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The ESM Stability Support Programme

Greece, First & Second Reviews July 2017 Background Report

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The ESM Stability Support Programme

Greece, First & Second Reviews – July 2017

Background Report

EUROPEAN ECONOMY Institutional Paper 064

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This report contains the background analysis describing the design of the ESM programme for Greece signed in August 2015 and the implementation of the programme up to July 2017, i.e. up to the conclusion of the second review. It was prepared in the Directorate General Economic and Financial Affairs, under the direction of Declan Costello, Director and Mission Chief, and the coordination of Paul Kutos, Head of Unit and Deputy Mission Chief, and Júlia Lendvai, Deputy Head of Unit.

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SUMMARY AND MAIN FINDINGS

1. INTRODUCTION

1. **In the face of massive external and internal imbalances, which resulted in the loss of market access, in April 2010 Greece requested financial assistance from its European and international partners.** In May 2010, the Greek authorities signed a financial assistance programme with the European partners with a financial envelope of EUR 80 billion, as well as a standby arrangement of up to EUR 30 billion from the International Monetary Fund (IMF). Financing from European partners was provided through the Greek Loan Facility (GLF). Despite some progress in tackling imbalances and implementing reforms, as well as disbursements of EUR 73 billion from the GLF and IMF, Greece signed a second financial assistance programme in March 2012. A financing envelope of EUR 144.7 billion was provided by European partners through the European Financial Stability Facility (EFSF), as well as EUR 19.8 billion by the IMF. This financial assistance was also accompanied by measures to restructure private sector debt, leading to a reduction in Greece's debt stock by some EUR 107 billion. Considerable progress in correcting imbalances and implementing reforms was made up to the closure of the 4th review of the EFSF programme in mid-2014. However, despite two extensions, the EFSF programme expired without being completed in June 2015.([1])

2. **Amidst political, economic and financial turmoil and the imposition of capital controls in July 2015, the Hellenic Republic concluded an agreement for stability support in the form of a loan from the European Stability Mechanism (ESM) in August 2015**. The Memorandum of Understanding (MoU) signed by the Hellenic Republic and the European Commission on behalf of the ESM, details the conditionality attached to the financial assistance facility. The full envelope of the loan amounts to EUR 86 billion, to be disbursed in several tranches after verification by the institutions that programme conditionality is being fulfilled, and has an availability period of three years.

3. **The aim of the ESM programme is to allow Greece to complete the necessary economic adjustment process started under the first and second financial assistance programmes, thereby creating the conditions for the sovereign to regain long-lasting access to market-based financing at** sustainable **interest rates.** Notably, this needs to be supported by putting public finances back on a sound footing and laying the basis of sustainable growth through a comprehensive set of deep structural and institutional reforms. Against this background, the policies in the MoU are built around four pillars: restoring fiscal sustainability; safeguarding financial stability; enhancing growth, competitiveness and investment; and fostering a modern State and public administration.

4. **The current ESM programme for Greece was provided under the framework established with the entry into force of the ESM Treaty and EU Regulation 472/2013, which involves very different institutional and financing arrangements compared to earlier programmes.** This has improved the transparency of work and democratic accountability through a reinforced dialogue with the European Parliament and the national parliaments. The consistency of the programme with the Union goals and policies was also reinforced through explicit references to the Charter of Fundamental Rights as well as other social rights. Consequently, the ESM stability support programme has put a greater emphasis on social cohesion, growth and employment, including active labour market policies. Moreover, the Commission, for the first time, conducted a social impact assessment in August 2015, which concluded that, if implemented fully and

([1]) Relevant documentation on the stability support programmes for Greece is available at https://ec.europa.eu/info/business-economy-euro/economic-and-fiscal-policy-coordination/eu-financial-assistance/which-eu-countries-have-received-assistance/financial-assistance-greece_en.

timely, the measures foreseen in the programme will help Greece return to stability and growth in a financially and socially sustainable way, and will contribute to meeting the most pressing social needs and challenges in Greece. The new legal framework also created a basis for the Commission to provide technical assistance to Greece through its newly established Structural Reform Support Service (SRSS), to improve its administrative capacity and address challenges implementing the programme.

5. **This background report takes stock of the degree of progress two years into the programme and provides a detailed overview of the measures undertaken to date in each pillar of the ESM programme.** Before signature of the ESM programme, the Greek government was asked to implement a set of ambitious prior actions in July 2015. Since the programme was launched in August 2015, two reviews have been completed and three additional sets of intermediate follow-up actions (so-called 'milestones') have been verified – two sets leading up to the first review (in November and December 2015), and one set of milestones between the first and second reviews (in October 2016). The first review of the ESM programme was conducted between March and May 2016, and concluded in June 2016. The second review was conducted between October 2016 and May 2017, and concluded in July 2017. The analysis contained in this report reflects the state of play up to and including that date. The IMF Board gave its agreement in principle to a precautionary standby arrangement at the same time, based on shared conditionality.

6. **Progress in the implementation of the ESM stability support programme has resulted in the Eurogroup providing significant additional assurances on debt measures, some of which have already entered into force.** In May 2016, the Eurogroup([2]) agreed on a package of debt measures to be phased in progressively as needed and subject to compliance with programme conditionality. Upon full completion of the first review and following the decisions of the ESM governing bodies in January 2017, the ESM began to implement a set of agreed short-term debt measures ([3]). With the successful conclusion of the second review, the Eurogroup in June 2017([4]) provided further clarification on the medium-term debt measures to be implemented, to the extent necessary, upon the successful completion of the programme.

2. ECONOMIC DEVELOPMENTS

7. **Supported by the launch of the ESM programme, the Greek economy demonstrated greater resilience than initially expected.** Real GDP started to recover on a quarter-on-quarter basis in mid-2016. However, the recovery remains fragile and strongly dependent on the progress of the reviews of the ESM stability support programme. Labour market conditions are improving. Employment grew by 1½% in the first half of 2017, while unemployment dropped to 21% in July 2017. Although the unemployment level is still very high (especially youth unemployment), this figure marks a five-year low.

8. **The recovery of the Greek economy is expected to gather momentum in 2017 and growth is projected to reach 2½% in 2018.** Private consumption and investment are projected to be the main drivers of growth in 2017-2018. The contribution of net exports is expected to turn positive too, based on the increased demand experienced by the Greek tourism sector. That said, the recovery remains subject to downside risks, related notably to programme implementation, as shown by the detrimental effect of delays in the second review on confidence in the first half of 2017.

([2]) http://www.consilium.europa.eu/en/press/press-releases/2016/05/24-eurogroup-statement-greece/
([3]) https://www.esm.europa.eu/press-releases/explainer-esm-short-term-debt-relief-measures-greece
([4]) http://www.consilium.europa.eu/en/press/press-releases/2017/06/15-eurogroup-statement-greece/

3. IMPLEMENTATION OF POLICY CONDITIONALITY

3.1. Pillar I: Sound public finances

9. **As part of the ESM stability support programme, Greece committed to a revised fiscal path with a primary balance target of -0.25% of GDP in 2015 rising to a primary surplus of 3.5% of GDP by 2018 and to remain at the same level over the medium term.** To demonstrate their commitment to this path, the authorities legislated, in July and August 2015, fiscal measures worth 1.5% of GDP cumulatively through 2018. These comprised primarily of a reform in VAT and pensions. Additional parametric measures expected to yield a further 3% of GDP by 2018 were adopted as prior actions to conclude the first review in June 2016; these included, notably, major pension and personal income tax reforms, as well as other measures on wages and indirect taxation.[5] In brief, Greece has, to date in the ESM programme, legislated parametric measures projected to yield 4.5% of GDP by 2018. It should be noted that some – like the pension reform – will have cumulative effects even beyond the programme horizon, as changes take effect over time. Backed by these measures and favourable macroeconomic developments, Greece outperformed its fiscal target by more than 3% of GDP in 2016.

10. **Taking into account the introduction of the Social Solidarity Income scheme (SSI), the baseline fiscal projection of the European institutions shows that Greece is on track to meet its ESM primary surplus target of 1.75% of GDP in 2017.** The authorities have also adopted legislation to cover the projected fiscal gap of 0.3% in 2018, so as to achieve the primary surplus target of 3.5% of GDP.

11. **The fiscal baseline is nonetheless subject to considerable uncertainty.** The forecast does not include any yields from the large number of administrative and structural fiscal reforms in the Supplemental MoU (SMoU) – the document that updates the MoU upon completion of a review– notably those to improve revenue administration. Such reforms could provide for some upside potential. Downside risks are related in particular to the macroeconomic environment as well as potential slippages in the yields of measures already legislated under the programme but still to be implemented in 2017-18.

12. **In the context of the second review, a post-programme fiscal package amounting to 2% of GDP was legislated. When combined with the efforts made under the first review, this amounts to a vigorous and exceptional fiscal effort that will have longer-lasting, cumulative effects to help reign in public finances for the medium- and longer-term.** This is an important additional set of measures over and above the commitments agreed initially in the MoU signed in August 2015, and was done at the request of the Eurogroup in order to facilitate the IMF coming on board with a programme. It provides additional guarantees to the achievement of the fiscal targets in the medium term, while helping to restructure public finances in a more growth-friendly manner and bringing pension expenditure and the tax-free threshold closer to the European average. On the consolidation side, the package includes a pension reform delivering net savings of 1% of GDP in 2019 and over the medium term, mainly through the immediate reduction of existing pensions in line with the new rules adopted in 2016. It also includes a reduction of the personal income tax credit to broaden the tax base, delivering net savings of 1% of GDP in 2020 and over the medium term; this may be brought forward to 2019 if needed. On the expansionary side, the package includes growth-enhancing income tax measures and a reduction in property tax

[5] Parametric measures refer to measures that are underpinned by changes in legislation determining obligations and entitlements vis-à-vis the government, such as changes in tax rates, social benefits or wages of government employees. Importantly, parametric measures exclude any potentially substantial gains from improvements in the administrative capacity of public bodies, including the tax administration, as they are difficult to estimate *ex ante*.

(ENFIA), and a spending package composed of targeted welfare benefits (housing allowance, child benefits, school meals, nursery/pre-school education, means-tested reduction in health co-payments), high-quality public infrastructure investment, and active labour market policies. The implementation of the expansionary package is contingent upon the achievement of a primary surplus of 3.5% of GDP in a sustainable manner. Based on the current forecasts of the European institutions, which project Greece to be able to meet this target over the medium term amid a closing output gap and the impact of previous fiscal reforms, the post-programme package would be implemented in a fiscally neutral manner.

13. **Since the start of the ESM stability support programme, significant progress has been made in improving the operational management of public finances.** This includes a wide range of measures, supported by technical assistance, to modernise budgetary planning, execution and control, and rationalise public spending. In this context, the authorities are also implementing broad-based reforms to improve the framework for public procurement.

14. **An arrears clearance programme was stepped up in June 2016 using funds disbursed as part of the first review.** Its implementation has reduced the stock of arrears from EUR 9.7 billion in June 2016 to EUR 6.5 billion in July 2017, i.e. a net reduction by EUR 3.2 billion; and monthly reporting of progress is in place. This has been feasible thanks to disbursements in the first review (EUR 3.5 billion) and second review (EUR 1.6 billion) specifically earmarked for arrears clearance. Notwithstanding the progress in clearing net arrears, further efforts will be required to clear the remaining stock of arrears and tackle underlying structural problems that lead to the accumulation of new arrears.

15. **In view of Greece's long-standing weakness in tax collection and compliance, addressing tax evasion and improving revenue collection has been defined as a major policy priority under the ESM stability support programme.** As a key reform, the Independent Authority of Public Revenue (IAPR) was established and started operating on 1 January 2017. Additional efforts to improve tax compliance and fight tax evasion have included legislation to promote the use of electronic payments, a more proactive approach towards the collection of outstanding tax debt, improving co-operation between the justice and tax administration, and measures to strengthen customs efficiency and the fight against smuggling.

16. **The establishment of a modern social welfare and benefit system is a cornerstone of the ESM programme, in order to ensure that the most vulnerable parts of Greek society are adequately cared for and supported; considerable progress has been made on this front up to mid-2017.** More specifically:

    - **Major pension reforms were enacted in 2015 and 2016, aimed at ensuring the sustainability of the pensions system and enhancing inter-generational fairness, issues that have been a long-standing challenge in Greece.** These are projected to generate savings of 1.5% of GDP by 2018 and 2.5% of GDP by 2025. Reforms in 2015 included an increase in the retirement age, the elimination of unjustified paths to early retirement and an increase of the healthcare contribution on pensions. The comprehensive reform adopted in June 2016 delivered the merger of all pension funds into a unified fund; a significant reduction in pension entitlements of new retirees without pro-rata application – which is unprecedented among EU pension reforms; the phase out of the solidarity grant (EKAS); and unified rules for the calculation of entitlements across different professions. Implementation of the reforms is progressing, while the centralisation of collection of social security contributions into a single social security fund (EFKA) has been globally implemented. The authorities are proceeding with the recalculation and processing of pension claims according to the new benefit rules, but further efforts will be required.

- **During the programme, the authorities have implemented a number of important structural reforms to improve the functioning and efficiency of the health care system.** The authorities have implemented a wide variety of other measures to rationalise health care expenditure based on best practice, including the regular revision of prices for pharmaceuticals, the use of generic medicines and technologies such as e-prescriptions. Also, an upper limit on spending on pharmaceuticals and diagnostics has been introduced in the form of a "clawback" from providers, of any excess of spending above the legislated spending limits. In addition, they adopted structural measures to contain excessive spending, including a redefined rebate system and the introduction of improved criteria for publicly reimbursed drugs. To improve the financial management and cost effectiveness of hospitals, the authorities adopted legislation on centralised health procurement.

- **To provide an effective safety net to households at risk of poverty, a new Social Solidarity Income (SSI) has been rolled out nationwide as of February 2017.** This is the first time that a basic universal social safety net exists in Greece and is the foundation for further reforms to modernise social welfare. Already some 500,000 persons benefit from the scheme and it is expected to be available to up to 750,000 people, which amounts to some 7% of the Greek population. The scheme rests on three pillars: poverty alleviation, social inclusion and labour market reintegration; it is estimated to have an annual cost of EUR 750 million, all of which has been financed respecting agreed primary surplus targets.

3.2. Pillar II: Financial stability

17. **Following the episode of severe financial sector stress seen in the first half of 2015, the Greek authorities committed to take all the necessary policy actions to safeguard financial stability and to strengthen the viability of the banking system.** The reform of the financial sector in Greece is based on three main pillars: (i) normalising liquidity and payment conditions and strengthening capital, (ii) addressing the high level of non-performing exposures (NPEs) on banks' balance sheets, and (iii) enhancing governance. Significant progress has been made in all three areas.

18. **Thanks to a successful recapitalisation in late 2015, only five months after the programme was launched, Greek banks are now well capitalised, with an average Core Equity Tier 1 ratio of 17% (above the euro area average of 14.5%) at end-2016.** Following a conservative comprehensive assessment performed by the ECB, the recapitalisation of the four systemic Greek banks was successfully completed in December 2015. The capital injection primarily came from private sources, while EUR 5.4 billion (of which 2 billion have since been repaid) came from the HFSF financed through programme funds. These amounts were well within the EUR 25 billion envelope specifically set aside at the ESM programme's inception to address financial sector needs. Since 2015 banks have significantly reduced their reliance on central bank funding. More recently, and especially since the closure of the second review, deposits have started to recover after their sharp drop in 2015, though they remain considerably below previous levels.

19. **Significant efforts are being undertaken to establish a framework for the resolution of significant non-performing exposures (NPEs), which can act as a drain on the economy and impede credit channels.** The NPE ratio of the four systemic Greek banks remained at a high level of 45% as of end-2016, despite some progress in NPE resolution in the second half of 2016. This is broadly in line with the agreed targets, which should bring down NPEs from around EUR 100 billion to just over EUR 60 billion between end-2016 and end-2019. Further, determined efforts are required to meet the NPE targets for 2017 and the following years. To support this process, several legislative measures have been taken in the context of the second review to foster a secondary market for NPEs, encourage voluntary debt restructurings (vis-à-vis

both private and public creditors) of viable debtors through an out-of-court workout (OCW) scheme, enhance the insolvency framework, and reinforce the enforcement procedure through the introduction of electronic auctions. Proper and timely implementation of these measures on a continuous basis will be key to ensure their effectiveness for NPE resolution and will be a key priority for the third review.

20. **The governance of both the Hellenic Financial Stability Fund (HFSF) and commercial banks has been significantly strengthened under the programme.** The reconstitution process in the boards of directors of the four core banks has progressed following the HFSF review in 2016, leading to a substantial overhaul of board compositions and new, independent, non-executive board members taking up around half of all board seats. These reforms should help bring bank governance in line with international best practice and further strengthen the credibility and functioning of the banking sector.

21. **Since the start of the ESM programme, financial market conditions have improved significantly, though vulnerabilities remain.** Sovereign long-term bond spreads declined from a peak of 1,800 bps to around 450 bps. Greece successfully re-entered the bond market with an issuance in July 2017, supported by the conclusion of the second review and amid positive rating reviews. Stock prices have increased by about 50% overall, though with differentiation across sectors. While financial market sentiment has, thus, massively improved during the programme horizon, investor confidence remains contingent on continued smooth programme implementation.

3.3. Pillar III: Competitiveness and business environment

22. **Under the ESM programme, Greece committed to achieve EU best practices across labour market institutions and to foster constructive dialogue amongst social partners.** Major changes were made to Greek labour market institutions and wage bargaining systems between 2010 and 2014, which brought them more in line with best practices and the needs of a modern economy. The aim of the current ESM stability support programme is to improve the balance between flexibility and fairness, safeguarding the progress already made. To this end, a new package of labour market reforms has been agreed that will: (i) keep the current collective bargaining framework (suspension of the extension and favourability principles) in place until the end of the programme, (ii) bring the framework for collective dismissals in line with common European practice, and (iii) take steps to enhance judicial procedures related to industrial action as well as modernise trade union legislation. With the contribution of technical assistance by the International Labour Organisation (ILO), an action plan to tackle undeclared work has been adopted and is being implemented. In addition, a number of steps are being taken to reform the vocational education and training system, while the institutional capacity of the labour administration is being strengthened. Given that a modern and well-functioning education system is a key ingredient for strengthening long-term economic performance, the authorities have also taken steps towards this objective, though progress is mixed.

23. **A key part of the structural policy package under the programme is the reform of product markets, where Greece has been lagging behind and is far from the frontier in terms of efficiency and governance.** With Greece having recovered price competitiveness in the euro area since the crisis, the emphasis of the reform efforts under the ESM programme is on enhancing non-price competitiveness and making Greece a more attractive place to invest. While notable reforms have been achieved, the large outstanding policy agenda calls for further continued determined reform efforts until the end of the programme and beyond. Reforms to enhance the business environment have been broad-based and include, in particular:

- implementation of a large set of **OECD recommendations (Toolkit I-III)** that address rigidities in various sectors;

- reform and simplification of **investment licensing** procedures and reduction of red tape;

- alleviation of unjustified and disproportionate restrictions in **regulated professions**;

- modernise the framework for **land use** and move forward with the cadastre project;

- improve the efficiency of the **transport network and water utilities**.

24. **Reforms in the Greek energy markets are progressing and are expected to lead to greater competition, less distortions and an increase in investment, bringing benefits to all consumers.** In the electricity market, the dominance of the incumbent (Public Power Corporation, PPC) is being reduced through several instruments, while in the gas market the liberalisation process continues to be implemented. Key reforms include:

    - The **auctioning of electricity by PPC** agreed as part of the first review is being implemented and, coupled with the **divestment of lignite plants** under EU competition rules, is expected to bring the market share of PPC below 50% by 2020 as scheduled.

    - The **partial privatisation and full ownership unbundling of the transmission system operator** (ADMIE), has been a key step to unlock essential investment in the network.

    - An important element which is being addressed is the **financial situation of PPC**, which suffers from a long-standing inability to collect overdue revenues from consumers.

    - Other reforms in the electricity market have also advanced, such as the implementation of the **target model**, the elimination of the debt in the **RES account** (financing of suppliers of renewable energy sources) and the implementation of the new **RES support scheme**.

    - In the gas market, the **liberalisation process is ongoing**, with full ability for all customers to choose their own supplier from January 2018. Improved competition is being ensured by the unbundling of distribution from supply, as well as the gas release programme.

    - The **privatisation of 66% of DESFA**, the gas transmission operator, has been re-launched, under full ownership unbundling rules. This will favour investment, competition and proper management of the network.

25. **A new independent privatisation and investment fund (HCAP) has been established to manage valuable Greek assets and maximise their value** in order to contribute to strengthening the development of the Greek economy and reduce the financial obligations of the Hellenic Republic. This includes both privatisation and the sound management of public assets such as state-owned enterprises and real estate. The Fund was established in line with the statement of the Euro Summit of July 2015, and is Greek-owned and Greek-led. The governance framework ensures that HCAP is managed on a professional and independent basis and operates in line with international standards and best practices, including relevant OECD Guidelines.

26. **Privatisation can help make the economy more efficient, to the benefit of businesses and consumers, and contributes to reducing public debt.** Implementation of Greece's Asset Development Plan (which can include direct sale, concessions, securitisations, or other forms of monetisation) has moved forward, with a number of key projects including Port of Piraeus,

electricity transmission operator ADMIE, regional airports, TRAINOSE and the concession for Athens International Airport. The authorities have committed to take the necessary measures to move forward with the agreed key privatisation projects, some of which have faced delays.

3.4. Pillar IV: Public administration and Justice

27. **Following a substantial scaling down of the public administration, Greece is now implementing key reforms to improve its quality and ensure that the Greek state is equipped with a modern administration that functions according to international best practice.** After a rapid and unsustainable expansion in the decade leading up to the crisis, the number of employees in the core public sector between 2009 and 2015 has been reduced (-26%) and this contributed to an even stronger reduction in the wage bill (-38%). The changes have brought staffing and wage levels in the Greek public sector into line with the euro area average.

28. **The ESM programme also focuses on qualitative reforms and a de-politicisation of the administration.** The package of legislative reforms agreed under the stability support programme has been completed, and its implementation is progressing. Greece adopted and implemented important reforms concerning the human resources (HR) policies of the public sector – including adjustments to the unified wage grid, performance assessments and recruitments, among many other elements. The second review encompassed further key reforms, including the restructuring of special wage grids covering around one third of the administration, and the introduction of a modern and transparent mobility system across the administration. The review also puts a strong emphasis on implementation of all previously approved reforms, such as those related to the de-politicisation of the recruitment of managers and to the introduction of a new performance assessment scheme. Programme reforms also include a strengthening of independent entities, so as to ensure their autonomy and efficient operation. Looking ahead, it will remain key to ensure strict and consistent application of the enhanced framework throughout the public sector.

29. **The inefficient operation of the judicial system has been a long-standing weakness affecting confidence and the business climate in Greece; this too is, therefore, taken up under the current stability support programme.** Programme conditionality involves a range of measures to enhance the judiciary's efficiency, improve the effectiveness of judicial procedures, and ensure access to all parts of the population. Implementation of measures to strengthen the judicial system will remain a key priority going forward. In addition, important steps are being taken to reduce corruption in the public administration.

4. CONCLUSION AND OUTLOOK

30. **During the first two-thirds of the ESM programme, Greece has undertaken significant reform efforts across all policy areas.** The Greek economy has remained more resilient than expected in a difficult environment, fiscal targets have been widely outperformed, and game-changing structural reforms in areas such as tax administration, the business environment, energy, privatisation and public administration have been launched.

31. **Efforts will have to continue and implementation will be the cornerstone of the remaining year under the ESM programme.** While major macroeconomic imbalances have been corrected (such as the fiscal balance, unit labour costs and current account), many reforms to address underlying structural weaknesses and "stock" problems (such as the high level of NPLs) will require further sustained efforts to be completed, both during the remainder of the programme and beyond. In this respect, policies under the programme should be embedded within a sound medium-term strategy for growth and reform.

32. **Continued implementation of policy conditionality on the ground, with full commitment and ownership across all parts of the administration, will remain key to ensure a successful completion of the programme.** Greece needs to build on the massive efforts undertaken so far to establish full policy credibility, underpin confidence and nurture a positive investment climate going forward. This will be critical to put the economy back on its feet again and emerge from the need for financial assistance after eight years, laying the basis for a return to sustainable growth and market access.

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1.1. INTRODUCTION

33. **In the face of massive external and internal imbalances Greece in April 2010 requested financial assistance from its European and international partners.** In May 2010, the Greek authorities signed a programme with the European partners with a financial envelope of EUR 80 bn as well as an IMF stand-by arrangement of up to EUR 30 bn. Despite some progress in tackling imbalances and implementing reforms, it provided necessary for Greece to sign a second financial assistance programme in March 2012, which was accompanied by measures to restructure sovereign debt held by the private sector. Progress in correcting imbalances and implementing reforms continued up to mid-2014. However, despite two extensions, the EFSF programme eventually expired without being completed in June 2015 amid considerable political and financial market tension that inter alia led to the imposition of capital controls.

34. **After the agreement achieved at the Euro area summit in early July 2015([6]) which unblocked a bridge loan from the EFSM to Greece on 17 July 2017, the Hellenic Republic requested further support from its European partners.** In August 2015, Greece received stability support in the form of a loan issued by the European Stability Mechanism (ESM) of up to EUR 86 bn to be made available over a three-year period running between 2015 and 2018.

