that limits recruitment in the whole general government to a rule of not more than 1 recruitment for 5 exits, without sectoral exceptions.<sup>4</sup> Government prepares a human resource plan in line with this rule. The rule also applies to staff transferred from public enterprises under restructuring to government entities.

Government prepares a detailed privatization plan for the divestment of state assets and enterprises with the aim of raising at least EUR 7 billion during the period 2011-2013, of which at least EUR 1 billion in 2011. The restructuring and privatization programme will span the state's holdings in rail, road transport, airports, ports, utilities, the gaming industry and real estate. Proceeds from privatisation are to be used to redeem debt and do not substitute fiscal consolidation efforts.

### *Accounting and control*

Government ensures that the central registry for public enterprises is operational, and that public enterprises' financial statements are available on the website of the Ministry of Finance.

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<sup>4</sup> This rule is monitored by the Ministries of Interior and Finance.

Government centralises the financial supervision of public enterprises at the Ministry of Finance – Special Secretariat for Public Enterprises. Operational supervision of public enterprises is ensured by the relevant ministries.

### *Military spending*

The new EMPAE (National Medium-Term Military Procurement Programme), to be adopted by Government, plans for a reduction in expenditure in the medium term that durably contributes to fiscal consolidation, without prejudice to national defence capability.

### ***To improve the fiscal framework***

Government implements legislation to strengthen the fiscal framework. The following elements should be part of the reform:

- Introduce a medium-term fiscal framework based on rolling three-year expenditure ceilings for central government, social security and local governments;
- Strengthen the position of the Finance Minister vis-à-vis line ministries in both budget preparation and execution phases (giving him/her veto power on spending decisions and execution);
- Introduce a compulsory contingency reserve in the budget, corresponding to 5 percent of total appropriations of government departments other than wages, pensions and interest; the use of the contingency reserve will be decided by the Finance Minister;
- Parliament does not modify the overall size of the budget at the approval stage, and focuses on the composition of public expenditure and revenue, and reliability of projections for expenditure and revenue;
- Introduce stronger expenditure monitoring mechanisms, particularly by implementing an appropriate control of spending commitments, through which spending entities (line ministries, local authorities, social security funds, hospitals and other legal entities,) will report on a monthly basis to the Treasury on their outstanding expenditure commitments against their authorised appropriations in the budget law. To this end, the General Secretariat of Information Systems starts developing a special information system, to be complete by June 2011, interconnecting all public entities with the General Accounting Office (GAO), to provide real-time data;
- Introduce a revenue rule for the general government, according to which the allocation of higher-than-expected revenues should be specified *ex ante* in the budget;
- Creation of a budget office attached to Parliament providing independent advice and expert scrutiny on fiscal issues, and reporting publicly on the budgetary plans and execution of the spending entities of the general government, and on macroeconomic assumptions used in the budget.

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

The National Actuarial Authority provides by 15 December 2010 interim long-term projections of pension expenditure up to 2060 under the July 2010 legislation covering the main pension schemes (IKA, OGA, OAEE and OPAD).

***To modernise the health care system***

Government adopts a comprehensive reform of the health care system and modifies the allocation of health-related tasks among ministries.

The overarching objective is to keep public health expenditure at or below 6 percent of GDP, while maintaining universal access and improving the quality of care delivery. In the short-term, the main focus should be on macro-level discipline and cost-control.

Regarding pharmaceuticals, the government implements measures yielding savings of at least EUR 2 billion relative to the 2010 level, at least EUR 1 billion of which would materialise already in 2011. This would bring average public spending on outpatient pharmaceuticals to about 1 percent of GDP (in line with the EU average) by the end of 2012. More specifically, the following measures are implemented by end of 2010:

- Ensure full implementation of a uniform e-prescribing system, by extending the system currently used by OAEE to all the social security funds providing health insurance;
- Define (through EOF) and publish prescription guidelines for physicians on the basis of international prescription guidelines;
- Social security funds establish a process to regularly assess the information obtained through the e-prescribing system and vis-à-vis prescription guidelines. Assessment will be done through a common dedicated unit under the authority of Health Benefit Coordination Council (SYSPY) with support of IDIKA. Relevant sanctions and penalties will be enforced as a follow up to the assessment and as foreseen by existing rules and legislation;
- A yearly report on medicine prescription is published and feedback is provided to each physician on a regular basis (at least annually). The report and feedback analysis look at prescription behaviour with reference to the most costly and mostly used medicines.
- Publish the complete price list for the medicines in the market, using the new pricing mechanism. This list will be published by December 2010 and replace the partial list introduced in September. It will be updated quarterly.
- Announce that caps to the price reductions used when the price list was first introduced in September 2010 will be lifted by March 2011.
- Apply the negative list of non-reimbursed medicines and the list of over-the-counter medicines prepared by the EOF.
- Finalise the new positive list of reimbursed medicines using the new reference price system.
- Using the information made available through e-prescribing and scanning, Government collect the agreed rebate from pharmaceutical companies.
- Introduces a monitoring mechanism allowing for developments in pharmaceutical expenditure to be assessed on a monthly basis.

If the implementation of the above measures is insufficient to achieve the targeted savings, both in 2011 and for the medium term, the government will implement additional measures, following discussions with the European Commission, the ECB and the IMF staff. An assessment of the impact of measures will be made in the context of programme reviews.

Government enforces the payment of existing co-payments for regular outpatient services in all public hospitals and health centres and extends the 'all day' functioning of hospitals (afternoon shift) in order to develop and improve health care services and increase revenue. Government increases and enforces the co-payment of outpatient services from EUR 3 to EUR 5 and extends co-payments to unwarranted visits to emergency departments.

Government ensures greater budgetary and operational oversight of health care spending by the Finance Minister, and the publication of audited accounts for hospitals and health centres.

#### *Task force*

Government creates an independent task force of health policy experts whose task is to produce, by end May 2011, a detailed report (*blue print*) for an overall reform of the health system to improve efficiency and effectiveness in the health system (both public and private). This task force has access to all available information and receives adequate administrative support. It will produce an interim report by March 2011.

### **iii. Financial sector regulation and supervision**

The Hellenic Financial Stability Fund is fully operational and adequately staffed (by end January 2011). Staff is recruited under the fastest and most flexible existing recruitment procedure.

Government ensures that the EUR 25-billion extension of the government-guarantees on bank bonds is available by the end of November 2010.

ATE announces a rights issue before end-November 2010.

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

### **iv. Structural reforms**

#### ***To strengthen labour market institutions***

Government reforms the mechanism for collective bargaining at the firm level in close cooperation with social partners. The new law establishes that firm-level agreements prevail over those under sector and occupational agreements without undue restrictions (for this purpose, Law 1876/1990, Article 10 is amended). The conclusion of firm-level collective agreements should not be restricted by law, notably by requirements regarding the minimum size of firms entitled to engage in collective bargaining (for this purpose Law 1876/1990, Article 6.1.b is amended).

Government amends Law 1876/1990 (Articles 11.2 and 11.3) to eliminate the extension of sector and occupational agreements to parties not represented in negotiations.

Government adopts an act, in line with Article 73 of Law 3863/2010, revising the mediation and arbitration system and introducing symmetric access to arbitration if parties disagree with the proposal of the mediator without exceptions. The Mediation and Arbitration Organisation (OMED) shall be free from government influence; this shall be reflected in the composition of the board of directors. Its Chairman is elected by unanimity by the employers and employees representatives. The new act indicates that mediators and arbitrators pay due attention to cost competitiveness.

Government amends legislation to extend the probationary period for new jobs to one year (Law 3863/2010, Article 74.2).

Government eliminates temporal limits in the use of temporary working agencies. For this purpose, relevant laws are amended.

Government adopts legislation to remove impediments for greater use of fixed-term contracts.

Government eliminates the provision that establishes higher hourly remuneration to part-time workers. For this purpose Law 1892/1990, Article 38 is further amended.

Government amends current legislation (Law 3846/2010, Article 7) to allow for a more flexible working-time management, including part-time shift work (Article 2.3).

### ***To reform and modernise public administration***

#### *Functional reviews*

Government proceeds with two independent functional reviews of the public administration at central level and of all existing social programmes, which will be conducted by the OECD. The first review on public administration will be coordinated by the Ministry of Interior. The second review on social programmes will be coordinated by the Ministry of Labour. The review of the central administration involves all ministries (first phase) and key subordinated public entities (second phase). The review of all existing social programmes will be comprehensive and will affect all relevant ministries. The terms of reference of both reviews, and a precise time schedule for the second phase of the central administration review, will be agreed between both ministries and the OECD after consultation with the European Commission, IMF and ECB staff.

The review on central administration will be merged with the Ministry of Interior's own reorganisation programme.<sup>5</sup> The review will:

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<sup>5</sup> This is done in the framework of the Administrative Reform Operational Programme, and more specifically the subproject II 'Mapping and Assessing Current Situation'. The OECD will guide the Ministry of Interior on the methodology and tools of the review. The second review on social programmes will be financed by the Human Resources Development Operational Programme.

- take stock of the resource use (human resources and procurement) to carry out government functions;
- identify actions to rationalise the several departments, ensure efficiency and generate productivity gains, and
- quantify savings.

The review of existing social programmes will:

- assess the effectiveness and appropriateness of existing social and welfare programmes;
- identify the least effective programmes, and
- quantify savings.

#### *Local administration*

Government adopts the required decrees for the entry into force of the local administration reform (*Kallikrates* reform). The reform yields savings of EUR 500 million in 2011 and additional EUR 500 million per year in 2012 and 2013 for the general government as a whole.

Government adopts a decree disallowing local governments to run deficits at least until 2014. To ensure that savings contribute to the reduction in the government deficit. Government reduces transfers to local government in line with planned savings and transfers of competences to local government.

#### *Public sector wages and human resource management*

The Ministry of Finance together with the Ministry of Interior complete the establishment of a Single Payment Authority for the payment of wages in the public sector. The Ministry of Finance prepares a report (to be published by end January 2011), in collaboration with the Single Payment Authority, on the structure and levels of remuneration and the volume and dynamics of employment in the general government. The report presents plans for the allocation of human resources in the public sector for the period up to 2013. It specifies plans to reallocate qualified staff to the tax administration, GAO, the labour inspectorate, regulators and Hellenic Competition Commission.

Government establishes a process to simplify the remuneration system in the public sector. It shall apply to all public sector employees. This should lead to a system where remuneration reflects productivity and tasks. Government ensures that there is no increase in the wage bill in the public sector as a result of the reform.

ASEP accelerates staff selection-related procedures for the areas which are a priority in the implementation of this memorandum.

#### *Public procurement*

Government provides timetable and details for the development of *e-procurement* and signs the respective contract for the provision of IT platform.

## ***To strengthen competition in open markets***

### *Services directive*

Government ensures that the point of single contact (PSC):

- provides relevant information on all sector-specific and cross-cutting formalities and procedures (such as company/trade registration and permits relating to the providers' premises);
- distinguishes between procedures applicable to service providers established in Greece and those applicable to cross-border providers (in particular for the regulated professions).<sup>6</sup>

Government:

- ensures adequate links between the PSC and other relevant authorities (including professional associations);
- allows the online completion of procedures covering at least, the procedures in the distribution services, tourism, education and construction sectors;
- allows for payment of administrative fees at a distance.<sup>7</sup>

Government carries out a risk assessment of procedures focusing on priority service sectors with a view to adopting solutions for electronic identification, electronic signature and electronic documents in conformity with Commission Decision 2009/767/EC.