35. **In accordance with the ESM Treaty, a Memorandum of Understanding (MoU) was signed by the European Commission, on behalf of the ESM, on 19 August 2015.([7])** The MoU details the conditionality attached to the financial assistance facility over its three-year period. Fulfilment of the conditionality is assessed regularly through reviews looking at the progress made on reforms. As specified in the MoU, disbursement of the funds is linked to progress on the delivery of policy conditionalities. The current programme for Greece is the first time that stability support was provided under the ESM Treaty and Regulation 472/2013, which involves very different institutional and financing arrangements compared to the earlier assistance programmes.

36. **The ESM stability support programme for Greece aims to restore sustainable growth, create jobs, reduce inequalities, and address the risks to financial stability in Greece and the euro area.** The policies in the MoU signed in August 2015 are built around four pillars:

    - restoring fiscal sustainability,
    - safeguarding financial stability,
    - growth, competitiveness and investment,
    - a modern State and public administration.

37. **Greece has made considerable strides in completing its reform commitments under the ESM programme since August 2015.** Reforms have proceeded in a phased approach. Initially, Greece was required to complete a series of reforms in August and autumn 2015 to initiate disbursements under the ESM programme. Further reforms and disbursements took place linked to the completion of the first review in June 2016, which was also accompanied by an agreement of the Eurogroup regarding debt measures a number of which have been implemented by the ESM as of January 2017. In June 2017, Greece completed the second review of the ESM programme, leading to a further disbursement including for arrears clearance. Greece is therefore

([6]) http://www.consilium.europa.eu/en/press/press-releases/2015/07/12-euro-summit-statement-greece/
([7]) The programme documentation for the ESM stability support, including for the first and second reviews, is available at https://ec.europa.eu/info/business-economy-euro/economic-and-fiscal-policy-coordination/eu-financial-assistance/which-eu-countries-have-received-assistance/financial-assistance-greece_en

entering the final year of the ESM programme which is set to come to a conclusion in August 2018.

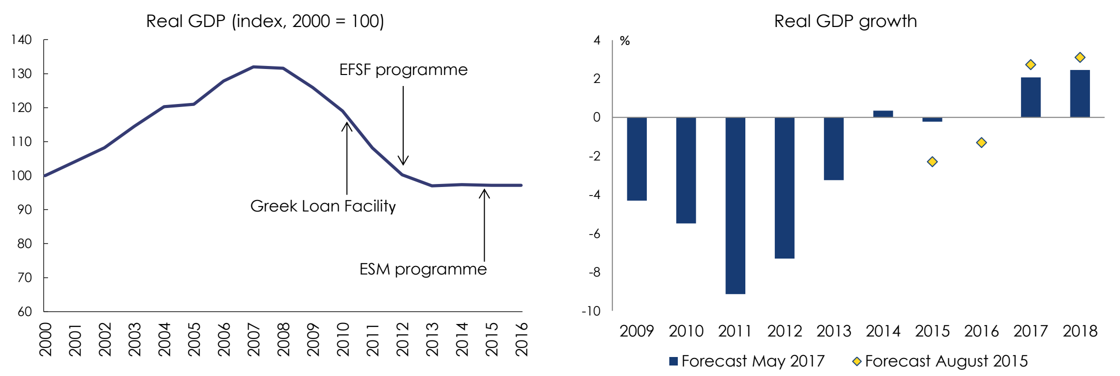
38. **This background report contains analysis relevant for the design and implementation of the measures included in the ESM programme up to July 2017 when the second review was completed.** It thus describes the progress made by Greece with respect to the MoU of August 2015 and the implementation of the prior actions and milestones identified as part of the first review of the ESM programme (as specified in the Supplemental MoU of June 2016) as well as the prior actions identified as part of the second review of the ESM programme (as specified in the Supplemental MoU of July 2017). This report has been prepared by the staff of the European Commission, in consultation with staff of the ECB and ESM.

39. **The next sections provide an assessment of programme compliance structured along the four pillars of the reform agenda.** This is followed by more in-depth analysis of selected topics, focusing on the key policy issues of (i) energy, (ii) privatisation, (iii) resolution of non-performing loans and (iv) on health care reforms.

1.2. MACROECONOMIC DEVELOPMENTS

40. **Real GDP in Greece fell significantly after 2010, although it had started to stabilise by the end of 2014.** As illustrated in Graph 1.2.1, real GDP rose significantly after Greece's accession to the euro in 2001, although this proved to be based on unstainable trends of public and private debt accumulation. From the onset of the crisis in 2009, real GDP until 2016 fell by more than 25%, by far the largest decline of any euro area country. However, signs of stabilisation and tentative recovery were emerging in 2014 as Greece approached the end of the then EFSF financial assistance programme: in 2014, real GDP grew by 0.4%, although nominal GDP was still on a downward trajectory at 1.5%. The tumultuous expiry of the EFSF programme, which led to the imposition of capital controls in early July 2015, led to a significant downward revision in the forecast for growth compared to what had been foreseen earlier under the EFSF programme. Whereas in autumn 2014, the Commission forecast real GDP to grow by 2.9% in 2015, this was revised to a forecasted contraction of -2.3% in August.

Graph 1.2.1: **Real GDP and growth forecasts**



Source: European Commission

41. **The Greek economy showed remarkable resilience in 2015 and 2016 compared to initial expectations at the time when the ESM programme was launched, in August 2015.** Real GDP growth in 2015 turned out more than two percentage points higher than the August 2015 programme forecast, which was made soon after the imposition of capital controls. Real GDP stagnated in 2016, which is also better than the mild recession expected at the beginning of the programme and at the time of the first review in mid-2016. However, the nascent recovery in the second and third quarters of 2016 came to a halt in the last quarter of the year, reflecting amongst other factors delays in the completion of the second review and underscoring the fragility of the recovery.

Table 1.2.1: **The macroeconomic forecast (2015-18) made in August 2015 and May 2017**

y-o-y % change	August 2015				May 2017				Difference			
	2015	**2016**	**2017**	**2018**	**2015**	**2016**	**2017**	**2018**	**2015**	**2016**	**2017**	**2018**
	Proj.	Proj.	Proj.	Proj.	Act.	Act.	Proj.	Proj.	Act.	Act.	Proj.	Proj.
Nominal GDP	-3.2	-0.7	3.4	4.1	-1.3	-0.5	3.5	4.0	1.9	0.2	0.1	-0.1
Real GDP	-2.3	-1.3	2.7	3.1	-0.2	0.0	2.1	2.4	2.1	1.3	-0.6	-0.7
Nominal private consumption	-2.7	-0.5	2.7	2.6	-1.8	1.0	2.5	2.8	0.9	1.5	-0.2	0.2
Compensation of employees	-3.2	-0.8	3.4	4.1	-2.2	2.9	3.0	3.8	1.0	3.7	-0.4	-0.3

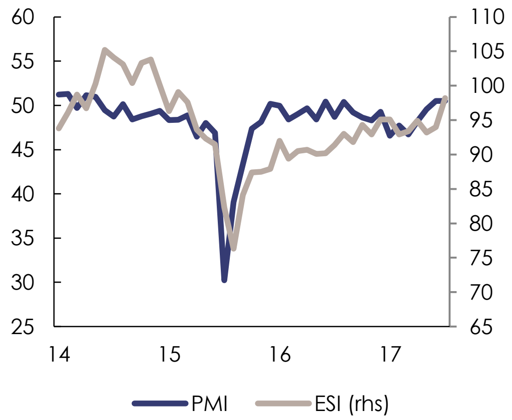
Source: European Commission

42. **The Greek economy is expected to grow at a robust pace in 2017 and 2018 based on the Commission's forecast of May 2017, which underpinned the second review.** GDP growth is set to gather pace in 2017 and reach 2.5% in 2018. This is a slight downward revision relative to the forecast of May 2016 used in the context of the first review and reflects two factors. First, the

worse-than-expected economic performance in the fourth quarter of 2016 which implies a significantly lower carry-over effect to 2017. Second, the revision reflects more cautious assumptions regarding the return of investor and consumer confidence following delays in the completion of the second review. Nevertheless, based on its observed resilience, private consumption is expected to be the main driver of growth in 2017, supported by an increase in employment. Also, as the second review has closed, the business climate is expected to improve, leading to a rebound of investment activity. Domestic demand is projected to accelerate with the help of EU structural funds as well as liquidity injected via the clearance of government arrears, which should mitigate the contractionary effect of the budgetary measures. As Greece's tourism sector is experiencing increased demand, services exports are set to gain momentum in the coming years. Although increasing imports on the back of accelerating investment and consumer demand is expected to deteriorate the goods balance, the improvement in the services balance should more than compensate for this, and thus net exports are projected to contribute positively to growth in 2017 and to a smaller extent in 2018.

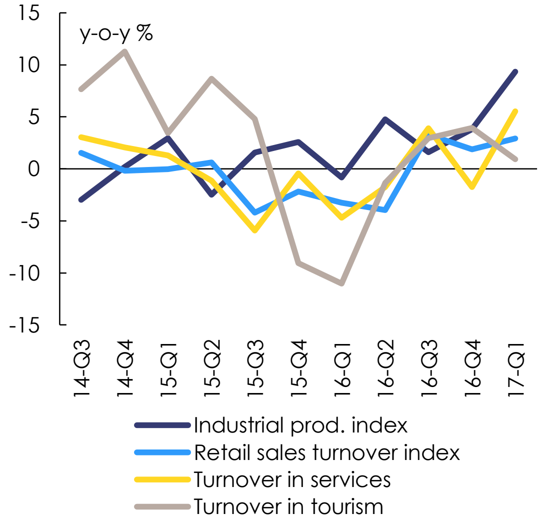
43. **Incoming data for 2017 show positive signs although the recovery appears to have been delayed by the tardy closure of the second review.** Year-on-year GDP growth in the first quarter of 2017 returned to positive territory, albeit on the back of strong inventories accumulation, signalling that the setback seen at the end of 2016 was somewhat transitional. Short-term sentiment indicators such as the Economic Sentiment Indicator (ESI) and the Purchasing Managers Index (PMI) show further improvement in the second quarter of 2017 pointing to improving confidence. Short-term sectoral indicators, such as the industrial production index and turnover indices in the retail and services sectors, suggest that the growth at the beginning of the year was broad-based, and activity is increasing in all of these sectors.

Graph 1.2.2: **Economic Sentiment Indicator and Purchasing Managers Index**



Source: European Commission, Markit

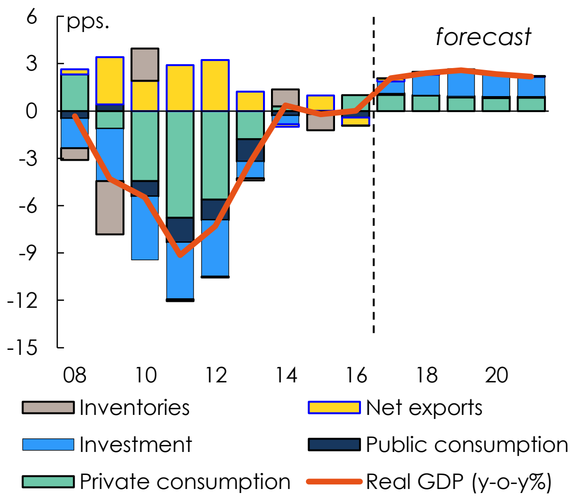
Graph 1.2.3: **Short term production and turnover indices**



Source: ELSTAT

44. **The economic recovery is expected to become more broad-based and to strengthen in the outer years, with an average real GDP growth rate of 2.4 % between 2018 and 2021.** Having more than halved as a percentage of GDP since the beginning of the crisis, private investment is expected to rebound as uncertainty fades, credit conditions improve, and liquidity injected through the repayment of government arrears to the private sector facilitates investment decisions. A swift and efficient resolution of non-performing loans should give further backing to this process. The wide range of reforms already initiated under the previous programmes and ongoing under the ESM programme — covering a broad range of structural reforms in product, energy and labour markets, the judicial system, public administration and an ambitious privatisation plan — are forecast to translate into productivity and competitiveness gains and thus lift the long-term path of economic output. Besides investment, private consumption is expected to remain an important growth driver in the outer years.

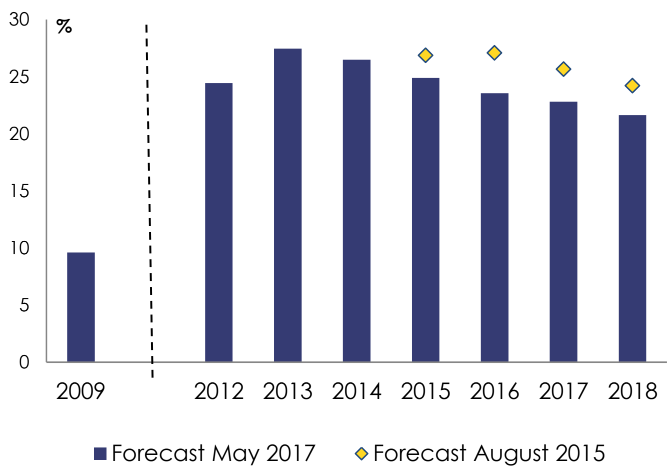
Graph 1.2.4: **Contribution of GDP components to GDP growth**



Source: European Commission (Macroeconomic scenario May 2017)

45. **Total employment increased in 2015 and 2016 on the back of flexible employment schemes and is now projected to continue rising along with economic activity.** The unemployment rate fell below 23.6 % in 2016, and continued to fall in the first quarter of 2017, reaching 22.8% down from a peak of 27.5 % in 2013. Unemployment is expected to continue decreasing, backed by the reforms implemented in the labour market over recent years and the downward adjustment of unit labour costs. The easing of labour market conditions is set to be supported by moderate wage growth, the gradual recovery of economic activity, and also by policies promoting labour participation.

Graph 1.2.5: **Unemployment rate developments and forecast**



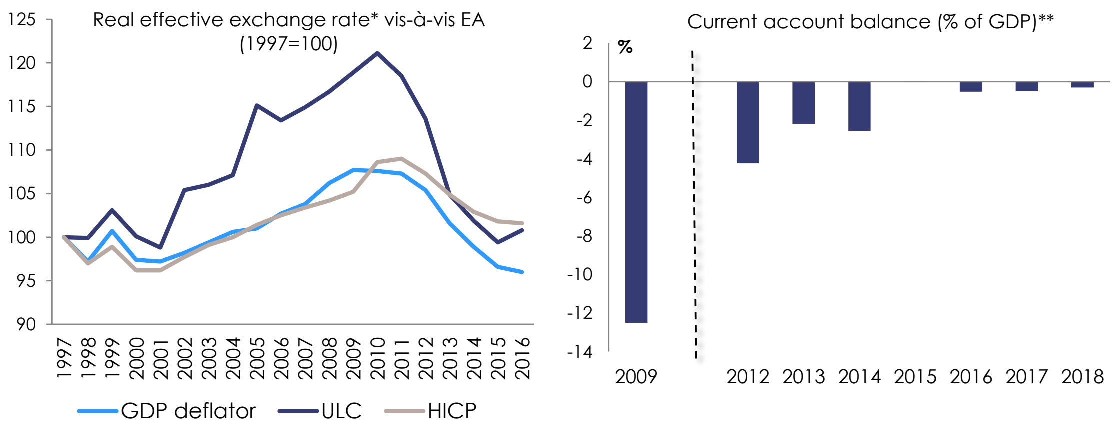
Source: ELSTAT, European Commission

46. **Deflationary trends have been present in the Greek economy since 2011 coinciding with the first years of the economic adjustment.** Wide-ranging structural reforms in labour and product markets have supported falling unit labour costs and adjustments to profit margins, which in turn

contributed to falling prices. Deflation eased in 2015 with both the GDP deflator and HICP decreasing at a slower pace compared to previous years. In 2016 deflation has stopped, and on the back of increasing energy prices and the hike in indirect taxation on selected products HICP inflation is projected to pick up in 2017 and then increase in line with the recovery of aggregate demand.

47. **Greece's external balance has improved significantly in recent years and is expected to continue doing so over the forecast horizon.** Based on the national accounts definition, both the current account balance and the external balance of goods and services have been continuously improving since 2008, reaching balanced positions in 2015 and with only slight deficits in 2016 (Graph 1.2.6. The current account balance is expected to remain in deficit in the short run, as increasing investment will increase import demand. In the outer years, the current account is expected to turn positive, supported by the strengthening of the external balance of goods and services, which is being helped by past and ongoing structural reforms to improve external competitiveness. Tourism is expected to remain supportive for service exports over the forecast horizon and an easing of capital controls may encourage a return of shipping activities to Greek waters.

Graph 1.2.6: **Unwinding of imbalances**



* The graphs show real effective exchange rates according to the different deflators used.
** Values for 2017-2018 are from the forecast of May 2017.
Source: European Commission

48. **Notwithstanding the positive effects of the closure of the second review in June 2017, uncertainties around the forecast remain.** The projected recovery is contingent on positive financial market and trade developments following the conclusion of the second review of the ESM programme. Upside risks could come from a faster-than-expected pick-up in business and consumer confidence. On the downside, economic activity remains very sensitive to programme implementation and negotiations. Hence, delays to the conclusion of future programme reviews could have negative effects on growth and further downside risks could come from any failure to fully deliver on the reform programme. Other risks are linked to the external environment, including the impact of the refugee crisis and of geopolitical developments in the area. Finally, protracted public expenditure restraint or further postponement of public investments could put a significant drag on growth.

Table 1.2.2: **Macroeconomic scenario, main features (2015-2021)**

	2015	2016	2017	2018	2019	2020	2021
Real GDP (growth rate)	-0.2	0.0	2.1	2.4	2.6	2.3	2.2
Final domestic demand contribution (1)	-0.2	0.6	1.9	2.3	2.5	2.3	2.1
Net trade contribution	1.0	-0.5	0.2	0.1	0.0	0.0	0.0
Employment (growth rate)	0.5	1.3	1.4	1.7	1.8	1.4	1.0
Unemployment rate (2)	24.9	23.5	22.8	21.6	20.2	19.0	18.2
Compensation of employees, per employee (growth rate)	-2.8	0.8	1.5	2.1	2.2	2.5	2.9
HICP inflation (growth rate)	-1.1	0.0	1.2	1.1	1.3	1.6	1.8
GDP deflator (growth rate)	-1.0	0.1	1.2	1.2	1.4	1.7	1.8
Current account balance (% of GDP) (2)	0.0	-0.5	-0.5	-0.3	0.5	0.5	0.5
General Government balance (% of GDP) (3)	-5.9	0.7	-1.0	0.6	0.5	0.6	0.6
General Government primary balance (% of GDP) (3) (4)	0.5	4.2	2.0	3.5	3.5	3.5	3.5
General Government debt (% of GDP) (5)	177.4	179.0	176.5	174.6	167.2	159.9	153.0

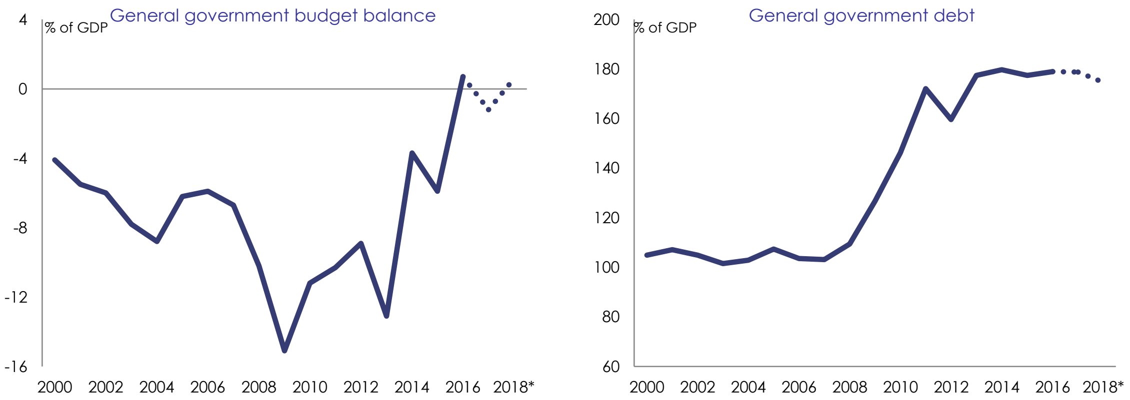
Note: Forecast underlying the second review, based on data available in May 2017.
(1) Excluding change in inventories and net acquisition of valuables
(2) National accounts definition
(3) The forecast includes measures agreed in the context of the second review
(4) Programme definition
(5) Baseline scenario
Source: European Commission

1.3. PILLAR 1: RESTORING SUSTAINABLE PUBLIC FINANCES

1.3.1. BACKGROUND AND OVERALL OBJECTIVE OF THE ESM PROGRAMME

49. **In the decade leading up to the start of the crisis in 2009, Greece ran increasingly large fiscal deficits putting the country on an unstainable debt trajectory.** The general government deficit (EDP definition) of 5.5% of GDP in 2001 when Greece joined the euro, rose to 15.1% of GDP by 2009. General government debt also increased from 107.1% of GDP in 2001 to 126.7% in 2009, which in the context of a global economic crisis led to Greece losing market access and seeking financial support from European and international partners.

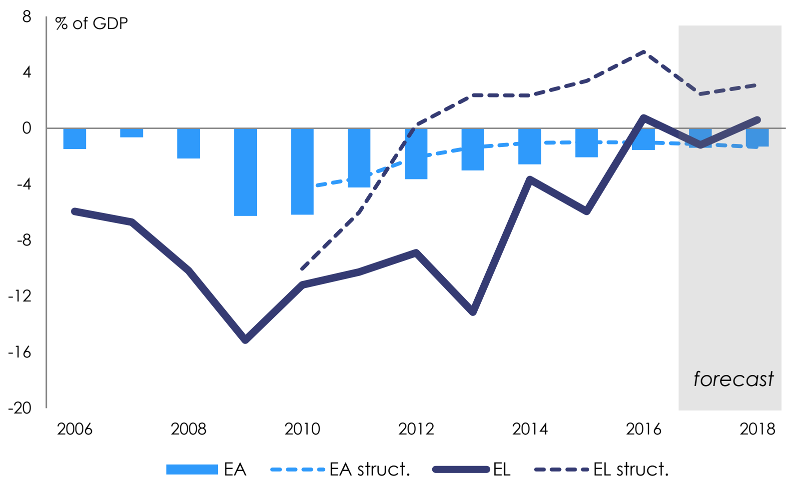
Graph 1.3.1: **The evolution of general government budget balance and gross debt**



* Forecasts for 2017-2018.
Source: Eurostat, European Commission Spring Forecast 2017

50. **The correction of the extreme imbalances in Greece's public finances which led to the exclusion of the sovereign from private capital markets in 2010, has required an unprecedented economic adjustment and sacrifices from Greek citizens.** Reforms put in place to achieve this correction in successive financial assistance programmes have had visible results, including the achievement of a primary surplus (programme definition) in 2013 (Graph 1.3.2). From a primary deficit of 10.1% of GDP in 2009, Greece attained a primary surplus of 0.5% of GDP in 2013 despite a cumulative contraction of real GDP of 23% during this period. This over-performance vis-à-vis the primary balance target of 0% for 2013 set under the second financial assistance programme, combined with the strong cash outturns in the first half of 2014, provided a solid basis for projecting that the programme would remain on track in 2014. However, just when Greece approached the expiry of the then EFSF programme, the process of fiscal consolidation stalled towards the end of 2014; and notwithstanding restructuring of sovereign debt held by the private sector in 2012, debt sustainability and market access was not restored.

Graph 1.3.2: **General government headline and structural balances for the euro area and Greece**

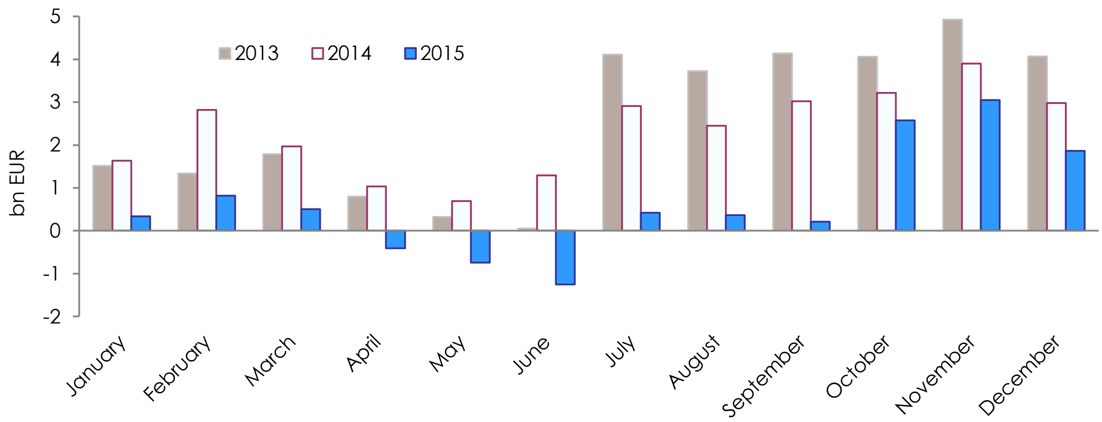


Source: Eurostat and European Commission Spring Forecast 2017

51. **In the run-up to the expiry of the EFSF programme at mid-2015, fiscal prospects deteriorated with the dramatic circumstances that eventually led to the imposition of capital controls.** The economic and political uncertainty that began in late 2014 contributed to a significant slowdown in revenues that ultimately led to a deterioration in the primary balance in 2014 (a primary surplus of 0.1% of GDP against a target of 1.5% of GDP). The negative carryover from this deterioration was exacerbated in the first half of 2015 by the rapidly worsening economic and policy environment, which culminated in the imposition of a bank holiday at the end of June and the subsequent imposition of capital controls. Revenues fell below the level of 2014, while the tight liquidity situation forced the authorities to under-execute spending and accumulate arrears, with negative consequences for the Greek economy, its businesses and people. As a result, Greece's general government primary balance (in modified cash terms) swung from a surplus of EUR 1.3 bn in the first half of 2014, to a deficit of EUR 1.3 bn (see Graph 1.3.3) in the first half of 2015. This created the need for additional efforts to reach a revised medium-term primary surplus target of 3.5 % of GDP to be included in the ESM stability support programme launched in August 2015. It should be recalled that the medium-term primary surplus target of the ESM programme of 3.5% of GDP to be reached in 2018, is 1 pp. of GDP lower than the medium-term primary surplus target of 4.5% of GDP of the second EFSF programme which was supposed to be reached already in 2014.([8])

([8]) http://ec.europa.eu/economy_finance/publications/occasional_paper/2012/pdf/ocp94_en.pdf

Graph 1.3.3: **Cumulative General Government primary balance (modified cash terms) (1)**



(1) Defined as the cash primary balance adjusted for arrears accumulation
Source: Ministry of Finance and European Commission

52. **Pillar I of the ESM programme therefore focuses on policy measures to restore fiscal sustainability, mainly relying on the adoption of an upfront parametric fiscal consolidation package to secure the achievement of the medium term target.** This has included fiscal measures adopted and implemented in summer 2015, which amounted to 1.5 % of GDP, plus further fiscal measures amounting to an additional 3 % of GDP by 2018, adopted upfront as part of concluding the first review. In brief, the ESM programme since the outset was designed with a requirement for Greece to adopt a frontloaded package of parametric fiscal measures yielding 4.5% of GDP by 2018. The packages of parametric fiscal measures were not simply enacted to generate fiscal yield, but were designed with the aim of achieving structural improvements in key tax and expenditure policies. Thus, they *inter alia* have consisted of a major reform of personal income taxation, VAT and a comprehensive pension reform as well as other parametric measures.

53. **In line with the initial MoU signed in August 2015, the fiscal package has been be complemented by a broad range of fiscal structural reforms including**:

- Substantial reforms to improve revenue collection and to tackle tax evasion including governance changes involving the creation of a new autonomous revenue agency.

- Measures to strengthen public financial management and public procurement.

- The adoption of reforms to ensure sustainable social welfare systems. Beyond the reform of the pension system, the programme includes measures to strengthen the efficiency and effectiveness of the health care system whilst promoting universal access. It also includes a reform of social safety nets, with the introduction of a generalised minimum income scheme from early 2017.

- A series of expenditure reviews, including of welfare benefits.

54. **In the context of the second review of the ESM programme, an additional package of parametric fiscal measures amounting to 2% of GDP was legislated in June 2017 to enter into force after the programme ends in 2019 and 2020.** This is an important additional set of conditionality over and above the commitments agreed initially in the MoU signed in August 2015, and was done at the request of key Member States in order to facilitate the IMF coming on board with a programme. It provides additional guarantees to the achievement of the fiscal targets

in the medium term, while helping to restructure public finances in a more growth-friendly manner and bringing pension expenditure and the tax-free threshold closer to the European average. On the consolidation side, the package includes a pension reform delivering net savings of 1% of GDP in 2019, and a reduction of the personal income tax credit to broaden the tax base, delivering net savings of 1% of GDP in 2020 and over the medium term, which may be brought forward to 2019 if needed. On the expansionary side, the package includes growth-enhancing income tax measures and a reduction in property tax (ENFIA), and a spending package composed of targeted welfare benefits. Based on the current forecasts of the European institutions, which project Greece to be able to meet this target over the medium term amid a closing output gap and the impact of previous fiscal reforms, the post-programme package would be implemented in a fiscally neutral manner.

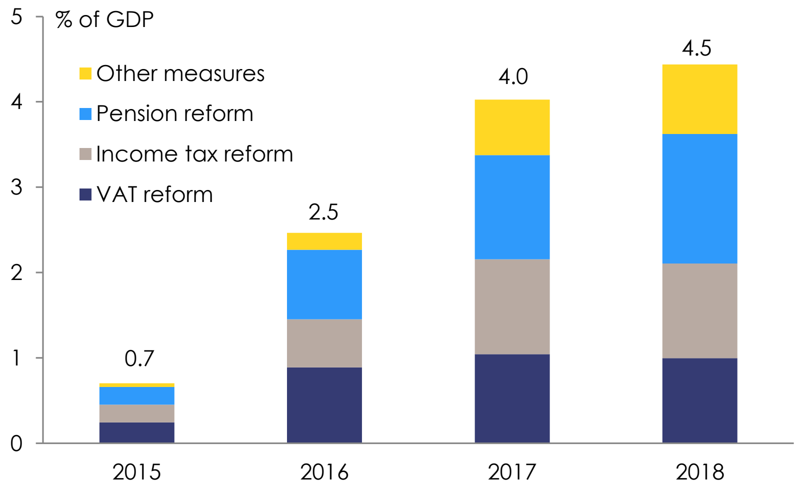
55. **To be sustainable, social expenditure has to strike a balance between its goal of mitigating the impact on society of harsh macroeconomic conditions and the reality of public finances.** The ESM programme recognises that the Greek population has experienced real hardship on the back of a protracted crisis period with economic, financial and social consequences. The recovery strategy thus has to take into account the need for social justice and fairness, both across and within generations. Greece committed to improve the design of its welfare system by creating a safety net that targets those most in need. The key policy areas otherwise at the centre of the programme are the pension system, the health care system and the social welfare system.

1.3.2. BUDGETARY MEASURES TO DELIVER THE ESM FISCAL TARGETS

1.3.2.1. Overall progress up to the completion of the second review in June 2017

56. **By the close of the second review in mid-2017, Greece has largely enacted the parametric fiscal measures required under the ESM programme.** As shown on Graph 1.3.4 below, parametric measures have been enacted that are projected to yield 4.5% of GDP through to 2018. The bulk of the yields come from major structural reforms in the VAT system (1% of GDP), income taxes (1.2% of GDP) and pension reform (1.5% of GDP). As described in sections 1.3.2.2 to 1.3.2.4, these parametric measures were largely enacted as part of reform commitments to initiate the ESM programme in mid-2015 and to complete the first review (achieved by June 2016). Note, the yield from these measures is likely to be larger over the medium term, as the pension reform enacted in 2016 is expected to yield additional expenditure savings amounting to a further 1% of GDP by 2025. In addition, additional parametric measures amounting to 2% of GDP were enacted in June 2017 as part of the second review with a view to facilitating the IMF coming on board with a new programme: the details are described in section 1.3.2.5 below.

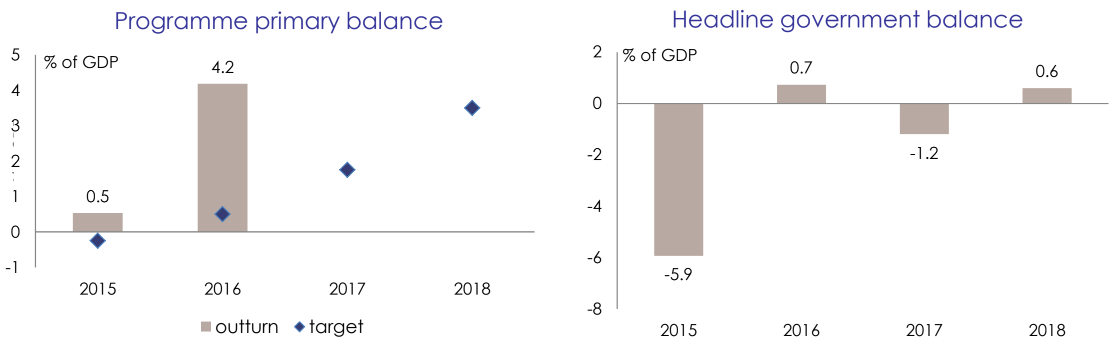
Graph 1.3.4: **Fiscal measures adopted during the ESM programme (net savings)**



Source: European Commission

57. **As a result of implementing its fiscal commitments, Greece has overachieved the primary surplus targets of the ESM programme in 2015 and 2016, and appears to be on track to meet its targets for 2017 and 2018** (see Graph 1.3.5). The effective implementation of the programme has brought about a stabilisation of the economic environment, which supported the yield of the fiscal measures enacted since the onset of the ESM programme. In addition, the large overperformance in 2016 was also driven by sizeable expenditure restraint and a number of one-off factors that are described below in detail. On current projections, Greece is on track to meet the programme targets for 2017 and 2018 and to achieve a surplus in the headline government balance by 2018 in a durable manner.

Graph 1.3.5: **Fiscal targets outperformed since 2015**



Source: European Commission (based on April 2017 EDP notification)

1.3.2.2. A closer look at measures adopted in summer 2015 and fiscal outcomes for 2015

58. **Public finances were put back onto a more sustainable track following the agreement at the Euro Summit in July 2015 and the start of an ESM stability support programme in August.** In light of the poor macroeconomic outlook, the institutions overseeing the programme and the Greek authorities agreed a revised fiscal path, with primary balance targets of -0.25% of GDP in 2015, 0.5% of GDP in 2016, 1.75% of GDP in 2017 and 3.5% of GDP by 2018. To demonstrate

their commitment to this fiscal path and to deliver on the 2015 target, through July and August 2015 the Greek authorities legislated parametric fiscal measures as a precondition for the launch of the ESM programme. They also agreed to adopt an additional parametric fiscal package as part of the first review to fill the remaining fiscal gap through 2018. Overall, the package of measures to be adopted was to deliver savings of 0.7% of GDP in 2015 and up to 1.5% of GDP in annual terms by 2018. This substantial package was necessary to return to fiscal prudence and regain the positive momentum.

59. **The core, permanent elements of the package legislated in July-August 2015 included an ambitious reform of the VAT framework and a first phase of pension reforms (see Table** 1.3.1**).** The VAT reform was forecast to raise revenues of around 0.2% of GDP in 2015 and 0.8% of GDP in annual terms by 2018 by streamlining the number of reduced rates and eliminating a number of exemptions, thus broadening the tax base while also reducing market distortions and improving compliance (see Box 1.3.3). The first phase of the pension reform comprised of an increase in health contributions for pensioners and the abolition of pathways to early retirement (0.5% of GDP by 2018). Additional measures included an increase in the corporate income tax rate from 26% to 29% (0.1% of GDP) and the increase in advance payments of income taxes for the self-employed and farmers to 100% by 2017 (0.2% of GDP).

Table 1.3.1: **Measures legislated in July-August 2015 (net fiscal savings)**

% of GDP	2015	2016	2017	2018
Total	**0.7**	**1.7**	**1.7**	**1.5**
Revenues	**0.5**	**1.3**	**1.2**	**1.0**
VAT policy reform	0.2	0.7	0.8	0.8
Other indirect taxes	0.0	0.1	0.1	0.1
Income tax reform	0.2	0.4	0.3	0.1
Other parametric measures	0.0	0.0	0.0	0.0
Expenditures	**0.2**	**0.5**	**0.4**	**0.5**
Pension reform	0.2	0.4	0.4	0.5
Subsidy reform and other spending	0.0	0.1	0.1	0.1
Other parametric measures	0.0	0.0	-0.1	-0.1

Source: European Commission

60. **This fiscal path was based on a macroeconomic forecast that, for 2015, proved conservative as the economy showed a greater-than-expected resilience to capital controls.** As a result, Greece attained a primary surplus in 2015, one year ahead of schedule. As shown in Table 1.2.1, with real GDP deteriorating only slightly (-0.2 %) vis-à-vis the projected contraction of 2.3 %, almost all components of economic activity relevant for public finances turned out stronger in 2015 than forecast in August 2015. Economic activity was backed by the surprising resilience of nominal private consumption and compensation of employees, which supported revenue collection. On the basis of the EDP notification released by Eurostat in April 2017, Greece over-performed the ESM programme target of -0.25% of GDP ([9]) by around 1% of GDP.

61. **Apart from the more benign macroeconomic developments, the over-performance in 2015 was supported by a number of additional factors, some of which had a limited carry-over to the following years.** First, a reversal of actions or policies adopted by the government until

([9]) The definition of the primary balance as defined under the programme excludes one-off revenues and expenditures associated with the banking sector support, privatisation and ANFA/SMP revenues. A detailed summary of the differences between the primary balance as reported in the EDP notification and under the programme definition can be found in Box 1.3.1. The Commission applies, in consultation with the other institutions, the programme adjustors to the data released by Eurostat.

summer 2015, which had discouraged compliance or weakened enforcement, resulted in higher-than-expected collection of taxes and social security contributions in the second half of 2015. Secondly, several new entities were added to the registry of general government entities in the context of the spring 2016 EDP notification, of which the most fiscally significant were the Hellenic Deposit and Investment Guarantee Fund (TEKE), Consignment, Deposit and Loan Fund (CDLF) and a fifth motorway concession; in aggregate, these had a marginally positive impact on the primary balance in 2015. Thirdly, the fiscal outturn was affected by unexpected one-off factors, including revenues from emissions allowances and a lower-than-expected expenditure on agricultural subsidies. On the other hand, the partial or non-implementation of certain fiscal measures led to a lowering of the tax revenue projection for 2016 and onwards, offsetting some of the developments outlined above. This concerned in particular the failure to apply negative pension indexation and a decision not to apply VAT on private education (partially offset by a wine tax), and a lower than expected yield on insurance and TV advertisement tax. Overall, only about a half of the over-performance in 2015 was related to revenues that were likely to have a carry-over impact to the medium term.

1.3.2.3. A closer look at measures adopted under the first review in mid-2016 and fiscal outcomes for 2016

62. **Based on the updated projections of spring 2016, the achievement of the primary balance target of 3.5% of GDP 2018 necessitated the adoption of parametric measures with an overall fiscal impact amounting to 3% of GDP**. The European institutions and the Greek authorities had a similar assessment of the fiscal situation and of the package of measures needed to reach the medium-term fiscal targets. In particular, the fiscal primary balance was projected to deteriorate to -0.2% of GDP in 2016, down from 0.5% of GDP in 2015, driven by the fading-out of the positive one-off factors recorded in 2015, after taking into account the fiscal measures adopted in 2015 as well as a revised macroeconomic scenario. Despite the expected strengthening of the economic recovery in 2017, the *baseline* fiscal position was forecast in spring 2016 to deteriorate further to -0.5% of GDP as some large existing measures were set to expire, in particular the solidarity surcharge([10]). Public investment was also set to rise temporarily. However, the primary balance was forecast to return to positive territory in 2018 (0.5% of GDP) on the back of strong nominal GDP growth, implying a fiscal gap of 3% of GDP vis-à-vis the target of 3.5% of GDP.

63. **A robust fiscal consolidation package to credibly reach the agreed ESM programme targets was agreed in spring 2016 between the Greek authorities and the European institutions, and adopted as part of the first review** (see Table 1.3.2). The package of permanent parametric measures was adopted on top of the measures adopted in summer 2015 and amounted to 3% of GDP by 2018, thus a package of measures able to meet the above-mentioned fiscal gap and ensure that Greece would meet its 2018 fiscal target. It comprised of (i) 1.1% of GDP from pension reform; (ii) 1% of GDP from personal income tax reform; (iii) approximately 0.25% of GDP from VAT; (iv) 0.2% of GDP from other parametric measures, including the wage bill; and (v) an additional 0.5% of GDP from other tax measures. Added to the fiscal measures adopted in 2015, the combined fiscal package delivered measures worth 4.4% of GDP (see Table 1.3.6) and a net discretionary effort (taking into account the expiration of certain measures) of 3.9% of GDP through 2018. The packages presented savings of around 2% of GDP from revenues and 1% of GDP from expenditures (pension and wage bill) through 2018 from purely parametric measures that had limited administrative elements and thus low implementation risks. Overall, this

([10]) Baseline projections exclude the impact of measures adopted under the ongoing review. In this particular case the baseline projection therefore also excluded the continuation of the solidarity surcharge adopted as a part of the income tax reform package, hence the underlying fiscal position was actually more solid than implied when excluding the new measures.

represented a substantive fiscal effort on Greece's part that should ensure the necessary revenue and expenditure-related adjustments expected to set a robust path to meeting the ESM programme targets for the short and medium term.

64. **The 2016 pension reform addressed a number of structural weaknesses in a fundamental way** (see section 1.3.7.). The reform was *comprehensive* in unifying and tightening benefit and contribution rules for main pensions, eliminating the solidarity grant (EKAS) that discouraged labour market participation, and closing the deficit in the supplementary pension system. The reform was *front-loaded*, with around half of the total 2.5% of GDP gross savings for the pension system by 2030 delivered by 2018 (1.2% of GDP), and *credible*, as over 80% of the savings through 2018 (1.0% of GDP) were based on spending cuts. As lower pension expenditure leads to reduced income taxes and social contributions, the *net* general government savings through 2018 were projected to equal 1.1% of GDP. Taking into account also the pension measures legislated in August 2015 (0.6% of GDP), the overall gross savings of the pension reforms were estimated at 1.7% of GDP by 2018, rising to 3.1% of GDP by 2030 (or 5.1% of GDP if one includes the offset of the Council of State ruling), with spending cuts accounting for two-thirds of savings by 2018 (1.1% of GDP) and above 80% by 2030 (2.6% of GDP).

65. **The 2016 personal income tax reform also brought about many structural improvements compared to the previous system** (see section 1.3.3.). The authorities adopted the relevant legislation on 8 May 2016. The reform was expected to generate just over 1% of GDP in additional revenues structured as follows: 0.5% of GDP from the integration of the Solidarity Surcharge into the income tax; 0.2% of GDP from the reduction in the tax credit; 0.2% of GDP from the pooling of business and employment income and increases in tax rates; and finally 0.1% of GDP from widening the tax base for farmers and the harmonisation of capital taxation (see Box 1.3.2).

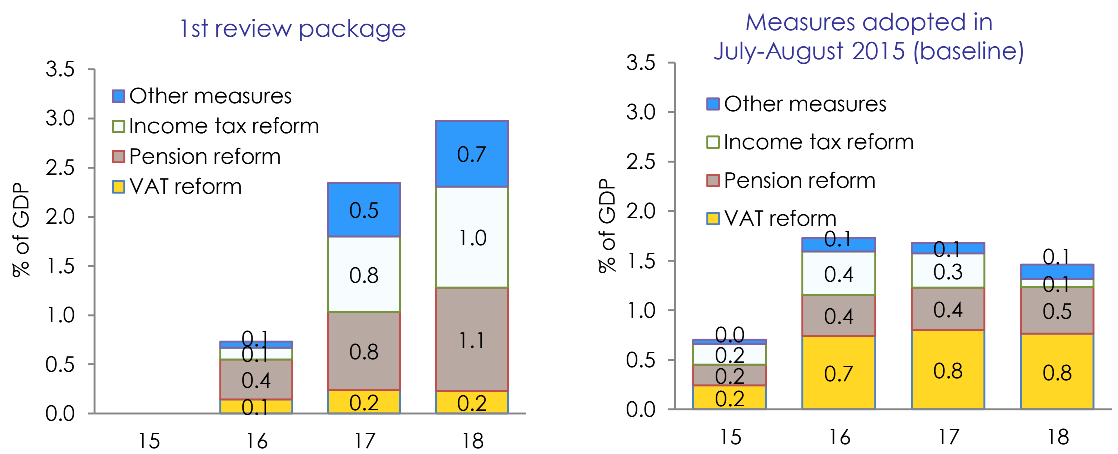
66. **The final approximately 1% of GDP of the package comprised mainly of measures affecting indirect taxes and the wage bill**:

- An increase of the standard VAT rate by one percentage point to 24% (¼% of GDP);

- Savings in the public wage bill based on the introduction of a 1:4 hiring-for-exits rule in 2017 and a 1:3 rule in 2018, while also freezing wages and promotions of so-called special wage regimes through 2018 or alternative parametric measures on the expenditure side agreed with the institutions (0.2% of GDP);

- Targeted parametric adjustments mainly in consumption tax bases and rates yielding 0.5% of GDP including by: (i) raising excise taxes on fuels so as to bring them closer to the EU average and offset the fall in oil prices; (ii) increasing excises taxes on cigarettes and alcohol; (iii) removing tax breaks on investment vehicles (UCITS, real estate investment companies) and alcoholic beverages in the Dodecanese islands; (iv) introducing taxes on untaxed goods and services such as coffee, e-cigarettes, cable TV/internet packages, and hotel stays; (v) widening the base and raising rates for the motor vehicle registration tax and the personal income tax treatment for corporate cars. The package also eliminated or adjusted excises on natural gas in order to realign incentives across energy sources.

Graph 1.3.6: **Composition of parametric fiscal consolidation effort 2015-18 adopted between summer 2015 and spring 2016**



Source: European Commission

67. **In addition to the parametric fiscal package, a large number of administrative reforms were outlined in the first review MoU.** These included spending reviews, restructuring of public enterprises and revenue administration reforms and were supported by technical assistance from the IMF, the Structural Reform Support Service of the European Commission (SRSS) and by Member States. While the yields from these reforms are potentially substantial, their amount is difficult to forecast; therefore these yields were not included in the fiscal projections and hence represent upside potential.

68. **Moreover, as a prior action to the conclusion of the first review, the Greek authorities adopted a contingency fiscal mechanism that ensures additional parametric measures are automatically implemented in case of any divergence from the fiscal targets.** The Eurogroup concluded on 22 April 2016 that, to safeguard the achievement of the fiscal targets of the programme, a contingency mechanism would need to be adopted by the Greek authorities that would be credible, legislated upfront, automatic and triggered based on objective factors. As further specified by the Eurogroup of 9 May 2016, the mechanism concerns mainly non-discretionary spending measures, and envisages that, if temporary measures are triggered, permanent structural measures agreed with the institutions, including revenue measures, should become effective in the year thereafter as part of the regular budgetary process, in order to bring the budget structurally back on track. Finally, the mechanism will not be activated in case of exceptional events with a major economic impact outside the government's control as agreed with the institutions. The mechanism was legislated to be in force so as to safeguard fiscal targets over the programme horizon. In practice, due to the lags in the availability of outturn data, the mechanism is in force from 2017 to 2019.

Table 1.3.2: **Assessment of authorities' parametric fiscal package 2016-18 (net savings)**

	% of GDP			bn EUR		
	2016	**2017**	**2018**	**2016**	**2017**	**2018**
Primary balance target (1)	0.5	1.75	3.5	0.9	3.2	6.6
Primary balance under baseline scenario (2)	-0.2	-0.5	0.5	-0.4	-1.0	1.0
Fiscal gap under baseline scenario	**0.7**	**2.3**	**3.0**	**1.3**	**4.1**	**5.7**
I. Pension reform	**0.4**	**0.8**	**1.1**	**0.7**	**1.4**	**2.0**
1 Harmonization of contributions - main pension funds	0.0	0.0	0.0	0.0	0.0	0.0
2 Tempory increase of contibutions - supplementary funds	0.1	0.2	0.2	0.2	0.3	0.3
3 Main pensions reform and EKAS	0.1	0.4	0.7	0.2	0.7	1.3
4 Supplementary pension reform	0.2	0.2	0.2	0.4	0.4	0.4
II. Income tax reform	**0.1**	**0.8**	**1.0**	**0.2**	**1.4**	**1.9**
1 Re-design and integrate solidarity surcharge in ITC	0.0	0.2	0.6	0.0	0.4	1.1
2 Increase in rates and pooling incomes	0.1	0.3	0.2	0.1	0.5	0.4
3 Reduction in tax credit	0.1	0.2	0.2	0.1	0.4	0.4
III. VAT reform	**0.1**	**0.2**	**0.2**	**0.3**	**0.4**	**0.4**
1 Increase standard rate from 23% to 24%	0.1	0.2	0.2	0.3	0.4	0.4
IV. Wage bill reform	**0.0**	**0.1**	**0.2**	**0.0**	**0.1**	**0.3**
1 Phase-out of 1:5 attrition rule (1:4 in 2017; 1:3 in 2018)	0.0	0.1	0.1	0.0	0.1	0.2
2 Promotion and wage drift freeze for special wage grids	0.0	0.0	0.0	0.0	0.0	0.1
V. Other tax measures	**0.1**	**0.5**	**0.5**	**0.1**	**0.9**	**1.0**
1 Excises on fuels (Gasoline, LPG, Diesel, Gas)	0.0	0.2	0.2	0.0	0.3	0.3
a. Excise tax on fuels (Gasoline, LPG, Diesel)	0.0	0.3	0.3	0.0	0.5	0.5
b. Reduction in excise taxes on gas for electricity production, residential and industrial	0.0	-0.1	-0.1	-0.1	-0.2	-0.2
2 Reform of motor vehicle taxation	0.0	0.1	0.1	0.0	0.1	0.1
3 Other excises (Cigarettes, Alcohol, Coffee)	0.0	0.1	0.2	0.0	0.3	0.3
a. Increase consumption tax on cigarettes and tobacco	0.0	0.1	0.1	0.0	0.1	0.1
b. Raise excise duties on beer and abolish exemption (Dodecanese)	0.0	0.0	0.0	0.0	0.1	0.1
c. New excise tax on coffee	0.0	0.0	0.0	0.0	0.1	0.1
d. New excise tax on e-cigarettes	0.0	0.0	0.0	0.0	0.0	0.0
4 Other taxes (TV, Broadband, Lotteries, Hotels, UCITS)	0.1	0.1	0.1	0.1	0.2	0.3
a. Increase subscriber levies for broadband and cable TV	0.0	0.0	0.0	0.0	0.1	0.1
b. Tax on lotteries (Increase of GGR tax by 5%)	0.0	0.0	0.0	0.1	0.1	0.1
c. Investment vehicles/business tax incentives	0.0	0.0	0.0	0.0	0.0	0.0
d. Hotel tax (hotels/rooms 0-3 euros per night per room)	0.0	0.0	0.0	0.0	0.0	0.1
Total permanent parametric policy package (I+II+III+IV+V)	**0.7**	**2.3**	**3.0**	**1.3**	**4.3**	**5.6**
Revenues	0.4	1.7	2.0	0.7	3.1	3.8
Expenditures	0.3	0.6	1.0	0.5	1.1	1.9
Fiscal gap after total permanent policy package	**0.0**	**-0.1**	**0.0**	**0.0**	**-0.1**	**0.0**
VI. Spending reviews (target)	**0.0**	**0.1**	**0.3**	**0.0**	**0.3**	**0.7**
VII. Revenue administration reforms (target)	**0.0**	**0.3**	**0.5**	**0.1**	**0.5**	**1.0**
Total administrative measures (VI+VII)	**0.0**	**0.4**	**0.9**	**0.1**	**0.8**	**1.7**

(1) Primary balance as defined under the ESM stability support programme.
(2) Includes measures legislated in July-August 2015.