Government presents a progress report outlining available online procedures, steps to be taken over the next two quarters to finalise the electronic completion of procedures, setting clear deadlines by service sector and procedure.

Government adopts changes to existing (sectoral) legislation in key services sectors such as tourism, retail and private education services. New legislation should:

- facilitate establishment by
  - abolishing or amending requirements which are prohibited by the Services Directive; and
  - significantly reducing requirements, including those relating to quantitative and territorial restrictions, legal form requirements, shareholding requirements, fixed minimum and/or maximum tariffs and restrictions to multidisciplinary activities.
- facilitate the provision of cross-border services, so that providers of cross-border services are required to comply with specific requirements of the Greek legislation only in exceptional cases (when admitted by Articles 16 or 17 of the Services Directive).

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<sup>6</sup> This will be done by the Ministry of Interior based on information provided by the relevant ministries.

<sup>7</sup> The PSC indicates an account to which the relevant fees can be transferred at a distance by any applicant.

- provide legal certainty for providers of cross-border services by setting out in the respective (sectoral) legislation which requirements can and which requirements cannot be applied to cross-border services.

Government specifies, for priority service sectors that are key for growth, a timetable for adopting sectoral legislation by end Q2 2011 that ensures compliance with the requirements of the Services Directive.

### *Restricted professions*

Government proposes legislation to remove restrictions to competition, business and trade in restricted professions including:

- the legal profession, to remove unnecessary restrictions on fixed minimum tariffs, the effective ban on advertising, territorial restrictions on where lawyers can practice;
- the pharmacy profession, to promote more flexible opening hours and reduce minimum profit margins (see also measures to modernise the health care system);
- the notary profession, to reduce fixed tariffs and increase the number of notaries;
- architects, covering fixed minimum tariffs;
- engineers, covering fixed minimum tariffs;
- auditing services, covering fixed tariffs.

Government requests the Hellenic Competition Commission to issue an opinion on the proposed legislation.

Government ensures the effective implementation of EU rules on recognition of professional qualifications and compliance with ECJ rulings (including those related to franchised diplomas). It presents to the European Commission a list of pending applications and a timetable for dealing with these applications. In particular, pending applications for recognition of professional qualifications (in particular those related to franchised diplomas) should be immediately processed, with the first decisions on those applications to be submitted to the European Commission by the end of 2010.

### *Transport*

Building on the recently adopted railway reform law (Law 3891/2010), Government adopts a business plan on the restructuring of the railways sector in a viable manner. By implementing the business plan, the train operator (TRAINOSE) and infrastructure manager (OSE) break even.

The restructuring measures envisaged in the business plan imply state aid in favour of OSE Group and TRAINOSE, which will be notified to the Commission by the end of 2010. The business plan will be adapted to ensure compliance with State aid rules. The next review will report on adaptations brought to the business plan to ensure its compatibility with State aid rules.

The business plan

- provides an overall fiscal impact analysis, including investment and debt;
- establishes monitoring and enforcement mechanisms that ensure prompt correction of deviations vis-à-vis the plan.

*Sectoral growth drivers*

Government presents a report analysing the potential contribution of the tourism sector to growth and jobs. It should identify legislative, administrative and other obstacles hindering competition and market entry to the realisation of sector potential.

Government presents a report analysing the potential contribution of the retail sector to price flexibility, growth and jobs. It should identify legislative, administrative and other obstacles hindering competition and market entry to the realisation of sector potential.

*Business environment*

Government adopts legislation to simplify and accelerate the process of licensing enterprises, industrial activities and professions. For this purpose, it revises *inter alia* Law 3325/2005, and makes the spatial plan and Law 3333/05 for business areas operational, with the subsequent issuance of the required ministerial decisions and presidential decrees in Q1-2011.

Government adopts an action plan for a business-friendly Greece with a timetable for the removal of 30 of the most important remaining restrictions to business activity, investment and innovation.

Government adopts a law modifying the existing institutional framework of the Hellenic Competition Commission (HCC) with the aim of abolishing the notification system for all agreements falling within the scope of Article 1 of Law 703/1977, to give the HCC the power to reject complaints, to increase the independence of HCC members, and to establish reasonable deadlines for the investigation and issuance of decisions.

Government makes the General Commercial Registry (GEMI) operational.<sup>8</sup>

Government accelerates the land registry and prepares a progress report and an action plan.

*Energy*

Government presents its detailed plans for the liberalisation of the energy market, including opening up lignite-fired electricity generation to third parties in line with EU law.

Government adopts a plan for phased transitory cost-based access to lignite-fired generation, taking into account the decommissioning of the power plants scheduled under the Government's Energy Plan to meet the 20-20-20 target. This access will remain in place until effective implementation of the liberalisation has taken place.

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<sup>8</sup> By end December 2010: the data migration from the chambers' registries to the GEMI database is finalised; the joint ministerial decisions on procedures, conditions and technical modalities are adopted; the one-stop-shop services are provided by KEP's chambers of commerce and notaries. Any other required steps, including the automatisisation of one-stop-shop services, are finalised by March 2011.

Government adopts a plan to either award the hydro reserves management to an independent body or to assign this role to the independent system operator.

Government adopts a mechanism to ensure that the energy component of regulated tariffs reflects, gradually and at the latest by June 2013, wholesale market prices, except for vulnerable consumers. Government adopts a revised definition of vulnerable consumers and a tariff for this category of consumers.

To ensure that network activities are unbundled from supply activities, as foreseen in the second and third energy liberalisation packages, Government identifies the assets and personnel associated with the electricity transmission system and the electricity distribution system.

### ***To promote investments and exports***

Government carries out an in-depth evaluation of all R&D and innovation actions, including in various operational programmes, in order to adjust the national strategy and limit the use of government subsidies and guarantees.

Government creates an external advisory council, to consider how to foster innovation, strengthen links between public research and Greek industries and the development of regional industrial clusters.

Government takes measures to facilitate FDI and investment in innovation in strategic sectors (green industries, ICT, etc.) as well as measures to promote exports. These actions focus on removing rigidities and administrative constraints and must be in line with the fiscal consolidation requirements.

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

Government meets targets for payment claims in the absorption of structural and cohesion funds set down in the table below. Compliance with the targets shall be measured by certified data. In addition, Government achieves an annual target of submitting 10 major projects applications to the Commission. In meeting absorption rate targets, recourse to non-targeted *de minimis* state aid measures should be gradually reduced.

Government presents a report on the activities of the task force assessing progress in ensuring the rapid implementation and absorption of structural funds, and proposing improvements when necessary.

**Table 1:** Targets for payment claims in the absorption of Structural and Cohesion Funds (programming period 2007-2013) to be submitted between 2010 and 2013 (in EUR million)

	<b>2010</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>
European Regional Fund and Cohesion Fund	2 330	2 600	2 850	3 000
European Social Fund	420	750	880	890
Target of first half of the year		1 105	1 231	1 284
Target of second half of the year		2 245	2 499	2 606
Total annual target	2 750	3 350	3 730	3 890

Without prejudice to the Greek Constitution, Government adopts legislation to tackle delays in the implementation of public works and investment projects in general. Legislation should:

- shorten and simplify judicial procedures challenging contract awards or land expropriation decisions;
- shorten deadlines to get permits by the Central Archaeological Council in Athens;
- simplify and shorten procedures to complete studies on environmental impact and to get the approval of environmental terms for infrastructure projects.

## **2. Actions for the fourth review (actions to be completed by end Q1-2011)**

### **i. Fiscal consolidation**

Government rigorously implements the budget for 2011 in line with this Memorandum.

The Ministry of Finance ensures tight supervision of expenditure commitments by the government departments, including state entities, the Public Investment Budget, social security funds, local governments and public enterprises, and effective tax collection, to secure the attainment of the programme deficit targets (see respectively Table 2 of the MEFP and Article 1 of Council Decision 2010/320/EU).

The Ministry of Finance releases 1/14 of the budgetary appropriation (excluding wages, pensions and interest) per month to the several departments. The remaining budgetary appropriations will not be released before September 2011, and may be cancelled by the Ministry of Finance, according to the need to respect the government deficit ceiling.

Government clears arrears accumulated in previous years.

Government prepares a budgetary strategy paper which identifies structural fiscal consolidation measures of at least 5 percent of GDP that will ensure the deficit targets up to 2014 are achieved. The strategy paper will be accompanied by a plan to be discussed during the review currently planned for February 2010. Relevant acts are adopted by May.

### **ii. Structural fiscal reforms**

#### ***Revenue administration and public financial administration reforms***

Government launches an anti-evasion plan. The plan includes quantitative performance indicators to hold revenue administration accountable.

Government adopts legislation to streamline the administrative tax dispute and judicial appeal processes; centralises filing enforcement and debt collection indirect audit methods and tax return processing, and adopts the required acts and procedures to better address misconduct, corruption and poor performance of tax officials, including prosecution in cases of breach of duty and a more flexible recruitment process to appoint and promote good performers (based on principles of meritocracy, objectivity and transparency).

Government appoints financial accounting officers, in accordance to Ministry of Finance rules, in all line ministries and major government entities with the responsibility to ensure sound financial controls.

### ***Public sector wages and human resource management***

Government presents a detailed action plan (by end February 2011) with a timeline to complete and implement the simplified remuneration system.

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

The National Actuarial Authority submits comprehensive long-term projections of pension expenditure up to 2060 under the adopted reform; the projection will be peer-reviewed and validated by the EU Economic Policy Committee and the European Commission, IMF and ECB. The projections shall encompass the supplementary (auxiliary) schemes, based on comprehensive set of data collected and elaborated by the National Actuarial Authority.

### ***Fighting waste in public enterprises***

With the aim of fighting waste and mismanagement in state-owned companies, Government adopts an act by end February 2011 that:

- Cuts primary remuneration in public enterprises by at least 10 percent at company level;
- Limits secondary remuneration to 10 percent of primary remuneration at company level;
- Establishes a ceiling of EUR 4 000 per month for gross earnings (12 payments per year);
- Increases urban transport tariffs by at least 30 percent;
- Increases other tariffs;
- Establishes actions that reduce operating expenditure in public companies between 15 to 25 percent (according to the specific needs of enterprises).

These measures should be effective from January 2011 and yield fiscal savings of at least EUR 800 million.<sup>9</sup>

Government adopts an act for OASA (the Athens urban transport network) restructuring by the end of March 2011.

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

#### *Governance*

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

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<sup>9</sup> This yield will be assessed net of losses in social contribution and personal income tax that may result from those actions.

- establishes new criteria and terms for the conclusions of contracts by social security funds (including OPAD) with all healthcare providers, and all other actions envisaged in Article 32 with the aim of achieving the targeted reduction in spending;
- initiates joint purchase of medical services and goods to achieve substantial expenditure reduction (of at least 25 percent compared to 2010) through price-volume agreements.

#### *Comprehensive E-prescribing*

Government ensures that the e-prescribing system for diagnostic tests currently piloted by OPAD is extended to all social security funds.

Government ensures that e-prescribing is extended to doctors' referrals to other doctors and to hospital care.

Each social security fund together with SYSPY establishes a process to regularly assess the information obtained through the e-prescribing system and produces regular reports (at least on a six-monthly basis) to be transmitted to the competent authorities in the Ministry of Labour, Ministry of Health and Ministry of Finance. Monitoring and assessment is done through a dedicated common unit under SYSPY. On the basis of the information available and the assessment conducted, a yearly report is published and feedback is provided to each physician. Sanctions and penalties will be enforced as a follow up to the assessment.