Source: European Commission

Box 1.3.1: Transition from ESA to the programme primary balance

The general government primary balance according to the programme definition reached 0.5% and 4.2% of GDP in 2015 and 2016, respectively, while the headline general government balance as validated by Eurostat reached -5.9% and 0.7% of GDP in the same period. The table below explains the adjustments made to transform the ESA outcomes reported by Eurostat into the primary balances assessed under the ESM programme.

While being country-specific, such adjustments are common in financial assistance programmes. They aim at obtaining an objective picture of the underlying fiscal situation while providing the right incentives to the authorities to implement the agreed policies. The specific adjustments agreed by the Greek authorities and the Institutions in the context of the ESM stability support programme for Greece are described in detail in the Technical Memorandum of Understanding.

Table 1:
From ESA to programme primary balance

		2015		2016	
		m EUR	% of GDP	m EUR	% of GDP
	Eurostat EDP balance	**-10,427**	**-5.9**	**1,288**	**0.7**
	Interest expenditure	6,322	3.6	5,649	3.2
	Programme Adjustors	**5,041**	**2.9**	**419**	**0.2**
(+)	Banking support (expenditure - revenues)	5,103	2.9	-57	0
	Primary expenditure	5,159	2.9	0	0
	Revenues	56	0	57	0
(+)	Migration costs net of EU transfers	0	0	30	0
(+)	Change in unprocessed tax refunds	0	0	847	0.5
(–)	Privatization receipts	7	0	26	0
(–)	ANFA & SMP transfers	55	0	375	0.2
	ANFA	0	0	332	0.2
	SMP	55	0	43	0
	Programme primary balance	**936**	**0.5**	**7,356**	**4.2**

Source: European Commission (Based on April 2017 EDP notification)

69. **The effective stabilisation of the economic and policy environment, coupled with a containment of expenditure and a number of one-off factors favourable to government revenues, allowed Greece to attain a large primary surplus in 2016 and strongly over-perform vis-à-vis the ESM programme target.** Primary expenditure in the programme definition (see Box 1.3.1) decreased in nominal terms in 2016, largely due to lower investment and capital transfers paid by the authorities. Most other categories of expenditure remained broadly flat compared with the previous year, including social benefits in spite of the one-off bonus payment to pensioners worth EUR 617 million (0.3% of GDP) in December 2016. Together with the pension bonus, the authorities also extended the VAT discount – initially due to be eliminated by January 2017 – by an additional year for a group of islands most affected by the migration crisis, leading to a one-off negative impact on revenues of EUR 79 million (0.0% of GDP) in 2017; the VAT discount is now assumed to be fully phased out by 2018.

70. **Based on the Commission staff's assessment, the over-performance recorded in 2016 was also partly driven by one-off factors; which stresses the need for pursuing prudent fiscal policy objectives to support strong performance in 2017 and the medium term.** Buoyant corporate income tax receipts in 2016 were driven by an exceptionally strong growth in taxable

profits in 2015 and an improved collection rate. The sustainability of the taxable profits growth, which exceeded the underlying growth in gross operating surplus, is uncertain at it was likely stimulated by one-off factors related to low oil prices, the running down of inventories and some large repayments of tax liabilities by companies in liquidation. Other factors backing the overall revenue outturn included a higher-than-expected dividend of the Bank of Greece from ELA lending and large stock-piling effects ahead of the increase in excise taxes on tobacco from January 2017, which are not forecast to persist to the medium term. Public investment, which contributed to the over-performance from the spending side, is assumed to rebound in 2017 based on the adopted budget ceilings.

1.3.2.4. Outlook for 2017-2018 after the closure of the second review in mid-2017

71. **The fiscal projection updated in spring 2017 confirmed that Greece is on track to meet its ESM primary surplus target in 2017.** At the time, a small fiscal gap of EUR 535 million or 0.3% of GDP through 2018, largely as a result of the national roll-out of the new Social Solidarity Income scheme, was identified as a point that would need to be addressed as part of the review. The national roll-out of the scheme (see section 1.3.9.) started in February 2017 and is expected to cost around 0.4% of GDP per year. The projection also factors in a revised macroeconomic scenario, which – despite a non-negligible reduction in the projected real GDP growth – had a limited impact on general government revenue, as it was driven mainly by more cautious assumptions regarding the return of investor confidence. Macroeconomic aggregates relevant for projecting the main revenue items such as nominal private consumption and the average wage were revised to a smaller extent than others. The revised fiscal baseline takes also into account the measures adopted in the first review as well as a limited carry-over from the better-than-expected outturn of the previous year. It projects the primary balance to reach 1.9% of GDP in 2017 (against a target of 1.75% of GDP) and 3.2% of GDP in 2018 (against a target of 3.5% of GDP).

72. **Fiscal projections are based on conservative assumptions.** Total revenues are expected to decline as a share of GDP by 2.5 percentage points through 2018 despite an increase in nominal terms by EUR 1.2 bn (see Table 1.3.3). The nominal increase is largely underpinned by the gradual closure of the output gap assumed in the underlying macroeconomic scenario, combined with standard *tax-specific* elasticities as estimated by the OECD([11]) and a net marginal impact of revenue measures. The main measures with a marginal yield in 2017 include reforms of personal income taxation and indirect taxes. A small negative yield is envisaged for 2018 on account of a reform of advance payments for income taxes agreed under the programme, which brought the collection of revenues forward to 2016 and 2017. One-off and non-tax revenues are projected to decrease([12]) over the forecast horizon, in line with the historical average of 2014-2016. In addition, as investment is assumed to be an important driver of growth (see section 1.2.), the macroeconomic scenario is tilted towards less tax-rich components. Overall, the fall of general government revenues as a percentage of GDP despite the positive contribution of measures highlights that the updated baseline projection is conservative, as according to budgetary elasticities estimated by the OECD the overall revenue-to-GDP ratio should remain broadly stable on unchanged policies.

([11]) 'Adjusting the budget balance for the business cycle: The EU methodology', European Economy, Economic Papers 536 (November 2014).
([12]) This category includes current and capital transfers including from the EU in accrual terms, revenues of off-budget accounts, proceeds from the liquidity scheme and the state revenue aggregate of 'other non-tax revenues'.

Table 1.3.3: **Medium-term baseline fiscal projections 2016-18**

	2016	2017	2018	Δ 2018-2016
	Act.	Proj.	Proj.	
Total revenues, % of GDP	**50.0**	**48.3**	**47.5**	**-2.5**
Total revenues, bn EUR	**87.9**	**87.4**	**89.2**	**1.2**
	Level	*y-o-y change (bn EUR)*		
Total revenues, bn EUR	**84.5**	**-0.8**	**0.7**	**1.5**
Macro		1.1	1.8	2.9
Revenue measures		1.8	-0.4	1.4
One-off and non-tax revenues		-0.3	-0.1	-0.3
Other adjustments (1)		-3.1	0.4	-2.7
Total primary expenditures, % of GDP	**45.8**	**46.4**	**44.3**	**-1.5**
Total primary expenditures, bn EUR	**80.6**	**84.0**	**83.1**	**2.6**
	Level	*y-o-y change (bn EUR)*		
Total primary expenditures, bn EUR	**80.6**	**3.4**	**-0.9**	**2.6**
Compensation of employees	21.6	0.3	0.1	0.4
Social transfers	39.2	-0.1	-0.3	-0.4
Investments	5.6	0.7	0.2	1.0
Intermediate consumption (2)	8.3	1.2	-0.8	0.4
Other expenditure & reserve (3)	5.8	1.3	-0.2	1.2
Primary balance, bn EUR (4)	**7.4**	**3.4**	**6.0**	**-1.3**
Primary balance, % of GDP (4)	**4.2**	**1.9**	**3.2**	**-1.0**

(1) Includes an adjustments for a change in the Single Treasury Accounts
(2) Includes 0.3 bn of unspecified measures included in the 2017 Budget
(3) Includes subsidies and transfers
(4) Primary balance in programme terms
Source: European Commission (based on April 2017 EDP notification)

73. **Primary expenditures are also forecast to decline as share of GDP, albeit only in 2018.** Primary spending is set to be EUR 3.4 bn higher in 2017 than in 2016 on the back of the assumption of full execution of the 2017 budget. This concerns in particular investment and intermediate consumption, both of which recorded significant shortfalls in the previous year. On top of this, accrual spending is projected to be affected by a one-off increase in military deliveries and a one-off unspecified spending package included in the 2017 budget, both of which are recorded as 'intermediate consumption' in Table 1.3.3. Compensation of employees is assumed to grow at a slower pace, offsetting the expected decrease in social transfers. Expenditure pressures in these spending categories are modest, as many policies implemented during the ESM programme are to be maintained over the medium term (e.g. lower entry salaries and the non-indexation of existing salaries in the public sector, the clawback mechanism ensuring that healthcare overruns are offset against suppliers, the pension reforms etc.). All in all, general government expenditure is assumed to grow above inflation but below nominal GDP growth over 2017 and 2018.

74. A closer look is warranted at the developments in specific expenditure categories:

- **The wage bill growth in the updated baseline scenario is anchored by the attrition rule.** The projection factors in a 1:4 and 1:3 hiring-to-exits rule in 2017 and 2018. While no indexation of wages is assumed through 2018, the average wage is expected to moderately increase on account of the implementation of the new unified wage regime.

- **Pension reforms are expected to be fully implemented and to deliver savings through 2018.** Full implementation of the 2015 and 2016 pension reforms is expected to deliver net savings (including higher revenue) of around 1.5% of GDP in cumulative terms by 2018, most of which on the spending side. The baseline projection assumes a moderate pace of reduction of the stock of unprocessed pensions and a gradual phase-out of the Pensioners' Social Solidarity Benefit (EKAS).

- **Other social benefits are assumed to increase in 2017 and to level off thereafter.** The increase in 2017 is driven by the national roll-out of the SSI scheme, as well as the implementation of dedicated support to over-indebted households whose properties are being auctioned.

- **A spending floor is set to keep (adjusted) intermediate consumption above the 2016 level in the future.** The authorities agreed to introduce a floor on intermediate consumption, net of items with a pre-defined path and methodological adjustments. The rationale for the floor is to prevent that non-structural across-the-board cuts weigh on economic growth. Note that the increase in intermediate consumption projected in 2017 is also due to the above-mentioned EUR 300 million package of unspecified measures attributed fully to this category on a preliminary basis.

- **Resource constraints and contractual arrangements underlying certain expenditure categories are respected.** In particular, the baseline projection assumes that EU subsidies and investment will be growing broadly in line with the available EU funding and large-scale investment projects and military equipment will be completed or delivered in time.

75. **The fiscal projection is subject to uncertainty.** On the positive side, the forecast does not include any yields from the large number of administrative and structural fiscal reforms in the SMoU, notably those to improve revenue administration that are showing strong progress in some areas in excess of the key performance indicators set under the programme, and to find savings through spending reviews that have been initiated. Downside risks are related in particular to potential slippages in the yields of measures already legislated under the programme but still to be implemented in 2017-18. Additional uncertainties are related to the macroeconomic environment, the ongoing scrutiny of legality of the property tax and the pace of clearing of unprocessed pension claims.

76. **With a view to closing the gap identified in the baseline projection, the authorities adopted in May 2017, as part of the second review, an additional EUR 535 million (0.3% of GDP) package of measures.** The package was proposed by the authorities in December 2016 to cover the gap created by the roll-out of the SSI, which – in line with an existing SMoU commitment – was agreed to have a fiscally neutral impact. The package of measures is broadly balanced in terms of its impact on revenues and expenditures and, for the main part, consists of savings in tax expenditures and social benefits that were identified in the context of the Social Welfare Review undertaken with the technical assistance of the World Bank. Additional savings include new clawback ceilings on health care spending, small savings in military allowances and the unified wage regime, and revenues from taxing short-term tourist rentals (see Table 1.3.4 below). The fiscal outlook including the impact of this package is presented in Table 1.3.6 at the end of this section.

Table 1.3.4: **Parametric fiscal measures to reach the ESM primary surplus targets in 2016-2018**

	% of GDP			m EUR		
	2016	**2017**	**2018**	**2016**	**2017**	**2018**
Primary balance target (1)	0.5	1.75	3.5	879	3171	6571
Primary balance under baseline scenario (2)	4.2	1.9	3.2	7373	3429	6038
Fiscal gap under baseline scenario	**-3.7**	**-0.1**	**0.3**	**-6493**	**-258**	**533**
Total parametric policy package [I+II+III]	**0**	**0.1**	**0.3**	**0**	**125**	**535**
I. Social welfare review	**0**	**0**	**0.1**	**0**	**0**	**259**
Tax credit for medical expenses	0	0	0.1	0	0	121
1.5 percent discount on withholding	0	0	0	0	0	68
50% cut in heating oil allowance	0	0	0	0	0	58
Unprotected child benefit	0	0	0	0	0	5
Income Support for Low Income Families	0	0	0	0	0	2
Poverty and Natural Disaster Benefit	0	0	0	0	0	3
Unempl. benefits for entrants to the labour market	0	0	0	0	0	2
II. Other expenditure measures	**0**	**0.1**	**0.1**	**0**	**125**	**228**
Healthcare clawback extension/reduction	0	0.1	0.1	0	125	188
Performance incentives in the unified wage bill	0	0	0	0	0	33
Military allowances	0	0	0	0	0	7
III. Other revenue measures	**0**	**0**	**0**	**0**	**0**	**48**
Rental sharing tax reform	0	0	0	0	0	48
Fiscal gap after total permanent parametric policy package (3)	**0**	**-0.1**	**0**	**-6493**	**-383**	**-2**

(1) Primary balance as defined under the ESM stability support programme.
(2) Includes measures legislated in July 2015-June 2016.
(3) A negative sign signals over-performance vis-à-vis target; a positive one a fiscal gap.
Source: European Commission (based on 2017 April EDP notification)

77. **A major reform of the welfare system, based on the recommendations of the Social Welfare Review provided by the World Bank, will be implemented by 2018**. This will aim at streamlining the system and better targeting the needs of the most vulnerable, including a re-direction of resources to the financing of the national SSI roll-out. It shall include (i) a streamlining of regressive tax expenditures that mostly benefit those at the top of the income distribution; (ii) a reduction of the heating allowance benefit that was found to be concentrated among those at the top of the distribution and makes up a relatively small share of the incomes of the poor; and (iii) an elimination of benefits overlapping with the SSI or family benefits, including the unemployment benefit for those entering the labour market.

78. **Other elements of the fiscal package include structural measures focusing on improving expenditure efficiency and a reform of the rental sharing framework.** The authorities have adopted structural measures to rationalise healthcare spending anchored through adoption of a closed budget (clawback ceiling) to cover items previously not under clawback in the budget category "Other illness benefits (cash & kind)" in 2017 and a subsequent reduction of the clawback ceiling in 2018. Further measures on the expenditure side include a rationalisation of performance incentives in the public sector wage bill and of allowances in military sector, including (i) the eligibility conditions and calculation formulas for dangerous operations allowances, and (ii) the rationalisation of service-abroad allowances by reducing positions and duration of postings abroad. Finally, the authorities have put in place a legislative framework for short-term tourist accommodation rentals. This provides a regulatory framework for the taxation of the property-sharing economy to enable tax payments and safeguard tax revenues from occasional and short-term leasing of immovable property.

79. **The authorities have also adopted a medium-term fiscal strategy (MTFS) for 2018-21 as part of the second review of the ESM programme**. The fiscal strategy is consistent with sustaining the agreed primary surplus target of 3.5% over the medium term, with a safety margin of 0.5% of GDP introduced by the authorities for the period 2019-21 (see Table 1.3.5). The MTFS is underpinned by a macroeconomic scenario that is closely aligned to that of the European institutions. The fiscal projection is consistent with the projection of the European institutions until 2018. For the post-programme period, it envisages additional expansionary measures (both

on the revenue and spending side) worth 1.7% of GDP in cumulative terms that could be implemented on top of the measures agreed with the institutions in case additional fiscal space becomes available. The possible implementation of such measures needs to be fully consistent with the implementation of the contingent package and must not jeopardise the achievement of the medium-term fiscal targets. The MTFS includes safeguards to this effect. The authorities' projection for the post-programme period factors in a relatively dynamic growth in direct tax revenues, the assumption of non-indexation of public wages throughout the period covered by the MTFS and a fairly swift clearing of unprocessed pension applications.

Table 1.3.5: **Medium-term Fiscal Strategy 2017-2021 - Fiscal Projection (% of GDP)**

	2016	2017	2018	2019	2020	2021
Total revenue (1)	**45.8**	**44.6**	**44.0**	**43.3**	**42.0**	**40.6**
Indirect taxes	16.7	16.5	16.4	16.1	15.7	15.4
Direct taxes	10.2	10.2	10.0	10.1	10.4	10.6
Social contributions	11.3	11.0	10.8	10.6	10.5	10.4
Other revenue (2)	7.6	6.9	6.8	6.5	5.4	4.2
Primary expenditure (1)	**41.7**	**42.7**	**40.4**	**39.3**	**38.0**	**36.6**
Intermediate consumption	4.3	4.9	4.2	4.1	4.1	4.1
Compensation of employees	9.0	9.0	8.9	8.7	8.5	8.2
Social transfers	22.0	21.6	20.3	19.4	18.3	17.6
Gross fixed capital formation	3.6	3.9	3.9	4.1	4.1	3.8
Other expenditure (3)	2.8	3.3	3.1	3.0	3.0	2.9
Programme primary balance (1) (4)	**4.2**	**1.9**	**3.5**	**4.0**	**4.0**	**4.0**
General government balance (ESA)	**0.7**	**-1.2**	**0.5**	**0.9**	**0.9**	**0.9**

(1) The primary balance and all components are shown in programme terms.
(2) Other revenue includes other taxes, tax refunds, current and capital transfers, sales, property and other revenues and unspecified interventions for 2020-2021.
(3) Other expenditure includes subsidies, current and capital transfers and the reserve.
(4) The projection includes all measures agreed under the second review and unspecified interventions included in the MTFS for 2020-2021.

Source: MTFS 2017-2021 of the Greek authorities (Table 3.6), based on April 2017 EDP notification.

Table 1.3.6: **Fiscal projection including the impact of measures**

	bn EUR (1)			% of GDP (1)		
	2016	2017	2018	2016	2017	2018
Total revenue (2)	**87.9**	**87.5**	**89.4**	**50.0**	**48.3**	**47.6**
Indirect taxes	30.4	31.5	32.2	17.3	17.4	17.1
Direct taxes	18.5	18.8	19.3	10.5	10.4	10.3
Social contributions	24.9	24.5	24.8	14.2	13.5	13.2
Other revenue (3)	14.1	12.7	13.2	8.0	7.0	7.0
Primary expenditure (2)	**80.6**	**83.9**	**82.8**	**45.8**	**46.3**	**44.1**
Intermediate consumption	8.3	9.5	8.7	4.7	5.3	4.7
Compensation of employees	21.6	21.9	22.0	12.3	12.1	11.7
Social transfers	39.2	39.0	38.6	22.3	21.5	20.6
Gross fixed capital formation	5.6	6.3	6.5	3.2	3.5	3.5
Other expenditure (4)	5.8	7.2	7.0	3.3	4.0	3.7
Programme primary balance (2) (5)	**7.4**	**3.6**	**6.6**	**4.2**	**2.0**	**3.5**

(1) 2016 values are based on data notified in the context of the 2017 spring EDP notification
(2) The primary balance and all components are shown in programme terms
(3) Other revenue includes property income, market output, output for own final use and payments for non-market output, other current transfers, and capital transfers receivable.
(4) Other expenditure include subsidies, other current transfers and capital transfers payable.
(5) The projection includes all measures agreed under the second review (in contrast to the baseline projection shown separately
Source: European Commission (based on April 2017 EDP notification)

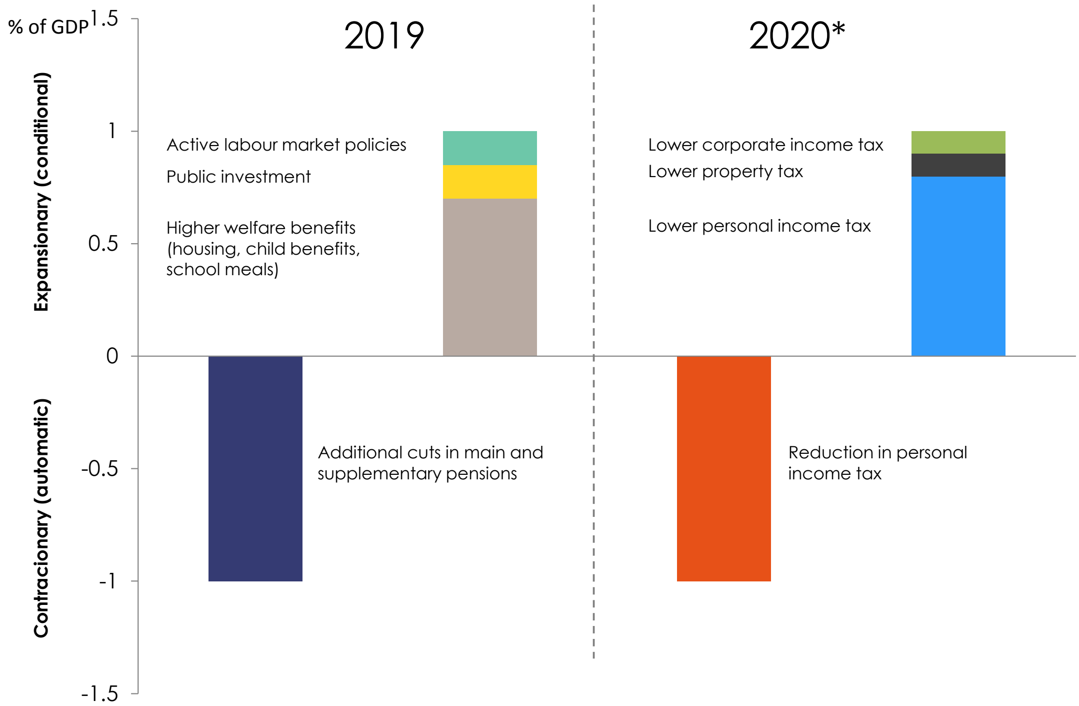
1.3.2.5. Additional parametric fiscal measures for the post-programme package adopted as part of the second review

80. **As part of the second review, Greece adopted an additional package of fiscal measures of 2 pps. of GDP to enter into force after the programme ends in 2019 and 2020.** This comes on top of the parametric measures yielding 4.5% of GDP through to 2018 and is a substantial addition to the conditionality agreed in the initial MoU signed in August 2015. This was done at the request of the Eurogroup and key Member States who emphasized the need for shared conditionality among all institutions as a basis for the IMF to come on board with a new financing programme. The issue arose as the IMF has argued that Greece can only sustainably achieve a primary surplus target of 1.5% of GDP after 2018.([13]) and that additional consolidation measures of 2% of GDP would be needed to reach a medium-term primary surplus target of 3.5% of GDP as set down in the MoU and the statements of the Eurogroup.