#### *Hospital computerisation and monitoring system*

The Ministry of Health completes the programme of hospital computerisation. In particular, it finalises the process of integration and consolidation of hospitals' IT systems and centralisation of information. The Ministry of Health creates a dedicated service/unit to collect data and produce regular quarterly reports and an annual report. A copy of these reports is transmitted to the competent authority in the Ministry of Finance.

Government takes measures to improve the accounting, book keeping (of medical supplies) and billing systems, through:

- finalising the introduction of double-entry accrual accounting systems in all hospitals;
- the use of the uniform coding system and a common registry for medical supplies developed by the Health Procurement Commission (EPY) and the National Centre for Medical Technology for the purpose of procuring medical supplies;
- the calculation of stocks and flows of medical supplies in all the hospitals using the uniform coding system for medical supplies;
- the collection of co-payments from patients in all NHS facilities;
- the timely invoicing of treatment costs (no later than 2 months) to Greek social security funds, other EU Member States and private health insurers for the treatment of non-nationals/non-residents.
- the use of e-prescribing for all medical acts (medicines, referrals, diagnostics, surgery) in all NHS facilities

#### *Increasing use of generic medicines*

Government takes measures to ensure that at least 50 percent of the volume of medicines used by public hospitals by end of 2011 is composed of generics and off-patent medicines, in particular by making compulsory that all public hospitals procure pharmaceutical products by active substance.

### *Pricing of medicines*

#### Government

- Moves the responsibility of pricing medicines to EOF and all other aspects of pharmaceutical policy to the Ministry of Health, to rationalise licensing, pricing and reimbursement systems for medicines;
- Reduce the profit margin of pharmacies on retail prices directly to 15-20 percent, or indirectly by establishing a system of rebates for pharmacies with sales above a designated threshold. Starting from 2012, pharmacies profit margins should be calculated as a flat amount or flat fee combined with a small profit margin.
- Reduce the profit margin of wholesale companies distributing pharmaceuticals by at least one third, from January 2011.

### *Task force*

The independent task force of health policy experts created at the end of 2010 produces, in cooperation with the European Commission, the ECB and the IMF, an interim policy report by March 2011, with initial indications on the necessary revisions to the policies implemented so far and the improvements for the years to come.

### *Accounting and control*

Internal controllers are assigned to all major hospitals by Q2-2011.

By the end of February, Government starts publishing monthly data on healthcare expenditure by the main social security funds (IKA, OAEE, OGA and OPAD) with a lag of three weeks after the end of the respective quarter (see annex 1).

### ***To fight waste in public enterprises***

Government adopts an action plan for restructuring public enterprises<sup>10</sup> and leading to the closure of non viable enterprises and extra-budgetary funds that have outlived their original purpose.

Government publishes monthly information on the accounts of public enterprises classified in general government with a lag of three weeks.

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<sup>10</sup> Priority will be given to public enterprises, which according to ESA95, are classified in general government.

Government revises the framework law (Law 3429/2005) on state-owned corporate governance, with the aim of adopting management in accordance with international best practices. The new framework law requires auditing of the companies accounts at least with semi annual frequency (quarterly frequency for at least the ten largest state-owned enterprises by turnover) and the strengthening of enterprises' internal controlling, strengthens rules on asset management and introduces more flexibility in working practices.

### **iii. Financial sector regulation and supervision**

Government transfers, by end January, EUR 1 000 million to a dedicated government account opened by the General Accounting Office at the Bank of Greece. Funds from this account are released to the Hellenic Financial Stability Fund if programme reviews of bank capital suggest that the resources are necessary. The release of the funds is subject to agreement by the European Commission, ECB and IMF staffs.

Government legislates with the aim of unbundling the core consignment activity of the Loan and Consignment Fund from deposit-taking and loan distribution activities.

Government tables legislation that places all registered banks employees under the same private sector status, regardless of the bank ownership.

### **iv. Structural reforms**

#### ***To reform and modernise public administration***

##### *Public procurement*

Government adopts legislation establishing the Single Public Procurement Authority with the mandate, objectives, competences, powers and schedule for entry into force in line with the Action Plan agreed with the Commission in November 2010. Government transmits the draft law to the European Commission by 1 February 2011 for review and an assessment of compliance with the Action Plan.

Government undertakes a review identifying areas to increase the efficiency of the public procurement system outside the Single Public Procurement Authority as specified in the Action Plan. Government provides an update of progress regarding the development of the e-procurement system.

##### *Better Regulation*

Government adopts legislation and measures needed to implement the 'Better Regulation agenda', covering in particular the areas of codification, impact assessment, the reduction of administrative burdens and the 'Better Regulation' structure.

### ***Reforms to improve the business environment***

#### *Restricted professions*

Government adopts specific legislation on restricted professions including for the legal profession, the pharmacy profession, the notary profession, architects, engineers and auditing services.

#### *Sectoral growth drivers*

Government adopts legislation and takes other structural actions to implement the findings of the report analysing the potential contribution of the tourism sector to growth and jobs in the Greek economy.

Government adopts legislation and takes other structural actions to implement the findings of the report analysing the potential contribution of the retail sector to price flexibility, growth and jobs in the Greek economy.

### ***To enhance competition in open markets***

#### *Services directive*

Government adopts acts allowing the online completion of procedures covering other relevant sectors of the economy, such as food and beverage services, services of the regulated professions, real estate services, and business services.

As regards the cross-border provision of services, particular attention should be paid to declarations relating to the recognition of professional qualifications.

#### *Energy*

Government commences implementation of plan for opening up lignite-fired electricity generation to third parties.

Government implements its decision to either award the hydro reserves management to an independent body or to assign this role to the independent system operator.

Government starts to implement the mechanism to ensure that the energy component of regulated tariffs reflects, gradually and at the latest by June 2013, wholesale market prices, except for vulnerable consumers.

In order to ensure that network activities are unbundled from supply activities as foreseen in the second and third energy liberalisation packages, the following measures are implemented:

- Government adopts a Decision on the modalities of unbundling of the transmission system operator in line with the third energy liberalization package and adopts necessary

legislation to ensure the creation of fully unbundled electricity and gas transmission system operators by March 2012.

- Government ensures the creation of an independent Distribution System Operator, in line with the third energy liberalisation package.

Government transfers to RAE (Regulatory Authority for Energy) all regulatory powers assigned to EU energy regulators in the third energy liberalisation package (licensing, network access, network charges, market monitoring, etc).

Government adopts measures to ensure the independence of RAE (impartial and transparent nomination of board, management authority with regard to budget and personnel, etc. in line with the third energy liberalisation package).

### *Transport*

Government adopts a new regulatory framework to facilitate the conclusion of concession agreements for regional airports. The new regulatory framework should contribute to the development of the tourism sector and be mindful of preventing anticompetitive practices and foresee appropriate oversight of the allocation and operation of concessions, in full respect of state aid rules.

Government adopts a law that removes the current restrictions on the provision of services for occasional passenger transport by buses, coaches and limousines and which guarantees that any operator that meets clearly specified criteria related to professional capacity has unlimited access to the market. The cost for granting and renewing of licenses shall not exceed the administrative costs related to the licensing procedure and shall be levied in proportion to the number of vehicles licensed. The method for calculating the fees must be transparent and objective and shall not lead to over recovery of costs incurred.

### *To upgrade the education system*

Government establishes, by end February 2011, an independent taskforce of education policy with purpose of increasing the efficiency of the public education system (primary, secondary and higher education) and reach a more efficient use of resources.<sup>11</sup>

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<sup>11</sup> This taskforce will be in contact with the already existing international advisory committee to the Greek government for higher education reform.

### **3. Actions for the fifth review (actions to be completed by end Q2-2011)**

#### **i. Fiscal consolidation**

Government rigorously implements the budget for 2011 in line with this Memorandum, and the fiscal consolidation measures in the budget. Government stands ready to define and enact additional measures if needed to reach the budgetary targets.

#### **ii. Structural fiscal reforms**

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

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

- the stabilisation of the current spending, through appropriate adjustments to be made from 1 January 2012;
- the long-term sustainability of secondary schemes through a strict link between contributions and benefits.

This reform contributes to achieve the overarching target of reducing the overall (basic, contributory, supplementary and any other related scheme) increase of public sector pension spending, over the period 2009-2060, to under 2.5 percentage points of GDP.

The reform of the secondary (supplementary) schemes is designed in close consultation with European Commission, IMF and ECB staff, and its estimated impact on long-term sustainability is validated by the EU Economic Policy Committee. The parameters of the new secondary notional defined-contribution system ensure long-term actuarial balance, as assessed by the National Actuarial Authority.

If the projections by the National Actuarial Authority show that the projected increase in public pension expenditure would exceed the limit of 2.5 percentage points of GDP over 2009-60, Government revises also the main parameters of the pension system provided by Law 3863/2010. The revision is designed in close consultation with the European Commission, the IMF and the ECB staffs.

Government substantially revises the list of heavy and arduous professions, and reduces its coverage to no more than 10 percent of the labour force. The new list of Difficult and Hazardous Occupations shall apply with effect from 1 July 2011 to all current and future workers.

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

By the first quarter 2012, Government implements the reform of the secondary/supplementary pension schemes, by starting the calculation of benefits on the basis of the new notional defined-contribution system. Government freezes nominal supplementary pensions and reduces the replacement rates for accrued rights, based on the actuarial study prepared by the National Actuarial Authority. In case the actuarial study is not ready, replacement rates are reduced, starting from 1 January 2012, to avoid additional deficits.

### ***Privatisation and better management of state assets***

Government publishes a full inventory of commercial state-owned real-estate assets.

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

Government takes additional measures to promote the use of generic medicines through:

- compulsory doctors' e-prescription by active substance;
- associating a lower cost-sharing rate to generic medicines that have a significantly lower price than the reference price (lower than 60 percent of the reference price) on the basis of the experience of other EU countries;
- setting the maximum price of generics to 60 percent of the branded medicine.

Government extends the use of capitation payment of physician, currently used by OAEE, to all contracts between social security funds and the doctors they contract. The new payment mechanism starts for each new contract renewed in 2011 and for all contracts from 2012. It defines a minimum number of patients per doctor, on the basis of the experience of other EU Member States.

Government moves towards greater equalisation across funds regarding contribution rates and minimum benefit packages, with the aim of full equalisation by 2012 building on Law 3655/2008.

To reduce costs and improve quality of care for patients, Government:

- adjusts public hospital provision by implementing joint management / joint operation between small scale hospitals and big hospitals within the same district and health region;
- revises the activity of small hospitals in a move towards specialisation in areas such as rehabilitation or cancer treatment where relevant;
- in districts with more than one hospital (excluding university hospitals) use a joint management / joint operation system;
- increases staff mobility within health regions.

The independent task force of health policy experts created at the end of 2010 produces, in cooperation with the European Commission, the ECB and the IMF, its final policy report by end May 2011, with specific recommendations on revisions to the policies implemented so far. The report and policies proposals will cover the following areas:

- Health system governance in order to reduce the fragmentation of the system;
- Financing: pooling, collection and distribution of funds;
- Harmonization of health packages across funds;

- Service provision and incentives for providers including:
  - integration between private and public provision;
  - primary care vis-à-vis specialist and hospital care;
  - efficiency in the provision of hospital services;
  - pharmaceutical consumption;
  - human resources;
- Public health priorities, health promotion and disease prevention;
- Data collection, health technology assessment and assessment of performance;
- Expenditure control mechanisms.

The report will provide quantitative targets in the fields above, in order to contribute to keep public expenditure on health as a proportion of GDP constant at, or below, 6 percent. On the basis of this report, the Government adopts an action plan by end June 2011, including a timetable for concrete actions.