81. **To this end, the SMoU includes a pre-legislated fiscal package that was enacted on 18 May 2017, but which would enter into force only as from 2019.** The package contains a consolidation leg as well as an expansionary leg, with the latter contingent on the achievement of the primary surplus target of 3.5% of GDP over the medium term. This asymmetric design of the package provides additional guarantees to the achievement of the medium-term targets, in view of divergences in projections between the European institutions and the IMF. Moreover, it helps restructure public finances in a more growth-friendly manner and brings pension expenditure and the tax-free threshold closer to the European average.

([13]) See IMF Article IV report from February 2017 (https://www.imf.org/en/Publications/CR/Issues/2017/02/07/Greece-2017-Article-IV-Consultation-Press-Release-Staff-Report-and-Statement-by-the-44630) and the Letter of Intent (http://www.imf.org/en/Publications/CR/Issues/2017/07/20/Greece-Request-for-Stand-By-Arrangement-Press-Release-Staff-Report-and-Statement-by-the-45110, Appendix 1)

Graph 1.3.7: **Pre-legislated fiscal package**



* Can be advanced to 2019 if needed to reach a primary surplus of 3.5% based on IMF forecast
Source: European Commission

Table 1.3.7: **Overview of the savings of the pre-legislated pension measures in 2019-2022**

Main pension		**2019**	**2020**	**2021**	**2022**
Recalibration in 2019 (18% cut ceiling)	Gross savings (mn)	2105			
	Cumulative gross savings (mn)	2105	2105	2105	2105
	Net savings	1780	1780	1780	1780
	Cumulative gross savings over GDP	*1.08*	*1.03*	*0.99*	*0.96*
	Cumulative net savings over GDP	*0.91*	*0.87*	*0.84*	*0.81*
Supplementary pension		**2019**	**2020**	**2021**	**2022**
Recalibration in 2019 (18% cut ceiling) - Only pensioners with main + supplementary BELOW 1300 €	Gross savings (mn)	186			
	Cumulative gross savings (mn)	186	186	186	186
	Net savings	158	158	158	158
	Cumulative gross savings over GDP	0.10	0.09	0.09	0.08
	Cumulative net savings over GDP	*0.08*	*0.08*	*0.07*	*0.07*
Freezing of pension in payment after 2018		**2019**	**2020**	**2021**	**2022**
Freezing	Savings (mn)	78	188	350	574
	Cumulative savings (mn)	78	188	350	574
	Cumulative savings over GDP	0.04	0.09	*0.17*	0.26
Total		**2019**	**2020**	**2021**	**2022**
Recalibration of main and supplementary pensions in 2019 (18% cut ceiling) + Freezing	*Cumulative gross savings over GDP*	*1.21*	*1.22*	*1.25*	*1.30*
	Cumulative net savings over GDP	*1.03*	*1.04*	*1.08*	*1.14*
MEMO:					
Inflation		1.3	1.6	1.8	2.0
Gross (cumulated) savings from already legislated measures - % GDP		2.0	2.2	2.5	2.7
Net (cumulated) savings from already legislated measures - % GDP		1.8	1.9	2.2	2.3

* Net calculated with 6% health contribution and 10.05% PIT
** Savings from recalibration in the main pension scheme include reduction of family allowances by 50%
*** Recalibration of main pension includes TEBE, TEBE disable, PS, PS disable, PS survivor IKA, IKA disable, IKA survivor, TSMEDE, TSAY, TAN, NAT and new pension awarded under the transition phase (2016-2018). The funds not included (because of missing data) cover 17.9% of pension expenditure. Half of this percentage has been considered to input savings on the residual funds.
**** The freezing is calculated by using the pension expenditure aggregate of the EL authorities (around 7.2bn) but applying the inflation series of the COM
**** Savings for both main and supplementary pensions have been calculated only on pensioners with negative personal differences
Source: European Commission

82. On the consolidation side, the package includes:

- A **pension reform delivering net savings of 1% of GDP in 2019** and over the medium term, mainly through the immediate "recalibration" of negative personal differences of both main and supplementary pensions, i.e. reducing existing pensions in line with the new rules adopted in 2016 (see Table 1.3.7). Nominal cuts in both main and supplementary pensions are capped at a maximum of 18%.The recalibration is combined with an indexation freeze of all pensions in 2019-2022, in line with the political understanding reached by the Eurogroup on 22 May on the length of the "medium term". The savings of 1% of GDP generated by this reform as of 2019 come on top of the already legislated savings due to the 2015 and 2016 pension reforms, yielding an additional 2.3% of GDP by 2022 (see section 1.3.7.).

- A **reduction of the personal income tax credit to broaden the tax base**, delivering net savings of 1% of GDP in 2020 and over the medium term. This is equivalent to a reduction of the tax credit by EUR 650 from the current child-differentiated levels (ranging from EUR 1,900 to EUR 2,100) for wage, pension, and farming income (see Table 1.3.8 below). The implementation of this measure can be brought forward to 2019, if the IMF, in cooperation with the European institutions and the Greek authorities, in the context of the final programme review, considers that a frontloaded implementation is needed in order to reach the agreed 3.5% primary surplus fiscal target in 2019 in a growth-friendly manner. Provided that the achievement of the target is deemed to be secured in a growth-friendly manner, the size of the tax credit reduction introduced in that year can be adjusted by the Greek authorities in agreement with the institutions.

Table 1.3.8: **Child-differentiated tax credit before and after the reform**

	No children	One child	Two children	Three children
Current	EUR 1900	EUR 1,950	EUR 2,000	EUR 2,100
After reform	EUR 1,250	EUR 1,300	EUR 1,350	EUR 1,450

Source: European Commission

83. On the expansionary side, the package includes:

- A **growth-enhancing tax package** matching, in net terms, the yield from the personal income tax reform encompassing: (i) a reduction in personal income tax rates with a medium-term fiscal impact of up to 0.8% of GDP; (ii) a reduction in corporate income tax rates with a medium-term fiscal impact of up to 0.1% of GDP, and (iii) a reduction in property tax (ENFIA) with an impact of up to 0.1% of GDP.

- A **targeted spending package** matching in net terms the yield from the pension reform composed of: (i) an increase in spending on targeted welfare benefits (housing allowance; child benefits; school meals; nursery/pre-school education; means-tested reduction in health co-payments) at a cost of up to 0.7% of GDP (ii) high-quality public infrastructure investment of up to 0.15% of GDP, and (iii) active labour market policies of up to 0.15% of GDP (see Table 1.3.9).

Table 1.3.9: **Growth-friendly expenditure measures**

	EUR million	% of GDP
Social programs	**1,430**	**0.70**
School meals	190	0.10
Pre-schooling - nurseries	150	0.10
Unified child-family benefit	260	0.10
Housing allowance	600	0.30
Pharma co-payment	240	0.10
Infrastructure programs	**300**	**0.15**
Energy efficiency	100	0.10
Agriculture infrastructure	100	0.10
Investment law	100	0.10
Active Labour Market Programs	**260**	**0.15**
Total expenditure	**2,000**	**1.00**

Source: European Commission

84. **The legislation provides that the implementation of the expansionary package is contingent upon the achievement of a primary surplus of 3.5% of GDP in a sustainable manner.** The implementation can occur if, and to the amount which, according to an assessment provided by the institutions in consultation with the Greek authorities, it will not jeopardise the medium-term ESM programme targets. The European institutions expect that the medium-term ESM fiscal target of 3.5% of GDP can be reached by 2018 and maintained over the medium term: this is due to the projected closure of the still negative output gap during those years and because the pension reform adopted in 2016 will continue to deliver an increasing fiscal yield over time. Therefore, based on the current forecasts of the European institutions, the expansionary measures are expected to be implemented simultaneously to the consolidation measures. Hence, the agreed

post-programme package would be a fiscally neutral re-composition of public finances if the European institutions' forecasts are correct.

85. **This pre-legislated package of fiscal measures to enter into force as of 2019 was accompanied by supporting documents from the Greek authorities, which confirm that the measures are in line with the Greek constitution and legal order.** In addition, the authorities provided a detailed quantitative assessment of the distributional impact of the pension reform, which is an obligation to assess the legality of the reform. In line with the SMoU commitment, the authorities have provided: (i) an independent legal opinion concluding that the pension reform is in line with the Greek Constitution and the Charter of Fundamental Rights of the EU – which expressly refers to, and reaffirms, fundamental rights as they result, inter alia, from the European Convention for the Protection of Human Rights (ECPHR), which is part of the Greek legal order; and (ii) an independent legal opinion certifying the robustness of the contingency provisions in the package.

86. **The Commission has looked into the distributional impact of the accelerated recalibration of the 'personal differences'.** The 2016 pension reform (see section 1.3.7 below) envisaged the gradual elimination of 'personal differences' through the freezing of indexation of affected pensions to inflation. A faster recalibration of existing pensions, as foreseen in the pre-legislated post-programme reform, will achieve the objective of enhancing intra- and inter-generational fairness more quickly. It will also accelerate the reduction of the relatively high level of pension spending as a ratio of GDP and limit the large deficits that require significant State transfers to the pension system. At the same time, a full and immediate recalibration would have implied significant cuts in individual cases of a scale that would have raised issues of social and legal viability. To address these concerns, a cap of 18% for pension reductions resulting from the recalibration has been introduced. Based on available data, the Commission's assessment is that the result would impact around 1 million pensions and eventually imply an average nominal reduction of close to 14%. Capping the recalibration at a maximum of 18% of pension income will limit the adjustment for some 26% of pensioners (372,000 persons in the sample) who would have otherwise faced bigger cuts. These pensions will still face a gradual recalibration through a freeze of indexation until the absorption of the remaining personal differences through inflation, as already legislated in the pension law (4387/2016), without the application of any further nominal cuts.

87. **Regarding the question of compliance of the pension reform with the Constitution and the ECPHR**, the legal opinion provided under point (i) of paragraph 85) reached a favourable conclusion, having taken into account a number of considerations, including pertinent case law, both of national and international (Council of Europe, Greek Council of State) nature, namely:

    - the legislator's power to affect social security rights, including vested ones, in the name of public interest, taking into account that pension rights are not rights to a specific pension amount; also taking into account past pension policy measures as well as the evolution of tax burden over the years;

    - the limit to the legislator's power, which lies in the obligation to preserve an adequate standard of living and participation to social life;

    - factors justifying reductions (financial crisis, safeguarding the viability of the social security system, avoidance of creating imbalances to the detriment of other sectors of the economy, ensuring an equitable intergenerational burden sharing).

88. **The legal opinion concludes that the Bill safeguards the core of the pension right by making the minimum possible necessary cuts and is, therefore, in line with the Constitution and the ECPHR.** Regarding the question of compliance of the newly legislated contingency mechanism ("CM") with the Constitution, the legal opinion under point (ii) of paragraph 85 above also reached a favourable conclusion. It considers the legislation, whose implementation is conditional upon the fulfilment of certain assumptions made by the provisions under examination, fully compliant with the Greek constitutional order. Having cleared this matter, the report further identifies and investigates the constitutionality of the granting of a special delegation for the issuance of regulatory decrees to the Ministers of Finance and/or Labour, in particular in tax matters. The opinion concludes in favour of the constitutionality of the delegation, notwithstanding the fact that the administrative acts shall regulate tax matters, concluding that it does not contravene the prohibition of article 78 of the Greek Constitution with regard to the granting of legislative delegation in tax matters.

89. **However, in its opinion accompanying the bill, the Court of Audit([14]) expressed its reserve as to the possibility of raising a challenge to the legislation in question.** It also stated that the explanatory report did not provide any justification or reference to a study establishing the appropriateness and the necessity of the cuts as compared to other potential alternatives. The explanatory report was subsequently revised and a reference to a distributional study was included to address these concerns. This however did not lead to a revision of the CoA opinion (new CoA opinion issued on 7 June 2017).

90. Furthermore the Legal Council of State issued an opinion (152/2017 on 15 June 2017) on the post-programme pension measures, in which it reached the following conclusions:

- No opinion can be expressed on the constitutionality and the compliance with the ECPHR due to non-availability of reliable data permitting to define the adequate standard of living in 2019.

- There is no infringement of the Constitution or the ECPHR related to the lack of a study in support of the pension cuts, due to the fiscal nature of the measures.

- Similarly the freezing of pensions until 2023 does not infringe the above rules.

91. Finally, the Legal Council of State ruled out the possibility of infringement of the European Charter of Fundamental Rights on the grounds that the measures in question do not relate to the application of EU law.

1.3.3. TAX POLICY REFORMS

92. **A very substantial set of tax reforms has been undertaken since July 2015 in the context of the First and Second Reviews.** This includes a major reform of personal income taxation, a substantial streamlining of the VAT system, numerous improvements in excises and indirect taxes, and a major reform to the criminal justice system for tax evasion and fraud.

([14]) The Court of Audit ("Elengtiko Synedrio"), partly a court of law and partly an independent administrative authority, is responsible inter alia for deciding on pensions. Article 73 of the Greek Constitution provides that bills pertaining in any way to the granting of a pension and to the relevant prerequisites must be accompanied by an opinion of the Court of Audit; this opinion is not legally binding, therefore a negative conclusion does not prevent the enactment of the bill affected.

Box 1.3.2: Personal income tax reform

The personal income tax reform of 2016 has been a key step to complete the process of reform and modernisation of the income tax system started in 2012. The previous reform undertaken in 2012/2013 eliminated a host of arbitrary tax allowances and credits, providing a single personal tax credit restricted to employment and pension income and introduced an Income Tax Code that inter alia introduced modern rules for the calculation of business profits.

The income tax reform adopted in June 2016 makes further fundamental reforms to the personal tax system and raises just over 1% of GDP. The reform i) reduces the opportunities for tax avoidance by pooling business and employment income and taxing it on a single tax schedule; (ii) attenuates the preferential tax regime for farmers by taxing farm income, including direct subsidies, on the same tax scale as other forms of income while providing a standard tax credit, and by tightening the definition of professional farmer able to claim the tax credit; (iii) integrates the Solidarity Surcharge fully into the Income tax system changing from average to marginal tax rates and partly harmonising the bands with those for personal income tax; (iv) adjusts marginal tax rates, in particular tackling the problem of high marginal tax rates for tax payers on middle incomes; (v) broadens the tax base and gives additional incentives for labour participation and work by reducing tax credit thresholds, which now take account of family composition; (vi) increases the tax rates on rental income above EUR 12,000.

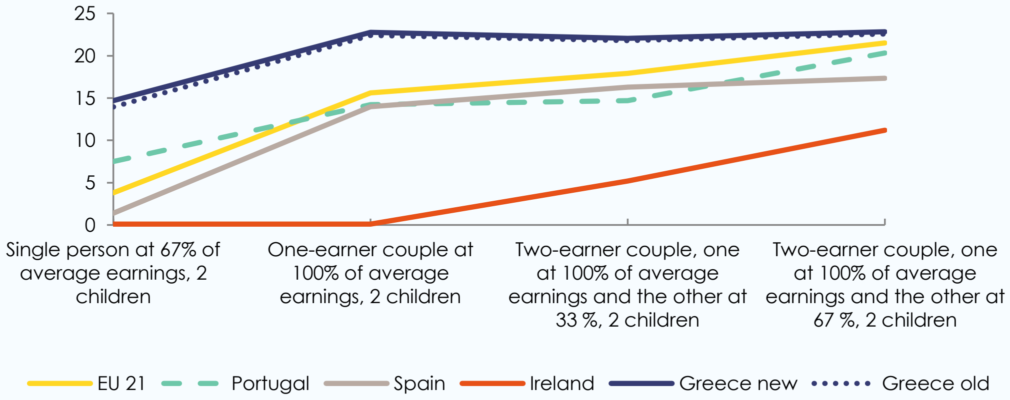
Only a small proportion of additional revenues are raised from increases in tax rates, the largest component of the reform resulting from the integration of the already existing – but expiring – solidarity surcharge into the personal income tax. Marginal and average tax rates have not been increased over the majority of the income range: the opportunity has been taken to reduce somewhat the tax rates in the EUR 25-30,000 incomes range. Higher marginal tax rates above EUR 65,000 reflect the decision to widen the tax base above the ceiling on social security contributions. The majority of the additional revenues are therefore raised from the reduction in the tax credit (0.2% of GDP) and the pooling of business and employment income (0.2% of GDP).

The personal income tax credit has been reduced to take account of the fall in wages and pensions since 2012, but has been differentiated to maintain the incentives for labour participation for those with childcare responsibilities. The tax credit for a taxpayer without children has been reduced by EUR 200 to EUR 1,900, resulting in a tax-free threshold of EUR 8,636, some 10% below the former threshold of EUR 9,545. However, the tax credit is EUR 50 higher than that for taxpayers with a single child, EUR 100 higher for those with two children and EUR 200 higher for those with three or more children. The reform thus limits the effect of the reduction in the tax credit on taxpayers with children in line with other Member States. OECD figures (see second chart) show that families in Greece face high tax rates compared with other Member States, particularly for families with a single breadwinner or with a second relatively low income.

(Continued on the next page)

Box (continued)

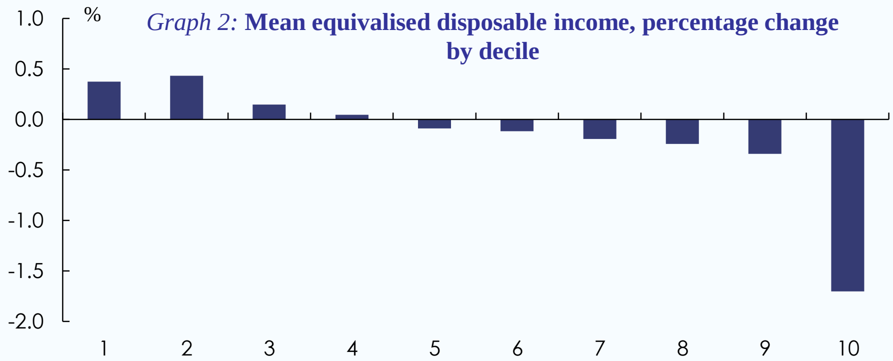
Graph 1: **Average rate of tax and social contributions paid by families minus benefits in 2015 (%)**



Source: European Commission based on OECD Tax-benefit Model.

The reform increases the progressivity of the tax system, slightly improving both inequality and the at-risk-of-poverty rate. Graph 2 shows the impact of the reform on disposable incomes, estimated on the basis of simulations done with the EUROMOD microsimulation model. It appears how individuals in the lowest deciles benefit on average from the new system, while those most affected are the richest individuals in the highest income decile. The same simulations show a small positive impact both on inequality, with the Gini coefficient decreasing slightly by 0.33 percentage points, and on poverty, with the at-risk-of-poverty rate being reduced slightly by 0.14 percentage points (the overall magnitude of the effects is small because in most deciles the changes are small in absolute terms).

Graph 2: **Mean equivalised disposable income, percentage change by decile**



Source: European Commission, Joint Research Centre based on the EUROMOD model

93. **A major reform of personal income taxation was undertaken in May 2016.** It reduces opportunities for tax avoidance and raises 1% of GDP in additional revenues (of which some 0.5% represents the permanent integration of the Solidarity Surcharge into the Income Tax Code)**.** Key elements of the reform include pooling business and employment incomes into a single tax schedule, incorporating the solidarity surcharge permanently into the personal income system, and maintaining incentives for taxpayers with children to participate (see Box 1.3.2). The reform thus aims to raise revenues in a fair and equitable manner, whilst broadening the tax base to take account of recent substantial reductions in wages and pensions. Simulations conducted on the distributional implications show that the 2016 fiscal reform improves the progressivity of the tax code, as in force in 2015, with a reduction in both inequality and the poverty rate. The results of the analysis are shown in the table in Box 1.3.2.

94. **A major reform was undertaken in July 2015 and completed in May 2016 to streamline the VAT system to raise revenues and to reduce the scope for VAT fraud.** Some 1% of GDP was raised through the VAT reform in July 2015 that was completed by an increase in the standard VAT rate to 24% from 1 June 2016. The reform considerably widened the base of the standard VAT rate and progressively will eliminate the reduced VAT rates for the Aegean islands (see Box 1.3.3). VAT compliance rates have increased markedly since 2015.

Box 1.3.3: **The VAT reform and its yields**

A key component of the tax reforms under the ESM programme was a major VAT reform in 2015-2016 that raised some 1% of GDP in additional revenue. There was a very strong case for making reforms to the structure of VAT rates and exemptions in Greece. Whilst the standard VAT rate of 23% was some 1.5 pps. higher than the EU average, VAT revenues as a percentage of GDP are considerably lower than the EU average. Low VAT efficiency in Greece is due to multiple reduced VAT rates and extensive exemptions for specific product and service categories and because of widespread under-declaration and under-collection. VAT revenues could be more efficiently raised by limiting the scope of reduced rates and exemptions, which would reduce potential market distortions and also assist in improving compliance rates. Prior to the reform, only one third of the tax base was at the standard 23% rate. Moreover, some 25% of the VAT base was entirely exempted from VAT.

A particular problem is the parallel VAT system for the Aegean islands with VAT rates 30% lower than those of the mainland. This resulted in a six VAT rate structure that enormously increases the difficulties of administration for both businesses and the tax service. In particular, the islands system requires the imposition of bureaucratic controls on the internal transportation of goods in the country and opens the VAT system up to potential fraud.

The VAT reforms can be summarised as follows:

- The three VAT rate structure has been retained. However, the majority of consumer goods and services were moved to the standard rate, including transport, restaurants and catering, and non-basic food items.
- The coverage of the reduced VAT rate of 13% was limited to basic food items, energy/water utilities, and hotel accommodation.
- The super-reduced VAT rate was slightly reduced from 6.5% to 6% and was limited to pharmaceuticals, books/newspapers, and theatre tickets.
- The special VAT regime for the Aegean island has been progressively limited and will be eliminated entirely by the end of 2016.
- The reform proposals were completed by raising the VAT rate from 23% to 24% from 1 June 2016.

Table 1:
Percentages of Consumer expenditure in each rate band

VAT Rate band	Pre-reform (%)	Post-reform (%)
Standard (23%/24%)	33.6	62.4
Reduced (13%)	37.2	10.3
Super-reduced (6.5%/6%)	3.6	1.8
Exempted	25.5	25.5
Total	100	100

Source: European Commission

Overall, the share of consumer expenditure subject to the standard rate was almost doubled from 34% to some 62% (see table above based on the authorities' VAT model). The proportion of goods and services taxed at the reduced rate was reduced from 37% to 10%, whilst the proportion of consumer spending at the super-reduced rate was halved from 3.6% to 1.8%.

95. **The implementation of the real estate property tax (ENFIA) has been highly successful.** Revenue yields have been in line with budget estimates and compliance rates have continued to rise. Following a challenge in the courts, the Council of State ruled in November 2014 that the authorities have to review the system of objective property values, resulting in an overall reduction of some 5% in the objective values used for the base of the ENFIA tax. The authorities have legislated to maintain ENFIA revenues by adjusting property band widths, widening the tax base to include non-urban land, and by raising some tax rates. The authorities have now embarked on a full revaluation exercise for objective property values to bring them in line with market property prices.

96. **A successful review of vehicle taxation was undertaken as part of the first review.** The scope of the review included modernising the car registration tax, tightening tax rules for the usage of corporate cars, and recalibrating fuel excises. These tax changes will bring in greater revenues and contribute towards reaching climate change and environmental objectives**.** They better reflect Greece's limited domestic energy resources and could have a positive net impact on the external balance.

97. **The Greek authorities made a major reform of the criminal law on tax evasion and fraud as part of the first review**. The reforms adopted in October 2015 (Law 4337/2015) refocused the criminal legislation on tax evasion for major offences, widening the definition across all taxes and increasing penalties. At the same time, the criteria for the referral of cases to the criminal justice system were tightened to ensure the speedier application of justice.

98. The legislation on tax fines has been streamlined and the fines under Law 2523/1997 of the former Code of Books and Records were abolished. A review was undertaken of the system of fines in the Tax Procedures Code, improving their workability and providing the integration with the new criminal law on tax evasion and fraud leading to a new Circular on Fines issued in November 2015. With the active involvement of Technical Assistance, further reforms were made to the fines system as part of the second review to improve the compliance of taxpayers with audits.

99. **As part of the second review, a number of further important improvements were made to the tax codes.** The income tax provisions on mergers and acquisitions were strengthened to prevent tax avoidance in line with EU best practices. With the active involvement of Technical Assistance, further reforms were made to the fines system as part of the second review of the ESM programme to improve taxpayer compliance and to converge pre-2013 fines with the current tax procedure code system. Legislation was passed to allow a movement to market prices for the starting values at public property auctions. The voluntary contribution of the shipping community was also extended to 2018: this contribution equalises the tax payments on the Greek-owned but non-Greek registered ships with those covered by the tonnage tax.

1.3.4. REVENUE ADMINISTRATION REFORMS

100. **To improve revenue collection and step up the fight against fraud, a fully independent revenue agency, the Independent Authority for Public Revenue (IAPR), has been established and a host of measures are being taken to improve compliance, fight fraud and evasion, and increase the efficiency of revenue collection.** The ability of the Greek State to collect public revenues has been hampered by a long history of complicated legislation, poor administration, political interference and generous amnesties, with chronically weak enforcement. To break from this practice, the ESM programme has foreseen measures to strengthen the revenue administration and improve the tax and social security payment culture. The authorities have passed legislation transforming the semi-autonomous public revenue administration into a fully

independent public revenue agency as a prior action under the first review of the ESM programme and pursued implementation of these reforms during the second review. The MoUs also include commitments to increase tax compliance, fight tax fraud, improve audits, and to enhance collection and tools for both tax and customs.