#### *Accounting and control*

Government ensures that the programme of hospital computerisation allows for a measurement of hospital and health centres activity. To that end, the Government defines a core set of activity and expenditure indicators in line with Eurostat, OECD and WHO health databases.

Government ensures that the programme of hospital computerisation allows for the setting up of a basic system of patient electronic medical records.

By the end of May, Government starts publishing monthly data on healthcare expenditure by all social security funds with a lag of three weeks after the end of the respective quarter (see Annex 1).

### **iii. Structural reforms**

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

##### *Functional reviews*

Government assesses the results of the first phase of the independent functional review of central administration, including operational policy recommendations. The functional review of existing social programmes is finalised.

##### *Public sector wages and human resource management*

Government adopts legislation establishing a simplified remuneration system covering basic wages and allowances that applies to all public sector employees ensuring that remuneration reflects productivity and tasks: this reform should be part of an overall reform of Human Resource management in the public sector.

##### *Public procurement*

Government undertakes a thorough review of the system of redress against award procedures and the role to confer to the Single Public Procurement Authority in agreement with the European Commission.

***To upgrade the education system***

The independent taskforce on education publishes a detailed blueprint for improvement of the efficiency in the use of resources in the public education system.

***To strengthen labour market institutions***

Government completes the reform to strengthen the Labour Inspectorate, which should be fully resourced with qualified staff. Quantitative targets on the number of controls to be executed should be set for the Labour Inspectorate.

Government adapts legislation on tackling undeclared work to require the registration of new employees before they start working.

***To strengthen competition in open markets***

*Services Directive*

Government adopts legislation on the priority service sectors. Government specifies, for these sectors, a timetable for adopting sectoral legislation by end Q4 2011 that ensures full compliance with the requirements of the Services Directive.

*Business environment*

Government presents an impact assessment evaluating Law 3853/2010 on simplification of procedures for the establishment of companies in terms of the savings in time and cost to set up a business.

*Energy*

Government removes regulated tariffs for customers except households and small enterprises (as defined in the second and third energy liberalisation packages).

***To raise the absorption rates of Structural and Cohesion Funds***

Government meets targets for payment claims in the absorption of EU structural and cohesion funds set down in Table 1. Compliance with the targets shall be measured by certified data.

#### 4. Actions for the sixth review (to be completed by end Q3-2011)

##### i. Fiscal consolidation

Government rigorously implements the budget for 2011 in line with this Memorandum. Government stands ready to enact additional measures if needed to reach the budgetary targets.

Government adopts a draft budget for 2012 aiming at a further reduction of the general government deficit in line with the programme and including the detailed presentation of consolidation measures amounting to at least 2.2 percent of GDP, including the following measures (the yield of these measure will be reviewed in due course and, in exceptional circumstances, measures yielding comparable savings could be considered in close consultation with European Commission, IMF and ECB staffs):

- Reduce public employment on top of the rule of 1 recruitment for each 5 retirements in the public sector;<sup>12</sup> the reduction in public employment on top of the 1-to-5 rule should allow savings of at least EUR 600 million;
- Establish excises for non alcoholic beverages, for a total amount of at least EUR 300 million;
- Continue the expansion of the base of the real estate tax by updating asset values to yield at least EUR 200 million additional revenue;
- Continue the reorganisation of local government, to generate at least EUR 500 million in savings;
- Nominal freeze in pensions yielding savings of at least EUR 250 million;<sup>13</sup>
- Continue to increase the effectiveness of the presumptive taxation of professionals, with the aim of collecting at least additional EUR 100 million;
- Reduction of transfers to public enterprises by at least EUR 800 million following their restructuring;
- Make unemployment benefits means-tested (aiming at savings of EUR 500 million);
- Collect further revenue from the licensing of gaming of at least EUR 225 million in one-off sales of licences and increase the annual yield from royalties by an addition EUR 400 million;
- Further broadening of VAT base with the aim of collecting at least additional EUR 300 million;
- Fully implement the green tax and increase its annual yield by least EUR 150 million;
- Increase the collection of a special tax on unauthorised establishments by an additional EUR 100 million;
- Reduction in domestically-finance spending in investment by at least EUR 500 million compared to the actual 2011 level, while increasing revenue by giving priority to investment projects financed by EU structural and cohesion funds.

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<sup>12</sup> The rule also applies to staff transferred from public enterprises under restructuring to government entities.

<sup>13</sup> Adjustments may be needed in case of negative inflation.

**ii. Fiscal structural reforms*****To modernise the health care system***

Government starts the implementation of the measures recommended by the independent task force on health care.

**iii. Structural reforms*****To modernise public administration***

Government ensures full operation of the Better Regulation Agenda to reduce the administrative burden by 20 percent compared with 2008.

Government ensures that the e-procurement framework is fully operational, and creates a common website for the publishing of all procurement procedures and outcomes.

***To improve the business environment***

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

Government takes decisions to simplify the process to clear customs for exports and imports and give larger companies or industrial areas the possibility to be certified to clear cargo for the customs themselves; Government abolishes the requirement of registration with the exporter's registry of the chamber of commerce for obtaining a certificate of origin.

***To strengthen competition in open markets******Services Directive***

Government ensures that the PSC is fully operational and that the completion of procedures by electronic means is possible in *all* sectors covered by the Services Directive.

***To upgrade the education system***

Governments takes into account the measures recommended by the independent taskforce on education in the implementation of reforms.

## **5. Actions for the seventh review (actions to be completed by end Q4-2011)**

### **i. Fiscal consolidation**

Government achieves the target for the 2011 general government deficit of not more than EUR 17 065 million.

Parliament adopts the final budget for 2012 targeting a further reduction of the general government deficit which in ESA95-based terms, should not exceed EUR 14 916 million.