1.3.4.1. The Independent Authority for Public Revenue

101. **The creation of the Independent Authority for Public Revenue (IAPR) has been an important new step in the reform of tax collection.** The Authority, established as of 1 January 2017, is in charge of collection of taxes and duties, while the determination of tax policy itself remains with the Minister of Finance. Work to pursue the building up of the Authority has continued during the second review. The Authority is fully up and running and the only major outstanding issue concerns the reform of its human resources policy. (For details, see Box 1.3.4.)

Box 1.3.4: The Independent Authority for Public Revenue

The Independent Authority for Public Revenue (IAPR) is now in place. The IAPR, which has been established as of 1 January 2017, is in charge of the implementation of the legal framework relating to the determination and collection of tax and customs revenues. The law establishing the Independent Authority for Public Revenue has been passed as a prior action for the first review. Work to operationalise the Authority has continued during the second review. Currently, the Authority is fully functional; the only major outstanding issue concerns the reform of its human resources policy.

This Independent Authority is an important new step. A semi-autonomous public revenue administration was established as a programme commitment at the end of 2012. After the mandates of the first two Secretaries Generals were interrupted before their normal term, it was decided in 2015 to transform the Secretariat General for Public Revenue into a fully autonomous public revenue agency. IAPR is in charge of implementing the legal framework related to the determination and collection of tax, customs services and operates the General State Chemical Laboratory.[1]

For funding purposes and parliamentary control, the Authority has been created as an independent administrative authority within the remit of the Ministry of Finance. The Authority is controlled by Parliament both through the vote of the budget and through debates with members of the management board and the head of the Authority on the IAPR's annual report and strategic plan. Finally, parliament gives its opinion on the appointment of the members of the board.

The interactions between the Authority and the Minister of Finance have been clarified by the legislation. The minister is able to issue strategic directions to the Authority in respect of the implementation of government policy objectives related to tax and customs. The Authority and the minister cooperate on legislation and implementation issues by consulting each other. The Authority informs the minister by submitting periodic progress reports. The minister does not have hierarchical control (meaning the capacity to give orders or instructions to the staff of the authority, nor reverse its decisions), and ministerial directions do not extend to any operational matters, including information requests and instructions on individual cases. The minister does not have the capacity to initiate the dismissal of the head of the Authority, only to request from the board an opinion on whether the conditions for continuity of the mandate are met. One of the grounds for dismissal is an 'obvious deviation' from the performance contract signed between the minister and the head of the Authority under approval of the board. This contract will include quantitative and qualitative targets for the manager.

The Authority's independence will rest on its management board. The management board is composed of independent members nominated for five years. A shortlist is established by an independent selection committee including, for the first years of the Authority, two European Commission representatives. The minister makes the final selection of the five members and seeks approval by Parliament. The management board also includes, during the first years of the Authority, an international expert, appointed by the minister on a short list proposed by the Commission, who serves as special advisor to the management board, providing advice on international best practices. This expert participates in board meetings and discussions and has the same access to documentation as the board members.

The board is responsible for approving, upon proposal by the head of the Authority, all the strategies and key decisions such as the strategic and business plan, the budget, the human resources policy, and policy on administrative matters. The board will also monitor the correct implementation of these policies. It will not deal with, or be informed about, individual cases.

To ensure a high level of professionalism the head of the Authority is nominated by the minister based on a ranking proposed by the management board out of a shortlist proposed by the same selection

[1] By law the General State Chemical Laboratory is part of the IAPR. It is in charge of the analysis related to customs such as control of products for consumer safety and anti-smuggling.

(Continued on the next page)

Box (continued)

committee. If the minister deviates from the proposed ranking, he has to provide a reasoned opinion. The head will be appointed for a term of five years, renewable upon decision of the board with a two-thirds majority. However at the start of the IAPR its first head is, by law, the former secretary general for public revenue, appointed in early 2016 by the minister through a proper process involving an independent selection panel including one Commission representative. His mandate will be three years in total, with a possible renewal under normal rules of duration.

The head manages the Authority under the strategic direction and monitoring of the board. He makes all the day-to-day decisions and proposes the strategies to the board.

The Authority's resources and budget are a key element of independence. As a public entity, the authority's financial resources, including salaries, come from the State budget. An incentive scheme has been designed to increase the authority's budget by a percentage of the surplus of the collected revenue, in case the revenue exceeds the annual targets. The IAPR has its own budget and its own directorate general of financial services. To ensure political support in its claim for resources, the Authority's budget request is not only submitted to the Ministry of Finance but also to the Parliament, which is informed of the (whole) budget request. Public accounting rules and safeguards — including ex-post audits by the Hellenic Court of Audits — are in place, but with some derogations: if the minister refuses a transfer of budget across the major budget categories,[1] he needs to provide a reasoned opinion. The expediency control of expenditures and general monitoring of the budget is the task of the management board.

The Authority is able to determine its own internal structure and organisation, and the filling of its internal positions, under control of its board. If more organic positions are needed, the IAPR would need to refer to the inter-ministerial 'Government Reform Council'.

The Authority is operational since 1 January 2017. To help in the transition, the board has been appointed in autumn 2016, as a prior action for the second review, so that it could provide assistance in the reform. Also a series of prior actions were taken by December 2016 to ensure full operationalization of the IAPR: the service-level agreement needed to fully operationalise the transfer of all tax and customs administration IT-related functions within the Authority has been signed by the head of the Authority, the secretary general of information systems and the minister, legislation to provide with immediate effect for travel and accommodation expenses for the members of the management board of the IAPR and for the international expert assisting the board has been passed, a one-off injection of resources has been agreed and voted in the 2017 budget, and finally the Authority produced its strategic plan, its draft business plan for 2017, and an action plan for the implementation of the tax and customs academy.

Human resources management is the one sector of the Authority not yet fully in place at the end of the second review. **Some prior actions took care of specific issues**: hiring for 2017 agreed in the one-off injection of resources took place; 80 key managers had been either selected for vacant positions or assessed; the positions of managers to rotate regularly have been defined. **For other HR issues work is still in progress** at the end of the second review. General principles had been agreed during the first review in the framework of the Authority policy paper. The rules will be a mix of general public service rules. Staff is made up of permanent civil servants; recruitment is done through merit-based competitive exams organised by the independent Supreme Council for Civil Personnel Selection (ASEP). Some derogation may be possible where necessary, depending on the specific job position. The IAPR will apply the unified wage grid of civil servants adopted under the first review, but there will be the possibility of having specific wage grids for some key (and difficult to fill) job positions. Managers will be assessed at their selection and will subsequently be subject to regular annual assessments; and managers in delicate positions will need to rotate regularly. The careers system will aim to allow talented younger staff to be promoted. All these policies will have to be approved by the board. A policy paper will define the precise strategy of the Authority in order to facilitate the subsequent drafting of the necessary secondary legislation.

[1] Major budget categories: 1. Salaries 2. Additional and ancillary expenditure, 3. Consumer and complex expenditure. .

102. **The establishment of the Independent Authority for Public Revenue has used scarce resources that will progressively be freed to engage in more reforms of revenue collection.** It has also created an opportunity to try and address some of the weaknesses of the tax and customs administration. The preparation work on the Authority reform has tied up scarce management and legal resources for a long time. While these resources will be increasingly available to address the key weaknesses of the public revenue administration as the new Authority becomes operational, some bottlenecks remain. The age pyramid of the staff, its administrative capacity and weaknesses in human resource management are expected to remain constraining, at least for some time until reforms, notably in human resources management and training, kick in. On the external front, the huge part of audit resources tied by penal investigations will also remain an issue at least for some time to come. Against this reality, the reform represents opportunities to push forward the modernisation of the administration, including of working methods and its tools, but also wider issues of staffing and resources, which were addressed by an agreement with the authorities on a one-off injection of resources at end-2016.

1.3.4.2. Improving compliance and fighting revenue fraud and tax evasion

103. **In order to enhance tax compliance and reduce the shadow economy, the Greek authorities have made efforts to increase the use of electronic payments, which has traditionally been rather low compared to other European countries.** An action plan for the promotion of use of electronic payments, prepared with help from the Bank of Greece and professionals, was agreed with the authorities in November 2015. The legislation was initially voted in December 2016 and was amended and completed (notably by introducing a date by which all businesses will be obliged to offer payment by electronic means) as a prior action for completion of the second review in May 2017. At the same time, other measures of the action plan progressed very slowly, and at end 2016 only 29% of the actions scheduled for that date had been done and 71% were still pending.

104. **Electronic access to bank account registers was established for the tax administration in order to provide a powerful additional tool for indirect audits.** The register had been put in place to help the tax administration and some investigation bodies to use data on taxpayers' bank accounts. The Ministerial Decision of September 2015 provides electronic access to the history of transactions for the last 10 years, allowing more effective work against tax fraud and other financial crimes.

105. **The authorities adopted a fully-fledged plan to enhance tax compliance in March 2017,** with a view to tackling the suspected very large amount of undeclared income and correspondingly relatively low level of payment of taxes in due time. The plan includes extensive diagnostic on the difficulties and challenges facing the IAPR in its compliance and collection work and proposals for a way forward, both in term of process and of actions. The authorities also delivered a more specific comprehensive plan for fighting tax evasion.

106. **Important first steps have been taken to better organise the fight against high-level tax fraud.** A large part of the scarce audit resources of the tax administration were diverted to the very large number of preliminary investigations requested by prosecutors. To improve the system, a policy paper determining the key elements of a better organisation was agreed as a prior action for the closure of the second review. The main idea is that the financial prosecutor should be given resources allowing him and its staff to better investigate a limited number of high-visibility tax fraud cases on which they would focus. As part of the prior action, legislation was improved to make the competences of the financial prosecutor consistent with the independence of the IAPR and to allow prosecutors to send information to the tax administration as simple information and not necessarily as a binding request for full investigation.

1.3.4.3. Improvement of collection

107. **The authorities have become more proactive towards debt collection**. In August 2015 the Government amended the 2014–2015 tax and social security contribution (SSC) debt instalment schemes to increase efficiency and fairness. Those who fail to pay new tax obligations are be excluded from these schemes. The tax and social security administrations are able to shorten the duration of instalment schemes for those with the capacity to pay earlier. Additionally, market-based interest rates were introduced, while excluding vulnerable debtors from the potential rise of interest rates. More importantly, debtors are more and more systematically pursued, and a key performance indicator on the ratio of debtors under enforcement helps monitor further progress.

108. **Efforts on debt collection continued during the second review**. The authorities published in July 2016 an update of the 2013 list of the biggest tax debtors (above EUR 150,000 of debt). They revised in August 2016 the legislation to allow the publication of the names of social security debtors, which will take place after the Data Protection Authority produces its opinion. More importantly the authorities prepared a draft **collection strategy** in April 2017.

109. Given that a disproportionately large share of tax debt is concentrated in the hands of a relatively small number of very big debtors (less than 7,000 tax debtors with each more than EUR 1 million of tax debt carry 80% of the total tax debt), the authorities committed during the first review **to provide the Large Debtors Unit with the capacity to deal effectively with the cases** of the large debtors and to assess the capacity to pay of debtors under instalment schemes. The next step, which started during the second review, is for the unit to **operate a triage of the large debtors on the basis of the analysis of economic and financial data.** Work with technical assistance helped preparing circulars defining the methodology needed to implement this triage, both for the large tax debtors unit and for the centre for social security debt collection (KEAO). The circulars were agreed.

110. **Actions to enhance the efficiency of the customs services are being implemented**. The trade facilitation roadmap has been revised, also including actions to streamline pre-customs procedures. Technical assistance on specific issues has been arranged. The re-organisation of the customs administration was finalised in September 2016 in line with the SMoU commitment.

111. **To combat fuel smuggling, the authorities have presented an action plan**. It aims at better coordination and sharing of information on operators, the establishment of a coordination centre, and technical devices to monitor stock and flows of products in fixed and mobile fuel tanks. Moreover, the authorities established three mobile enforcement teams on anti-smuggling on 1 October 2015. These units can perform controls on the national roads and border entry points.

112. **Implementation of customs reform continued during the second review.** The implementation of the action plan for combatting fuel smuggling continued under the second review with more actions foreseen for the future. A fuel and tobacco anti-smuggling strategy was agreed in November 2016 and formally endorsed by the authorities in May 2017. Implementation has started. The purchase of four scanners was signed in May 2017. The scanners will be installed and are expected to be fully operational by September 2017. The trade facilitation roadmap([15]) for the national single window is being implemented. Implementation of the customs reorganisation is progressing, even though some concerns have emerged because the mobile units needed to displace controls from fixed locations at points of entry to random places are not yet fully staffed.

([15]) The trade facilitation roadmap is available at: https://portal.gsis.gr/portal/page/portal/ICISnet/services?serid=10560178&adreseeID=10001980

1.3.4.4. Social security contributions collection and debt collection

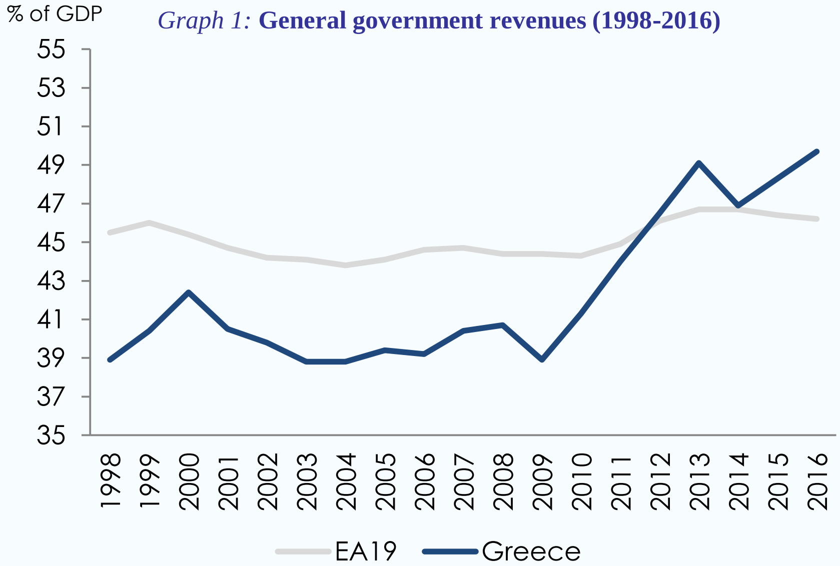
113. **The authorities have taken measures to reinforce social security contributions and debt collection.** During the first review the tools for social security debt collection and write-off by providing KEAO, the single collection centre for social security debt, with access to the indirect bank account registry and to tax administration data. During the second review the authorities increased the staffing of KEAO to 600 employees. Rules for quarantining social security debt and ultimately writing it off have been improved. Work has started on the publication of the names of the biggest social security debtors, but is waiting for an opinion of the Data Protection Authority. KEAO is also involved in the triage process to be put in place for big debtors, along with the tax administration.

114. **Steps have been taken to integrate all social security collection functions** as part of the integration of pension funds under the pension reform, with a view to eventually transferring collection functions to the IAPR. The authorities have merged the contribution collection capacity of existing funds under the new single social security fund, EFKA, with the merged collection operating as from 1 January 2017 for all contributions, except for seamen's contributions which remained collected by their own fund (NAT) during a transition period. KEAO has also been integrated into EFKA. The authorities have ensured, as a prior action for the second review that the self-employed contributors registry is fully tested and operational in EFKA, and that the billing of contributions started early-2017. The authorities committed to continuously check and clean the list of self-employed contributors for whom information is lacking or insufficient (11,000 by March 2017) in order to allow for their inclusion into the normal operating IT procedure and to report monthly on their numbers. The clean list will be established no later than end-2017.

Box 1.3.5: **Revenue administration in Greece - by the numbers**

There has been a significant increase in revenues as a share of GDP in Greece under the adjustment programmes (Graph 1), with the Greek revenue intake now ranking amongst the highest in the euro area. While between 1998-2009 general government revenues in Greece were around 5 ppts lower than the euro area average (44.7%) averaging just under 40% of GDP, since 2012 they have exceeded the euro area average, reaching 49.7% in 2016. This development reflects both substantial policy reforms (detailed in other boxes) as well as strengthened though still incomplete revenue administration reforms.

Graph 1: **General government revenues (1998-2016)**



Source: Eurostat

Revenue administration reforms have focused on three main areas: (i) improving current year tax compliance/collection; (ii) increasing the number and effectiveness of audits to reduce under-declaration; (iii) strengthening tax debt collection and enforcement.

Despite the precipitous fall in GDP, liquidity constraints faced by Greek taxpayers and the increase in tax rates between 2010-15, collection rates for direct and indirect taxes assessed in the current year - that account for 55% of total general government revenue - have remained broadly stable from 94% in 2010 to 91% in 2015 (Graph 2). Other estimates of much lower current year compliance rates[1] are due to the inclusion of *previous years'* surcharges, fines and penalties in the tax base that arguably should not be considered *current year* tax obligations but rather tax debt. These surcharges, fines and penalties have increased in recent years as companies and citizens have fallen into arrears, and are continuously added to the tax bill for subsequent years.

[1] See IMF Country Report No. 17/229. p. 9 that estimates the compliance rate fell from ~70% in 2010 to 45% in 2015.

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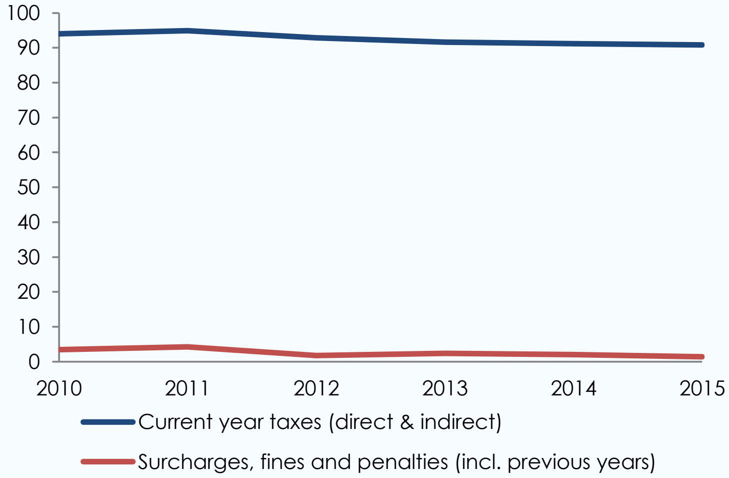
Box (continued)

Graph 2: **Tax collection rates (%)**



Source: Ministry of Finance

The increase in tax audits to raise compliance in declarations has focused mainly on large taxpayers, high-wealth individuals and fresh cases (i.e. less than five tax years). The creation of dedicated audit units for large taxpayer and high-wealth individuals is one of the key institutional reforms under the programme, with a substantial increase in tax assessments (Table 1). However, the tax collected as a result of these audits remains low, resulting in a further build-up of tax debt. A priority going forward is to increase the tax (and penalties) collected following audits but this will take further time and better targeting of audits, together with increasing the share of audits relating to fresh cases from 56% in 2016 to over 70% by 2018.

Table 1:

Audits of large taxpayers and high wealth individuals 2013-17 (mn EUR)

	Large taxpayers		High wealth individuals		**Total**	
	Assessments	Collection	Assessments	Collection	**Assessments**	**Collection**
2017 (est.)	2,052	66	192	65	**2,244**	**131**
2016	591	235	473	60	**1,064**	**295**
2015	2,011	345	417	64	**2,428**	**409**
2014	2,256	289	248	60	**2,504**	**349**
2013	312	99	68	15	**380**	**114**
Total	**7,222**	**1,034**	**1,398**	**264**	**8,620**	**1,298**

Source: Independent Agency for Public Revenues

Tax debt has been rising steadily in recent years, reaching EUR 93 bn by end 2016 or 50% of GDP, with 4.1 million debtors – around half of total taxpayers. It is important to note, however, that this debt is highly concentrated, with 0.2% of debtors (7.347 natural or legal persons) owing above EUR 1 million each collectively accounting for 80.1% of the total debt. By contrast, 3.7 million debtors (88.4% of the total) owe less than EUR 5,000 each and account for just 2.8% of total debt. Overall, debt collection efforts in recent years have been rather successful, reaching a record high in 2016 (Graph 3) thanks to a notable increase of 33% in the number of debtors under enforcement between December 2015 and May 2017 (Graph 4). Continued efforts are under way to overcome the backlog of tax debt and further raise the debtors under enforcement (in May 2017, just 57% of debtors who can be pursued were under enforcement). A key constraint thus far has been that a large part of the debt is owed by companies in liquidation or under court

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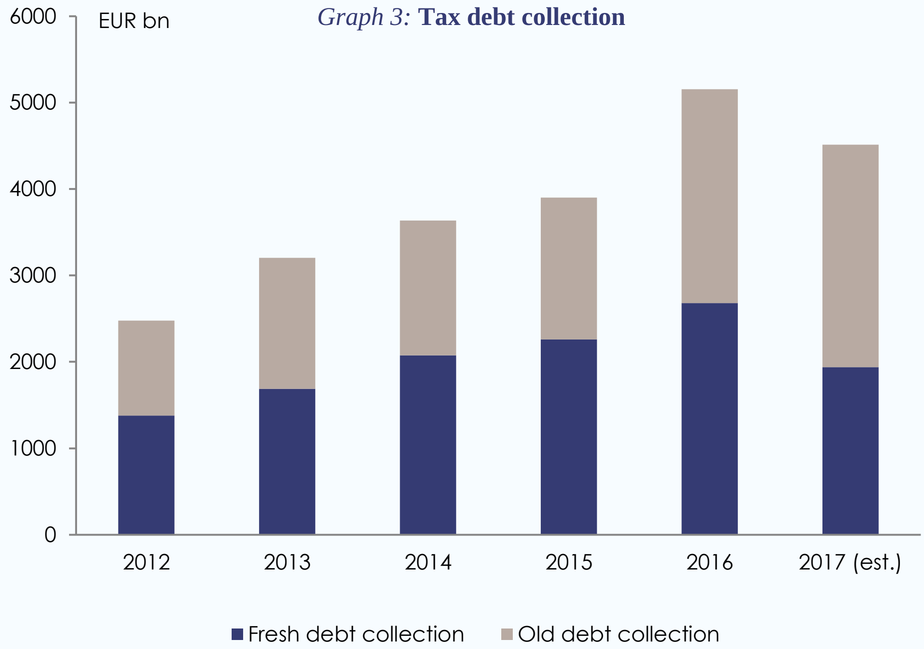
Box (continued)

suspension, and cannot be collected until the end of the very long judicial process. In this context, the out-of-court workout scheme currently under preparation will be an important instrument, as will the recent reform of the corporate insolvency code.

Graph 3: **Tax debt collection**



Source: Independent Agency for Public Revenues

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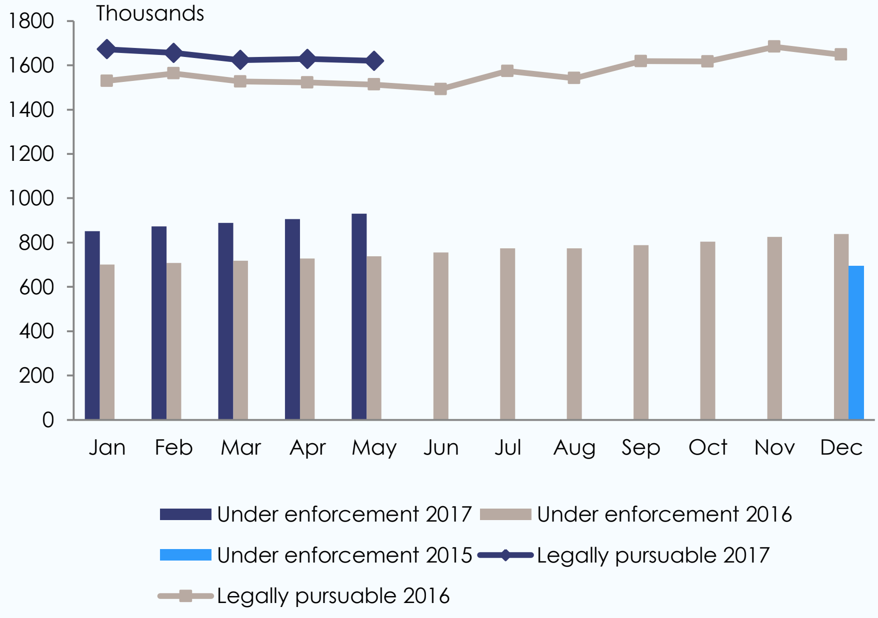
Graph 4: **Tax debtors and enforcement**



Source: Independent Agency for Public Revenues

1.3.5. PUBLIC FINANCIAL MANAGEMENT AND ARREARS MANAGEMENT

115. **Since the start of the ESM stability support programme, significant progress has been made in improving the overall management of public finances.** The reforms are key elements in the process of modernising budgetary planning, execution and control, and rationalising public spending.

116. **The authorities have implemented the new provisions of the Organic Budget Law (OBL),** particularly as regards the transfer of responsibilities from Fiscal Audit Offices (FAOs) to Directorates-General of Financial Services (GDFSs) and the termination of ex-ante audits by the Hellenic Court of Audit (HCA). One of the main aims of the OBL is to separate the revenue collection, spending and audit functions within the general government and also to increase the ownership of each Minister on managing his/her own budget. This enhanced responsibility – together with a top-down budget preparation – is in line with international best practice to achieve a more effective budget allocation. Following the separation of functions, the GDFSs in line ministries would be exclusively in charge of financial services, while the FAOs under the General Accounting Office (GAO) would remain responsible only for the fiscal supervision and audit function. The separation of functions implies the transfer of responsibilities from FAOs to GDFSs which was completed by 1 January 2017. To facilitate this transfer, the authorities have issued legislation defining the new responsibilities of GDFSs and FAOs and increased staffing of GDFSs. The staff of GDFSs have received training to be able to conduct their new responsibilities and they have been granted access to the GAO IT system. The final resource allocation after the transfer and possible redeployment of a part of FAOs' staff will be completed in the context of the new organisational chart for the Ministry of Finance. Also, as part of the OBL reform, the HCA has terminated ex-ante audits of payments for the central administration as

of January 2017; the termination of ex-ante audits for other general government entities, including local governments, will follow by end-2018. This reform was done to modernise HCA's processes and align them with those of similar audit institutions in all other Member States, which are focussing their activities on risk assessment and ex-post audit. The abolition of the ex-ante audits was also important element in streamlining payment processes.

117. **The authorities have finalised the process of making the Fiscal Council operational following the entry into force of the 'Two Pack'.** The authorities approved all the necessary secondary legislation so as to make the Fiscal Council operational in November 2015 and provided a small amendment in May 2017 to fully align the legislation with the fiscal compact requirements. The role of the Fiscal Council is to give an independent opinion on the budget proposal and execution, and going forward also to monitor compliance with EU fiscal rules. As a part of the second review completed in mid-2017 the authorities appointed the Fiscal Council board and the staffing of the Fiscal Council started with secondments from other public administration entities. Currently 13 staff members have been recruited, while the total quota is 20 people; the remaining posts should be filled by September 2017. The Council is expected to produce regular reports twice per year as well as ad-hoc reports when needed. Its opinions would cover both the budget and any government initiative that could potentially have a budgetary impact. The Council has started to execute its mandate by publishing two semi-annual reports in November 2016 and May 2017, which are also available in English on the Fiscal Council's webpage www.hfisc.gr. The Fiscal Council has also published special reports on selected topics.

118. **The Authorities have committed to fully clear the outstanding arrears by the end of the ESM programme.** In August 2015, a financing envelope of EUR 7 bn to clear arrears as part of the new ESM stability support programme was envisaged. This was necessary to re-direct liquidity to the real economy following the cash shortage in the first part of 2015. However, before receiving the full first ESM tranche, the stock of arrears increased by EUR 900 million between August 2015 and April 2016.

119. **A major effort was made to reduce arrears as part of the package to conclude the first review in May 2016.** To re-start the process, the authorities produced an updated arrears clearance plan, while the ESM provided adequate financing by devoting to arrears clearance EUR 3.5 bn of the EUR 10.3 bn released after completion of the first review in May 2016; of this amount, EUR 1.8 bn was disbursed in June 2016. Moreover, an arrears clearance monitoring mechanism was put in place to ensure that the authorities use financing provided by the ESM for this purpose. The authorities were required to provide monthly reporting, under signature of the Finance Minister, on the amount of arrears cleared in net terms (which will ensure that the money is used to clear past arrears and not new arrears that the authorities may accumulate going forward). Further financing for arrears clearance — starting with the second sub-tranche of EUR 1.7 bn — was provided in October 2016, after the European institutions' assessment that the authorities had made good progress in using the received amounts.

120. **Progress has continued and a further disbursement to clear arrears was made as part of the second review in June 2017.** The stock of arrears was reduced by EUR 3.3 bn from June 2016 to April 2017 with the total stock of outstanding arrears (including unprocessed tax refunds and pension claims) amounting to EUR 6.5 bn. The second review also included disbursements for arrears clearance, of which EUR 0.8 bn was released at the closure of the review and the second sub-trance when the stock of arrears will have been reduced by EUR 1.2 bn relative to the April 2017 level[16]. This implies that on top of the programme financing, the authorities have to use own

[16] This was subsequently completed after the cut-off date of this report. And the note on arrears clearance monitoring ahead of the remaining disbursement was published on October 2017.

resources to finance arrears clearance. This is in line with the fact that the remaining programme envelope for arrears clearance (EUR 3.1 bn) is not enough to clear the whole stock of arrears, and hence own resources are also needed to complete the commitment. In parallel to the arrears clearance process, an independent audit will be conducted on arrears clearance, covering problem areas where most of the arrears are concentrated.

121. **Apart from adequate financing, the authorities need to work on structural issues that lead to arrears accumulation, particularly in the health sector.** A continuing problem is that health contributions are collected by pension funds, and since 1 January 2017 by the single pension fund EFKA, but are not transferred entirely to the National Organisation for the Provision of Health Services (EOPYY) as they are partially used for pension payments. As a result, EOPYY does not have sufficient funds to pay public hospitals, which continue to accumulate arrears to suppliers. During the first five months of 2017, EFKA transferred already 93% of health contributions to EOPYY. This share will be gradually increased going forward, in line with the key performance indicators agreed with the authorities. In parallel to increasing the share of transferred health contributions, the authorities conducted an audit on all parts of EOPYY's payment system. They provided a final report on the findings in June 2016.

122. **Tackling the structural issues that lead to arrears accumulation should also ease Greece's compliance with the Late Payments Directive (LPD) which remains problematic, particularly in the health sector.** The authorities have produced an action plan for complying with the LPD as a prior action for completing the second review. The action plan contains administrative reforms to improve the tax offsetting system, using electronic invoices and expanding the commitment registry for all general government entities. For the health sector, the action plan foresees enhancing the electronic submission of claims and for capacity to be provided to the hospitals to settle the backlog of payments. Moreover, a dedicated bank account will be created for health contributions collected on behalf of the health fund to ensure full and timely transfer of health contributions.

Box 1.3.6: Public sector arrears to the private sector in Greece

Despite substantial programme financing since 2010, public sector arrears to the private sector remain high in Greece, with the outstanding stock as of June 2016 amounting to EUR 9.7 bn, equivalent to more than 5% of GDP[1]. Before the first financial assistance programme in 2010, the Greek public sector had accumulated arrears to the private sector of roughly EUR 10 bn. Around half of these arrears were cleared during the first year of the programme but arrears started accumulating in early 2011, as programme reviews were delayed, and reached a peak of EUR 9.5 bn again in October 2012. Following the conclusion of the first review of the second programme in December 2012, EUR 8 bn were provided to clear all pre-2012 arrears and a special arrears clearance plan was initiated in 2013 that reduced the stock of arrears to EUR 3.8 bn by end-2014.

Up to EUR 7 bn from the ESM programme's financing envelope has been allocated for arrears clearance. The stock of arrears started increasing sharply again in 2015 due to the protracted programme discussions and ensuing State liquidity shortages, reaching EUR 8.6 bn in August 2015 when the ESM programme was agreed with a EUR 7 bn envelope to clear arrears. From the first disbursement of the ESM programme, the authorities used EUR 0.4 bn to clear arrears but the delay in the first review discussions tightened State liquidity again, with outstanding arrears registered in the fiscal accounts rising to EUR 9.7 bn by June 2016.

The largest part of the arrears belongs to the social security funds (SSFs) and more specifically to the health fund (EOPYY) and the civil servants lump-sum pension fund (TPDY). The arrears of EOPYY to a large degree reflect over-spending vis-à-vis budget ceilings in pharmaceutical and medical services from private sector providers, which by law can be claimed back via clawback or rebate from private sector providers. By June 2016, EUR 890 million of EOPYY’s arrears were related to such over-spending that could be offset via the clawback and rebate mechanisms without cash expenditure. The arrears of the civil servants lump-sum pension fund as well as other lump-sum, supplementary and dividend funds with structural deficits will be cleared according to the new rules adopted as part of the pension reform in 2016. Other big categories of arrears are (processed) tax refunds and hospitals that each had arrears of EUR 1.3 bn outstanding at the end of the second quarter of 2016. In addition to the arrears recorded in the fiscal accounts, there was a significant amount of unprocessed main pension and tax refunds claims older than 90 days that are not recorded and that equalled EUR 3.2 bn in June 2016.

The ESM has provided financing to kick start again the clearance of arrears and proceed at an accelerated pace. As agreed by the Eurogroup of 25 May 2016, financing of EUR 3.5 bn for arrears clearance was disbursed in the context of the first review of the ESM programme. The first disbursement followed the full completion of the prior actions in June 2016, and a second disbursement was made in October 2016 on the basis of a report by the European institutions assessing that there was good progress in clearing net arrears *inter alia* by verifying that the authorities have cleared net arrears for an amount equivalent to 80% of the previous disbursement. Prior to the disbursement, the Authorities created a dedicated sub-account for arrears clearance in the Treasury Single Account (TSA) and updated their arrears clearance plan prepared in October 2015. They also carried out an audit of the spending arrears created through September 2015 with technical assistance from the IMF and EC. After the disbursements following the first review (EUR 3.5bn) the stock of arrears (including unprocessed tax refunds and pension claims) was reduced by EUR 3.3 bn by April 2017. In the context of the second review an additional amount of EUR 1.6 bn has been made available for arrears clearance. The disbursement is again divided in two equal sub-tranches (the first of which was disbursed in July 2017, based on previous progress with arrears clearance) and good progress will be measured by the amount of arrears cleared from programme disbursement as well as own resources. The clearance from own resources should equal one half of the clearance from programme

[1] Including unprocessed tax refunds and pension claims.

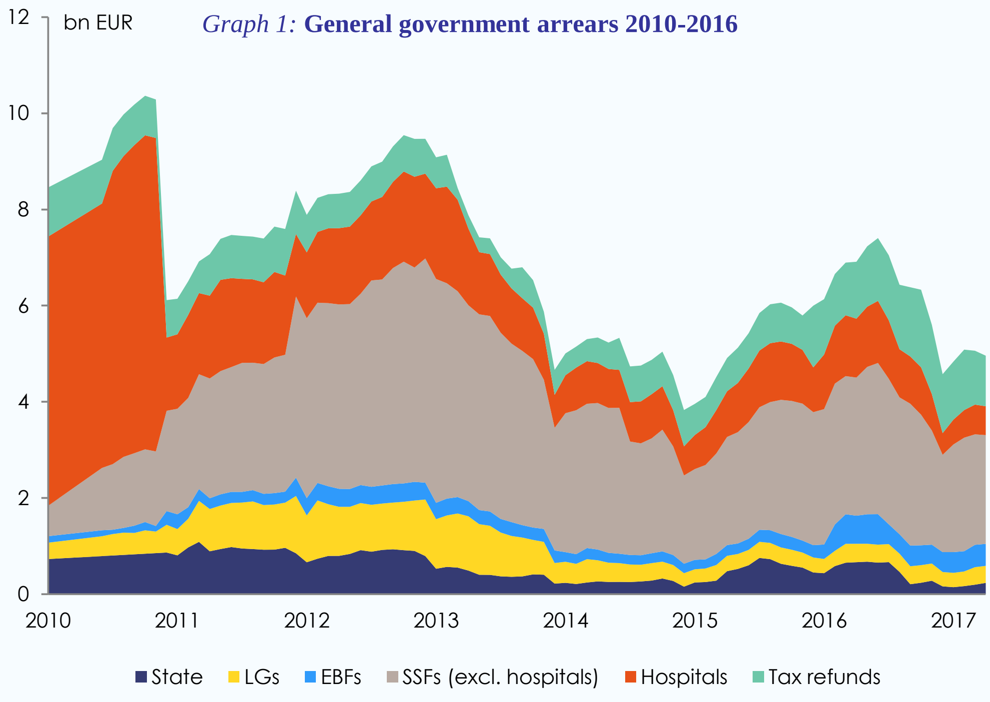
(Continued on the next page)

Box (continued)

funding. The updated arrears clearance plan provided by the authorities aims to clear the whole stock of arrears by mid-2018, in line with the programme commitment.

The macroeconomic impact of arrears clearance is significant, offsetting a large part of the drag from the fiscal consolidation package enacted as part of the first review. Clearing the arrears has increased liquidity in the economy and hence counterbalanced the negative liquidity impact of fiscal consolidation measures. Moreover, the fiscal results from 2016 showed that the arrears clearance has also improved tax collection through the tax off-setting procedure which ensures that all tax obligations of beneficiaries have been settled before arrears payments are made. A recent IMF/ECB Working Paper[1] based on a sample of EU economies including Greece finds that, depending on the specification, a 1% of GDP decrease in arrears may increase growth by up to 0.6-0.9 percentage points. While the exact size of the impact is hard to pin down, based on these estimates, an arrears clearance programme of EUR 7 bn (4% of GDP) between 2016-Q2 and 2017-Q2 could provide an economic stimulus of up to 2.4-3.6 percent of GDP during this period, offsetting a large part of the negative liquidity impact from the 4 percent of GDP fiscal consolidation that will be implemented cumulatively through 2017. Moreover, the agreed continuation of the arrears clearance up to 2018-Q2 could provide additional growth stimulus, further offsetting the impact of the consolidation measures.

Graph 1: **General government arrears 2010-2016**



[1] Checherita-Westphal, C., A. Klemm, and P. Viefers (2015): "Governments' Payment Discipline: The Macroeconomic Impact of Public Payment Delays and Arrears". ECB Working Paper 1771. European Central Bank, Frankfurt/Main.

(Continued on the next page)

Box (continued)

Table 1:
Stock of arrears recorded and unprocessed

	in million EUR	**end-June 2016**	**end-April 2017**
1	General Government spending arrears (1)	5,209	3,195
1a	State	656	235
1b	LGs	374	354
1c	EBFs	634	457
1d	SSFs (excl. hospitals)	3,143	2,262
1di	*o/w EOPYY*	*1,831*	1,166
1dii	*o/w under the clawback and rebate*	*890*	713
1e	Hospitals	1,291	600
2	Processed tax refunds	1,306	1,051
3	Unprocessed tax refunds	1,766	850
4	Unprocessed pension claims	1,439	1,365
5	**Total arrears [1+2+3+4]**	**9,720**	**6,460**

(1) Net of the arrears under the clawback and rebate.
Soruce: Ministry of Finance, Ministry of Labour and European Commission.

123. **The authorities have been working on developing a new budget classification structure and Chart of Accounts but the reform requires additional work.** The first step to achieving the integration of best international budgeting, accounting and reporting standards is to harmonise the current budget classification with international standards for fiscal reporting purposes. Furthermore, the Chart of Accounts is outdated and includes only the budget classification without other dimensions, such as the functional classification of expenditures, limiting its ability to support policy decision-making and medium-term fiscal planning. To align with international standards, Greece is developing a new structure that would be used for the 2019 budget. To advance the work, the authorities are working on a phased approach and a new structure, as well as developing a new budget classification in consultation with stakeholders. The fourth-level economic classification has already been produced, but a lot of work remains to be done to define the administrative and functional classifications as well as implementing the Chart of Accounts for all general government entities.

124. **Measures to improve the fragmented system of cash management fell behind the initial schedule; but necessary reforms have since been taken up and further progress is expected during the remainder of the programme.** During 2015, in the middle of the cash retrenchment of the country which, among other factors, brought the introduction of capital controls, the Greek Authorities noted that substantial amount of cash were idle in commercial bank accounts owned by public entities. In other words, the State was in an extreme need for cash while other public entities – receiving grants from the State – were accumulating surpluses in commercial banks. In an attempt to bring this stock of liquidity into the State perimeter, the authorities passed emergency legislation requiring all central administrations to transfer their accounts to the Treasury Single Account (TSA) at end-2015 and other general government entities to deposit their cash surpluses to the Bank of Greece investment accounts. This provision was implemented by June 2017: After the emergency phase was over, the authorities continued to integrate central government accounts to TSA to achieve a more efficient use of public funds. A working group was established to develop the cash planning function as well as a high-level cash management committee that will provide an action plan to consolidate the bank accounts of the subordinate

entities. By June 2017, almost all central government accounts have been transferred to the TSA and unused accounts in commercial banks have been closed accordingly. Accounts of general government entities are expected to be fully integrated with the TSA by end-June 2018. In the meantime, surpluses of the general government entities should be transferred to Bank of Greece accounts by October 2017 according to the existing legislation. This transfer will be conducted in cooperation with the Bank of Greece and taking into account financial stability implications and operational needs of general government entities.

125. **The cash management of EU structural funds was ensured through a ring-fenced account.** A joint ministerial decision signed in August 2015 ring-fenced the account for the cash management of EU structural fund instruments and Greece's national contributions in order to ensure timely disbursements to projects co-financed by the EU. The authorities have also set up a second ring-fenced account for managing EU contributions linked to the cost of migration.

1.3.6. PUBLIC PROCUREMENT

126. **A comprehensive action plan was adopted in October 2015 to enhance the efficiency and transparency of the public procurement system.** A sound public procurement system is a core element of accountability to the public on how public funds are spent and can ensure value for money and fiscal savings for the benefit of the Greek government and citizens. The action plan on public procurement contains a set of actions aiming at increasing the efficiency of the Greek public procurement system, enhancing transparency, preventing misconduct, and ensuring more accountability and control. A steering committee on public procurement topics has been created and meets regularly to monitor implementation progress, take stock, identify difficulties and solve problems, as well as to ensure regular cooperation and coordination among Greek authorities.

127. **The authorities finalised the new legal framework on public procurement in summer 2016.** The new law on Public Procurement (Law 4412/2016) consolidated, codified and simplified the Greek legislation on the award of public procurement and concessions in addition to transposing the new EU Directives on public procurement and concessions. This law also incorporated the provisions of the new remedies system for dealing with appeals/complaints of companies participating in the tender by establishing a remedies review body to provide first-instance remedies. Further work on the remedies system is ongoing.

128. **As part of the second review, the authorities in particular progressed with this work in three areas**: (a) adopting a national strategy on public procurement, (b) planning and starting the process of centralised procurement, and (c) advancing the work on e-procurement.

129. **The Greek Authorities adopted a National Strategy on Public Procurement in January 2017 (KYSOIP decision 50A/20.1.2017).** This strategy assesses major risks in the public procurement cycle, includes actions to enhance 'good management' and administrative capacity, and to foster accountability and controls with the aim to identify systemic deficiencies and define realistic solutions in the area of public procurement in Greece. Moreover, two implementing bodies at technical and political level have been established and started their work.

130. **A new centralised procurement scheme has entered into force to cover the needs from 2017 onwards.** The authorities have adopted the necessary secondary legislation, subsequently published the contract notices for the award of the framework contracts on the purchase of (i) PC towers and computer desktops; (ii) LED lamps; (iii) copying paper and (iv) air-conditioning (machines and services) with the aim of awarding them by September 2017, and prepared an action plan including the detailed steps for the award of a framework contract.

131. **The authorities have also continued to implement the actions related to e-submission of tenders.** The use of e-procurement in general ensures transparency, good management, prevention of misconduct, and enhances accountability and control throughout the public procurement cycle. To this end, the necessary amendments to Law 4412/2016 have been made and a Ministerial Decision adopted to ensure the operation of the new KHMDHS system. This new system subsequently started its operation in mid-June 2017.

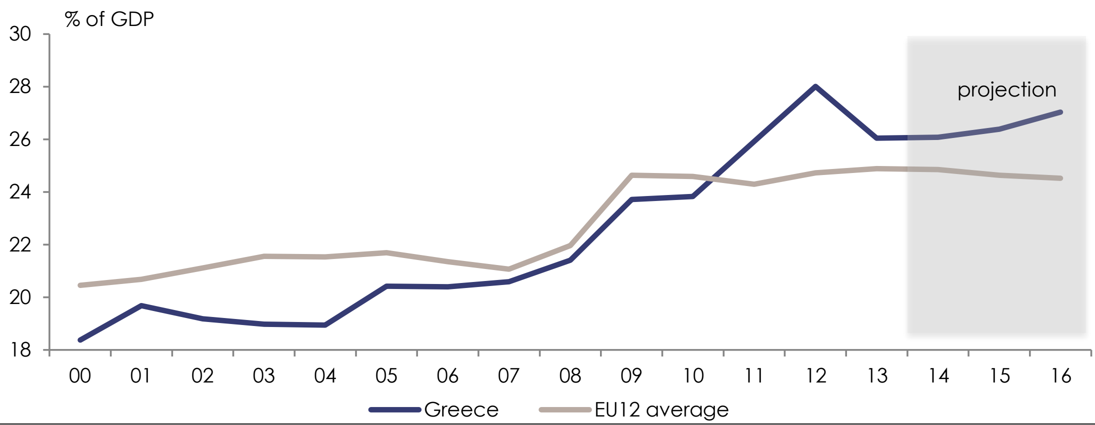
1.3.7. PENSIONS

1.3.7.1. The rationale for further pension reform in Greece

132. **The Greek authorities adopted an extensive pension reform in spring 2016 building upon reforms undertaken at the start of ESM programme in August 2015 that will help address key concerns.** This pension reform was necessary for a wide variety of reasons. The reforms helped to enhance actuarial fairness, strengthen incentives to declare work and pay social contributions, and to have longer working lives, where appropriate. Reforms were also needed to ensure sustainability of the pension system while reducing waste and inequalities. Finally, the reforms helped to create the fiscal space to rebalance social spending and introduce policy measures targeted at those groups most at risk of experiencing poverty, namely the young and unemployed, on whom spending remains lower than in other European countries.

133. **Pension spending remained high and well above the EU average; although reform rounds have sought to address this and will continue to do so going forward given their cumulative nature over time. According to the last available data,** pension expenditure in 2013 was 16.2% of GDP, which is the highest in the EU and well above the EU average of 11.3% of GDP (see the 2015 Ageing Report). Moreover, the pension system faced large deficits that required significant annual transfers from the State budget of more than EUR 10 bn. Pension spending as a percentage of GDP grew rapidly after the onset of the crisis for several reasons. In particular, there was (i) a rush to retirement in advance of reforms in 2010 and 2012, (ii) recent pensioners have had higher pensions under more generous rules than older pensioners, (iii) and falling prices have meant that pensions have risen in real terms.

Graph 1.3.8: **Comparison of spending on social policies by the public sector in Greece and the euro area**



Source: OECD

134. **Reforms adopted under earlier programmes were only partially successful in addressing sustainability risks (especially in the short-medium run) and had not been fully**

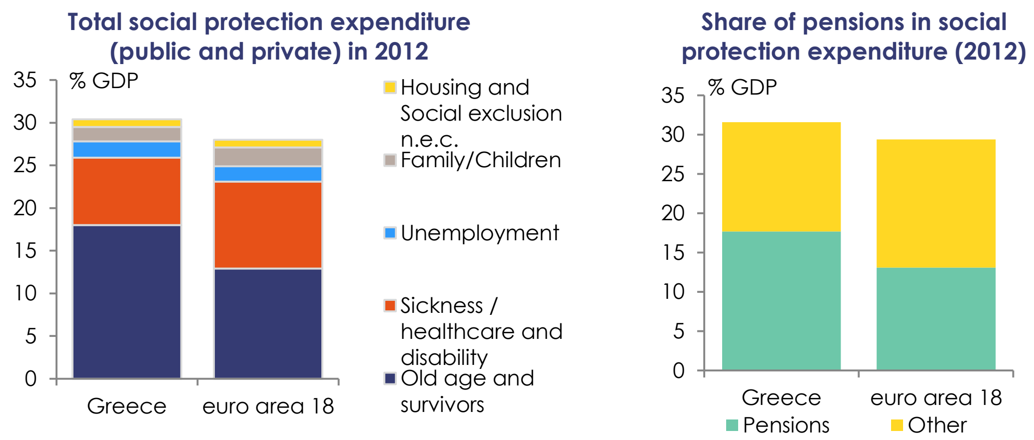
implemented. Projections show that the 2010 and 2012 reforms would balance the pension system in the very long run, but spending would remain at elevated levels for several decades due to the grandfathering of acquired rights and because replacement rates would remain generous by international standards. In any event, various measures previously not implemented, such as the sustainability factor (zero deficit clause) for supplementary pensions, and some pension cuts, were repealed by a Court ruling.

135. **By summer 2015 when discussions on the new pension reform started, despite the reforms of 2010 and 2012, the pension system remained very fragmented and retained significant design flaws with severe disincentives to work and provisions leading to unfairness.** Many routes to early retirement remained and the system contained strong incentives to retire, stop declaring work, or stop paying contributions after 15 years (such as high minimum pensions, topped up by additional income support mechanisms such as the solidarity grant EKAS). Certain groups, including the self-employed, farmers and many public sector workers were eligible for exceptionally favourable benefits despite very low contributions.