### **ii. Fiscal structural reforms**

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

Government defines a hospital case-based costing system to be used for budgeting purposes from 2013.

The independent task force of health policy experts produces an implementation report, revising the policies implemented so far.

### **iii. Structural reforms**

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

##### *Functional reviews*

Government assesses the results of the second (final) phase of the independent functional review of central administration. Government adopts legislation and measures to implement the operational recommendations of the first phase of the functional review of public administration at central level and of the full review of existing social programmes.

##### *Public procurement*

Single Public Procurement Authority starts its operations with the necessary resources to fulfil its mandate, objectives, competences and powers as defined in the Action Plan.

#### ***To strengthen competition in open markets***

##### *Energy*

Government removes regulated tariffs for customers except households and small enterprises (as defined in the second and third energy liberalisation packages).

*Transport*

Government privatises at least 49 percent of TRAINOSE equity and shares management with the new shareholders.

***To raise the absorption rates of Structural and Cohesion Funds***

Government meets targets for payment claims in the absorption of EU structural and cohesion funds set down in Table 1. Compliance with the targets shall be measured by certified data.

Government introduces web-based open-access monitoring tool of procedures for approval of project proposals and for implementation of public projects.

Government ensures that the managerial capacity of all Managing Authorities and Intermediate Bodies of operational programmes under the framework of the National Strategy Reference Framework 2007-2013 has been certified by the International Organization for Standardization according to the standard ISO 9001:2008 (quality management).

Government presents a report on the activities of the task force assessing progress in ensuring the rapid implementation absorption of structural funds, and proposing improvements when necessary.

## Annex 1. Provision of data

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

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### To be provided by the Ministry of Finance

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<p>Preliminary monthly data on the state budget execution (including breakdown by main categories of revenue and expenditure and by line ministry).</p> <p><i>(Data compiled by the Ministry of Finance)</i></p>	<p>Monthly, 15 days after the end of each month; these data should also be included in subsequent transmissions in case of revision.</p>
<p>Updated monthly plans for the state budget execution for the remainder of the year, including breakdown by main categories of revenue and expenditure and by line ministry.</p> <p><i>(Data compiled by the Ministry of Finance)</i></p>	<p>Monthly, 30 days after the end of each month.</p>
<p>Preliminary monthly cash data on general government entities other than the state.</p> <p><i>(Data compiled by the Ministry of Finance)</i></p>	<p>Monthly, 30 days after the end of each month, these data should also be included in subsequent transmissions in case of revision.</p>
<p>Monthly data on the public wage bill (of general government, including a breakdown in nominal wage and allowances paid to government employees per line ministry and public entity), number of employees (including a breakdown per ministry and public entities outside the central government) and average wage (including the relative shares of the base wage, allowances and bonuses).</p> <p><i>(Data compiled by the Ministries of Interior and Finance)</i></p>	<p>Monthly, 30 days after the end of each month (starting in June 2010).</p>
<p>Weekly information on the Government's cash position with indication of sources and uses as well of number of days covered.</p> <p><i>(Data compiled by the Ministry of Finance)</i></p>	<p>Weekly on Friday, reporting on the previous Thursday.</p>
<p>Data on below-the-line financing for the general government.</p> <p><i>(Data compiled by the Ministry of Finance on the basis of basic data from the Ministries of Interior, Health, Labour and Defence)</i></p>	<p>Monthly, no later than 15 days after the end of each month; these data should also be included in subsequent transmissions in case of revision.</p>
<p>Data on expenditure pending payment (including arrears) of the general government, including the State, local government, social</p>	<p>Quarterly, within 55 days after the end of each quarter.</p>

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security, hospitals and legal entities. <i>(Data compiled by the Ministry of Finance on the basis of basic )</i>	
Data on public debt and new guarantees issued by the general government to public enterprises and the private sector. <i>(Data compiled by the Ministry of Finance)</i>	Monthly, within one month.
Data on public enterprises: revenue, costs, payroll, number of employees <i>(Data compiled by the Ministry of Finance)</i>	Monthly, within three weeks of the end of each month for the ten largest enterprises. Quarterly within three weeks of the end of each quarter for the other enterprises.
Monthly statement of the transactions through off-budget accounts. <i>(Data compiled by the Ministries of Finance and Education)</i>	Monthly, at the end of each month.
Monthly statements of the operations on the special account. <i>(Data compiled by the Ministry of Finance)</i>	Monthly, at the end of each month.
Report on progress with fulfilment of policy conditionality. <i>(Report prepared by the Ministry of Finance)</i>	Quarterly before the respective review starts.
Monthly data on healthcare expenditure by the social security funds with a lag of three weeks after the end of the respective quarter. <i>(Data compiled by the Ministries of Labour and Health)</i>	Monthly, within three weeks of the end of each month. Starting with data for January 2011 for IKA, OAEE, OGA and OPAD, and from April 2011 on for the other funds

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

Assets and liabilities of the Bank of Greece.	Weekly, next working day.
Assets and liabilities of the Greek banking system - aggregate monetary balance sheet of credit institutions.	Monthly, 30 days after the end of each month.
Evolution of the external funding provided by Greek banks to their subsidiaries abroad. <sup>14</sup>	Monthly, 15 days after the end of each month.
External funding flows for the banking, corporate and government	Monthly, 30 days after the end

<sup>14</sup> All forms of debt instruments and capital, as well as net deposits provided to subsidiaries abroad.

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sector, including also expected developments in the 12 months ahead.	of each month.
Report on banking sector liquidity situation.	Weekly, next working day.
Report on the evolution of financial stability indicators.	Quarterly, 15 days after the end of each quarter depending on data availability.

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Report on results from the regular quarterly solvency stress tests.

Quarterly, 15 days after the end of each quarter depending on data availability.

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Detailed report on the balance sheet of the Financial Stability Fund with indication and explanation of changes in the accounts.

Weekly, next working day.