136. **Pension spending in Greece has crowded out other social spending, particularly for the young, unemployed and families.** As recalled above, overall social spending as a share of GDP is comparable to that in other EU countries. However, as almost all social expenditure in Greece is spent on pensions, spending on other social policies is well below the EU average (Graph 1.3.9). This composition of social spending in Greece has not kept pace with the realities of its distributional challenges. Relative poverty levels for those aged 55 years or more have actually fallen in recent years, as the cut in pensions has been less than the fall in disposable income. By contrast, poverty rates among the young, who face high levels of unemployment with little or no access to long-term unemployment support (see Graph 1.3.10), has soared. In brief, the problem has been not so much the level of social spending in Greece, but its composition, which remains skewed towards pensions.

137. **While reform was urgently needed, its design has attempted to limit any negative impact on a society already strained by the prolonged crisis.** A significant consideration has been the fact that in many households receiving a pension, the pension is the main or only source of income for a number of people, including those of younger generations (sometimes more than one). This argued in favour of a gradual approach to the reform of existing pensions, while the inequality and inefficiency of social spending needs were addressed.

Graph 1.3.9: **The composition of spending on social policies in Greece and the euro area**

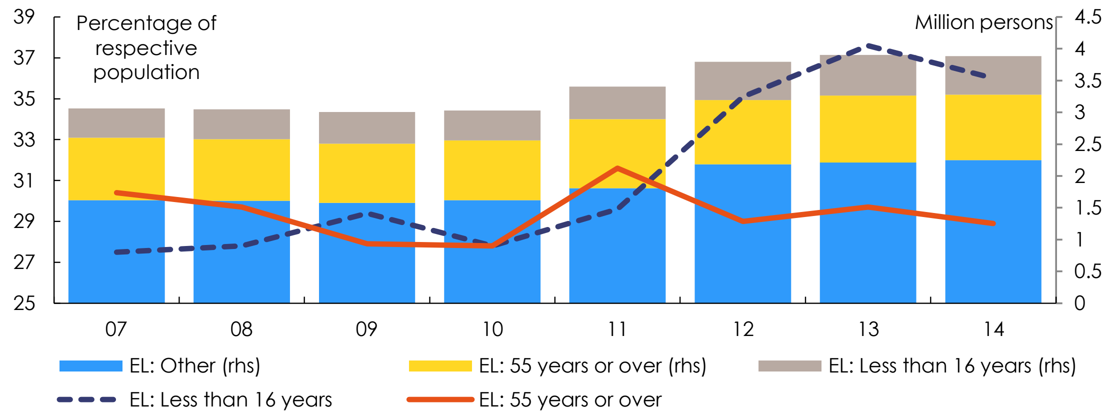


Source: Eurostat

138. **To address these problems, the August 2015 MoU included commitments to undertake a far-reaching pension reform, the goals of which are not just short-term fiscal goals.** The main commitments in the MoU were:

- to eliminate unjustified pathways to early retirement, including in the public sector;
- to fully implement existing reforms and to proceed with further reforms to strengthen long-term sustainability and target savings of around 1% of GDP by 2016;
- to establish unified benefit and contribution rules (apart from some selected transitional provisions) and to integrate all the pension funds into one single fund;
- to gradually phase out the solidarity grant (EKAS) for all pensioners by end-December 2019, starting with the top 20 % of beneficiaries in 2016;
- to restore the sustainability factor of the 2012 reform, or find mutually agreeable alternative measures in the pension system;
- finally, the authorities agreed to identify and to legislate equivalent measures to fully compensate the impact of the implementation of the 2015 Court ruling on the pension measures of 2012.

Graph 1.3.10: **Poverty risks in Greece by age**



Source: Eurostat

1.3.7.2. The agreed pension reform

139. **Significant pension measures were already adopted at the time of the ESM programme's launch, in August 2015.** Cumulatively, these reforms were expected to generate significant fiscal savings, amounting to EUR 813 million in 2016 (0.5 % of GDP), rising to EUR 1.196 bn by 2019 (0.6 % of GDP).The most significant measures included:

- the creation of disincentives to early retirement and the elimination of various pathways and grandfathering rights;
- an increase in the health contributions paid by pensioners;
- the extension of health contributions to supplementary pensions.

140. **The pension reform adopted in May 2016 followed extensive discussions with the institutions on the basis of a proposal sent by the authorities in January 2016.** Its main elements are:

- The integration of all main pension funds under a new single social security institute (EFKA), with new unified benefit and contribution rules to apply to all that would, among other things, help clarify rules, facilitate management and distribution and ensure equal treatment across pensioners with equal rights.
- An adjustment of the parameters of the existing main pension system, while retaining the main features. This has three components. A 'national' pension (previous 'basic' pension) of EUR 346 to be paid to all persons who make 15 years of contribution. To improve incentives to work and to contribute, the national pension is increased by 2% each year up to EUR 384 for careers of at least 20 years. There is a 'contributory pension' that links contributions to entitlements. These parameters systematically incentivise work by ensuring gradually increasing replacement rates (see Graph 1.3.11).
- There is no pro-rata of acquired pension entitlements. All pension reforms are usually phased in with a medium to long transition period to preserve acquired rights of current workers. The pro-rata is eliminated also for the supplementary pensions.

- The application of a 'single rule' over time to the main pension of existing retirees whose pensions will be 'recalibrated' using the same parameters that apply to new pensions. Existing retirees with positive personal differences would continue to be paid the same main pension in nominal terms, but the amount would be frozen until any gap between the current and recalibrated pension (known as a 'personal difference') is eliminated through the effects of inflation.

- A supplementary pension was retained for around half of the workforce, using the notional defined contribution (NDC) model. The sustainability factor (zero-deficit) clause for supplementary pensions was replaced with cuts to supplementary pensions of those (i) who have an overall — basic plus supplementary —high pension above EUR 1,300 per month and (ii) whose supplementary pension is overly generous compared to the new rules. The remaining financing gap of the supplementary pension system will be closed through the sale of pension fund assets and a temporary increase in the social security contribution rates of 1 percentage point up to 2018 (and 0.5% up to 2021). This would result at most in a reduction of 45% in supplementary pensions of 15% of beneficiaries (which is equivalent to effects on only 8% of all pensioners). The measure is specifically targeted, at high-income pensioners whose supplementary pensions are very generous compared to the current rules, which ensures that the measure is socially and actuarially fair. The achieved savings amount to some EUR 300 million which is equivalent to about 10% of the total supplementary pension spending.

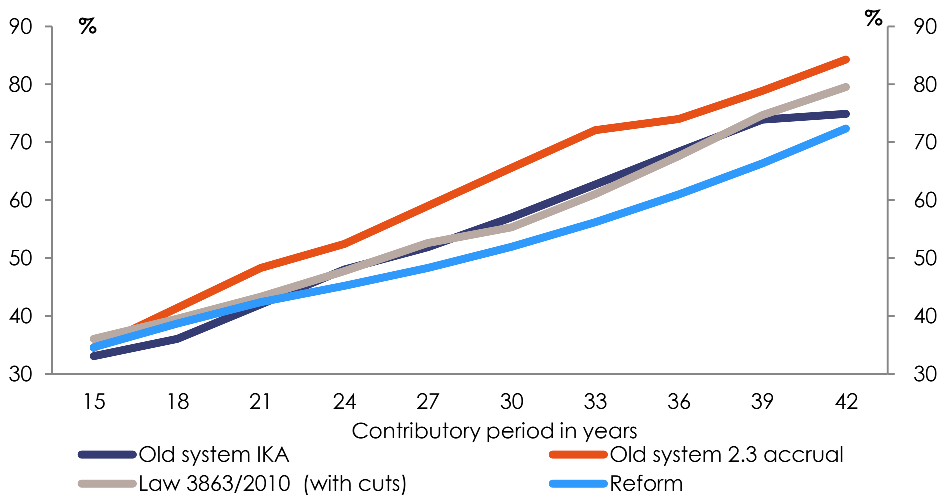
- A design that tackles the effects of the Council of State ruling. The proposed recalculation of current pensions based on new rules and their freezing (i.e. no indexation to future inflation) until the difference between current level of pensions and the one based on new rules (so called 'personal difference') is absorbed through inflation, was meant to compensate for the impact of the 2015 Court ruling on the pension measures of 2012 in a legally acceptable way, such that the changes are proportionate and fair to all.

- A slightly longer transition period up to 2021 for a full convergence of the contribution rates of farmers given their very low starting levels. However, pension entitlements will be adjusted accordingly in actuarial terms. Similarly, lower contributions for self-employed scientists are required for the first five years of contributions as often they have very low incomes and the requirement to pay contributions would be a barrier to the transition to full-time work. This comes with an obligation to repay all forgone contributions within fifteen years.

- The phasing-out of the solidarity grant (EKAS) for all pensioners by end-December 2019, which had already been agreed in summer 2015 but needed to be fully implemented.

141. **The law adopted by Greece in 2016 is very ambitious and comprehensive, introducing important long-term changes, and complies with the Greek authorities' commitment as agreed in August 2015.** Including all new elements beyond the recalibration, the overall amount of the fiscal savings of the 2016 reform is very significant, both by 2018 and beyond. Taking all elements into account, the overall pension reform generated gross fiscal savings of around 0.9 % of GDP in 2016. This is projected to increase to 1.8 % of GDP in 2018 and 2.2% in 2020, to reach as high as 3.0% of GDP by 2025-2030. These savings rise to 5.0 % of GDP if one also includes the savings from addressing the Council of State ruling. These elements are summarised in Table 1.3.10 below.

Graph 1.3.11: **Gross replacement rates* before and after the reform**



* Gross replacement rates include the impact of the national/basic pension. Replacement rates at the average wage (EUR 1500)
Source: European Commission

1.3.7.3. An assessment of the 2016 pension reform

142. **The reform improves intra- and intergenerational equity.** The harmonisation of pension benefit and contribution rules leads to uniform treatment of all insured persons across different categories and guarantees intra-generational equity. The gradual adjustment of current pensions via the recalibration process aligns over time the treatment of current beneficiaries with the treatment of those that will retire in the future. Furthermore, the non-pro rata application of the new pension rules assures that the overly generous rules from the past will no longer be applied for new retirees. Overall, the reform also strongly enhances intergenerational equity, as these two measures ensure that those who have already retired and those who will retire after the new reform are gradually treated in the same way.

143. **The social impact of the reform has also been considered.** The new system introduces a national pension increasing from EUR 346 for 15 contributory years to EUR 384 for careers of at least 20 years. This ensures that all eligible pensioners will receive incomes above the poverty threshold for a single person. The national pension also makes the system progressive, producing significantly higher replacement rates for those with low pensionable earnings. The new accrual rates increase with contributory years. This, together with the abolition of the overlapping minimum pensions (together with the EKAS benefit), creates strong incentives to work and to make social contributions. Longer contributory periods will in turn lead to higher pension rights and will thus eventually partially compensate for the abolition of the overlapping system of minimum pensions. The 2016 pension reform has not imposed nominal cuts to pensions of existing retirees, with the exception of those retirees who have a supplementary pension and whose overall pension income is greater than EUR 1,300 per month (about 8 % of overall pensioners). The elimination of EKAS, which is a distortionary top-up benefit reducing incentives to work and declare income beyond 15 years of career, and which in some cases provided the same overall benefits to those with high comparative pensions as to those with comparatively low pensions, will affect a growing segment of pensioners when the scheme is eliminated.

Table 1.3.10: **Gross fiscal impact of the 2015-16 pension reform**

% of GDP	2016	2017	2018	2019	2020	2025	2030
Total expenditure savings	**0.42**	**0.80**	**1.22**	**1.41**	**1.71**	**2.51**	**2.49**
expenditure savings legislated in 2015	0.05	0.08	0.14	0.18	0.19	0.18	0.16
expenditure savings legislated in 2016	0.37	0.72	1.08	1.22	1.51	2.33	2.32
Total savings	**0.90**	**1.37**	**1.78**	**2.01**	**2.21**	**2.93**	**2.91**
savings legislated in 2015	0.46	0.48	0.53	0.56	0.57	0.56	0.54
savings legislated in 2016	0.44	0.89	1.25	1.45	1.64	2.37	2.36

Source: European Commission

144. **The pension reform in the post-programme fiscal package accelerates implementation of the 2016 reform by providing for an immediate recalibration of 'negative personal differences' in 2019 (see section 1.3.2).** The recalibration achieves the intended correction of intra- and inter-generational imbalances more quickly that originally envisaged under the 2016 reform. At the same time, negative short-term effects on individual pensioners are mitigated through the imposition of a cap of 18%; personal differences beyond this level will continue to be absorbed through inflation. Together with a pension freeze from 2019 to 2022, this is projected to generate an additional fiscal yield of 1% of GDP annually over this period.

1.3.8. HEALTH CARE

145. **Thanks to the MoU signed in August 2015, prospects for modernising the health care system have improved, and, although uneven, progress has been observed consistently across areas.** The Greek authorities have established universal access to health care,([17]) building on legislation introduced under the previous programmes. This legislation clearly sets out the right for all uninsured and financially vulnerable Greek citizens, as well as for other vulnerable categories, to benefit from all public health care services which are free at the point of access. This represents an important step in the modernisation of the system; although implementation will ultimately determine whether additional adjustments and/or monitoring tools are necessary to achieve actual universal coverage, such as for instance the reduction of waiting times, which can *de facto* act as a barrier to access.

146. **Progress has been made since the beginning of the programme, albeit more remains to be done.** Many new initiatives were legislated as part of the prior actions in August 2015 and under the second review in May 2017, in an attempt to rationalise expenditure and strengthen monitoring and sanctioning of inappropriate providers' behaviour. At the same time, part of the measures adopted remain incomplete and there may be a need to consider some other past reforms in order to secure their full adequacy and effectiveness.

147. **Delays in policy implementation due to resistance coming from vested interests have started to be addressed.** Price lists in 2015 were consistently subject to delays, which resulted in an unnecessary increase in pharmaceutical expenditure before clawback, and hindered the goal of cost containment and efficient spending. Uncertainty regarding the future of diagnosis-related groups (DRGs) as a means of activity-based reimbursement represents another worrying signal, though progress has recently resumed. With that said, the Greek authorities have explicitly committed and started to rectifying this trend by re-instating equivalent efficiency-enhancing measures, such as improving the criteria to update the positive list from May 2017 onwards and respecting the deadline for the publication of the price list.

([17]) Law 4354/2015, (ΦΕΚ 176/Α/16-12-2015), Law 4368/2016 (ΦΕΚ 537/Α/ 21/02/2016) and JMD Α3(γ)/ΓΠ/οικ.25132 (ΦΕΚ 908/Β/04-04-2016).

148. **As part of the second review of the ESM programme, the authorities have adopted measures to support pharmaceutical cost containment and strengthened the incentives for pharmacists to dispense cost-effective generics.** Supporting the overall objective to manage pharmaceutical demand and contain overall costs, the use of generic medicines rose from around 18 per cent at the beginning of 2014 to around 25 per cent in 2016, but the figures are still far behind the targets and the EU average. In the meantime, the authorities have worked on developing new prescription protocols and furthered efforts towards the creation of electronic records to which the protocols are linked. Building on these resources, they have reinforced sanctions and penalties related to misconduct and conflict of interest in prescription behaviour and non-compliance with the EOF([18]) prescription guidelines.([19]) To further the efforts to support generics penetration, as part of the May 2017 Omnibus bill, the authorities also adopted specific measures to target the behaviour of pharmacists, by modifying their incentives to dispense cost-effective generics over more expensive drugs. Specifically, the authorities introduced a financial incentive in the form of a bonus to pharmacists who exceed the average dispensing of generics and adopted supporting measures. These include the implementation of automatic auditing and sanctions for pharmacists to whom particularly high switching rates([20]) are associated; the implementation of automatic auditing and sanctions for doctors who exhibit an irregular behaviour based on their prescribing patterns and, lastly, a modification in the layout of pharmaceuticals prescriptions going to patients, highlighting more prominently what cost for the patient derives from alternative drug choices.

149. **The downward revision of pharmaceutical prices was restored and is regularly implemented.** An omnibus law of August 2015([21]) repealed an unwarranted provision of 2013 freezing the prices of drugs already in the market before 2012 ([22])([23]). This is a welcome development given that generic medicines in Greece have historically cost more to consumers than the equivalent medicines in other, higher income EU member states. The Greek authorities have committed to establishing lower prices for pharmaceuticals, and the timely publication of bulletins plays a crucial role in delivering results in this respect. Delays recorded over past years in publishing the price bulletin hampered reduction of prices in 2015, but improved efforts by the authorities have ensured that this process is now regularly implemented twice a year.

150. **The authorities took another important step in support of the rationalisation of pharmaceutical expenditure, by revising the criteria for introducing innovative drugs into the positive list (the list of publicly reimbursed drugs), thereby safeguarding Greece from reimbursing innovative drugs beyond affordability.** The previous criteria needed to be replaced as, due to how they were formulated, they *de facto* imposed a given set of drugs to be reimbursed if a reference criterion had been met, thereby in essence depriving the authorities of the flexibility to accept or reject a given drug based on their capability to afford it. The system now consists of a two-step approach. The first still rests on an external criterion (reimbursement in a set of EU countries with proper Health Technology Assessment (HTA) in place), though improved and redefined as it was originally intended. The second relies on the assessment of the Greek HTA committee, a new entity that is currently under development, based on a set of

([18]) Εθνικός Οργανισμός Φαρμάκων (ΕΟΦ/EOF) is Greece's National Organisation for Medicines.
([19]) MD Γ5 (a)/70068 (ΦΕΚ 2332/Β — 30.10.2015) includes changes to the physicians' prescribing behaviour and limits. Ministry of Health also agreed to include — in the EOPYY's Report — indicators about the penalties and sanctions set for monitoring physicians' prescribing behaviour.
([20]) Rates of conversion from a prescribed generic to a dispensed non-generic drug.
([21]) Omnibus law (subparagraph F1) of August 2015 repealed a provision of Law 4213/2013.
([22]) Omnibus Act (N.4337/2015 (ΦΕΚ 129 A-17.10.2015) for amending previous legislation for grandfathering and by issuing the new price bulletin (MD Γ5(α)/οικ.88979 ΦΕΚ Β' 2577/30.11.2015).
([23]) MD Γ5/οικ. 28408 (ΦΕΚ 1102/Β/19.04.2016.

objective criteria including (but not limited to) cost-effectiveness and affordability.([24])These criteria will also be used to re-assess and amend the existing positive list, which is expected to lead to a rationalisation of expenditure. The new criteria were designed to improve on the shortcomings of the previous method and to allow for internal capacity-building in the area of HTA, thereby creating the preconditions for the establishment of a full-fledged HTA centre in the long term. Indeed, the Greek authorities committed to establishing a HTA centre by mid-2018, which will be a crucial step to ensure the right balance between supporting patients' access and improving affordability for patients and for the public payer.

151. **The existing cost-containment tools were strengthened by introducing a closed budget with claw-back for hospital expenditure on pharmaceuticals([25]), thereby implementing a global claw-back on all pharmaceuticals, covering both those dispensed in outpatient and inpatient settings, paired with the existing claw-backs on diagnostics and private clinics.** The trend of monthly expenditure on these two items was above target throughout 2014, and large and persistent claw-backs continued through 2015 and, according to the latest documents circulated, into 2016, which is indicative of a lack of control in the system. In September 2015, the Greek authorities legislated the extension of the expenditure ceilings for private clinics and diagnostics by category up to 2018([26]). For outpatient pharmaceuticals, a decree([27]) was issued regarding the extension of 2015 claw back ceilings for the next three years and until 2018. The implementation of the claw-back on all pharmaceuticals constitutes an important step forward, preserving both access for citizens and affordability under a constrained budget and is a key enabler of affordable universal access.

152. **As a further fiscal safety net, under the second review, the recently legislated closed budget on additional items of expenditure of EOPYY (the so-called Other Items) has been established to cover the residual category that had been left uncapped.** The authorities passed legislation ([28]) to set the budget of EOPYY and support the implementation of an additional claw-back, as well as other measures to rationalise health care expenditure. The additional claw-back was deemed necessary following expenditure slippages on these items recorded in the past year and projected to increase ceteris paribus and it is legislated until 2018. The publication of the Ministerial Decision for the implementation of the new claw-back ([29]) specifies the agreed claw-back ceilings by categories, while setting the mandatory decrease in the overall expenditure limits by an amount that will, by 2019, bring the budget of EOPYY back to the 2016 level (prior to slippages). This will be achieved by constraining expenditure with the new claw-back covering the vast majority of the total budget of EOPYY, for the years up to 2019. Importantly, the legislation of this expenditure ceiling was paired with the introduction of a modernised and efficiency-oriented way to manage contracting of providers and reimbursement in these areas, to promote cost-containment and eventually manage to meet, rather than exceed, set expenditure targets.

153. **Expenditure on private diagnostic centres and clinics is still above target, but measures have been adopted to correct this distortion.** Another Ministerial Decision was issued in

([24]) The first criterion to be (necessarily) met is that drugs need to be reimbursed in two thirds of the EU Member States in which they are marketed, which may not be less than nine and of which at least half reimburse these products after they have been evaluated by an authoritative Health Technology Assessment Agency. The second criterion is to receive a positive assessment by the Greek HTA committee based on: unmet medical need, added therapeutic value, reliability and representativeness of the clinical evidence, cost-benefit or effectiveness ratio after taking into account public budgetary impact and epidemiology. Pending the setting up of the HTA Committee, this function is assigned to the Positive list committee.
([25]) Law 4346 GG 152/A/ 20.11.15, MD (ΦΕΚ 2758/ B/18.12.15).
([26]) MD Γ3γ/70907 (ΦΕΚ 2059/Β'-18.09.2015).
([27]) MD Γ5/63587 (ΦΕΚ 1803/Β'-20.08.2015).
([28]) Law 4447, GG 241/A/12.23.2016, art. 34.
([29]) ΦΕΚ Β 1752 - 22.05.2017.

December 2015 to lower the price of diagnostics from private providers. The legislated decrease in prices was intended to contribute for two thirds of the reduction of the excess costs in this area. Following the legislated reduction in prices, the increases in the volumes seemed to indicate a worrisome, also for the health of patients, strategic behaviour of stakeholders (induced overprescription) which required careful monitoring by the authorities. Notably, between the first and the second review, the authorities have been actively pursuing the goal of expenditure rationalisation by designing and implementing a set of rules to counter supply-induced demand in this area. These measures, enforcing more effective monitoring and sanctioning of inappropriate behaviour of doctors, have been implemented by adopting several Ministerial Decisions on these matters.([30])

154. **An important step to rationalise expenditure is also represented by the recently adopted legislation on centralised public procurement of the health sector, which could allow for large savings, as seen in the areas where it was adopted.** However, the target of procuring the vast majority of pharmaceutical products by active substance, building a reliable and efficient public procurement system, without the alleged shortcomings of centralised tender procedures developed by the past Health Procurement Committee (EPY), stands as a future challenge. Whereas the full implementation of the system may not be feasible in the very short term, the authorities adopted the core legislative framework in the Omnibus bill of May 2017 and are currently working on the necessary implementation provisions. Although promising, progress towards the full operation of a rational and efficient public procurement system will need future monitoring to ensure the process is completed.

1.3.9. SOCIAL SAFETY NETS AND ACTIVATION

155. **Tackling the social crisis and strengthening fairness across society is an urgent policy priority well recognised by the ESM programme.** Measures are foreseen to alleviate the impact of the crisis on the most vulnerable and improve the social safety net. A comprehensive social welfare review constitutes the basis for the redesign of a better-targeted and more effective welfare system. This follows many measures already taken under the previous programme to streamline and target spending and the tax system.

156. **The social welfare review entails a comprehensive analysis of all social welfare schemes, benefits and tax expenditures across the general government.** The first stage of the social welfare review, conducted with the assistance of the World Bank, consisted in the preparation of a comprehensive inventory of welfare benefits, providing a clear overview of welfare expenditure in Greece. As a second step, the coverage and adequacy of social welfare benefits were assessed, with the identification of gaps and duplications. In addition, an in-depth study of tax expenditures, and an institutional mapping of the key entities involved in the delivery of the main social assistance benefits have been conducted. On the basis of this analysis, specific recommendations were delivered on how to strengthen the social welfare system in Greece by streamlining benefits to channel resources into better-targeted programmes and thereby more effectively protect the most vulnerable citizens in Greece.

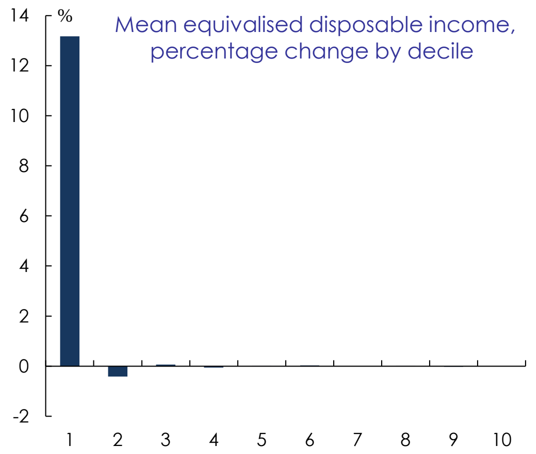
157. **The backbone of the reformed Greek social assistance system is constituted by a new guaranteed minimum income scheme, the now-called Social Solidarity Income (SSI), which provides an effective safety net of last resort to households at risk of extreme poverty.** Prior to its introduction, Greece was one of only two Member States without a universal means-tested

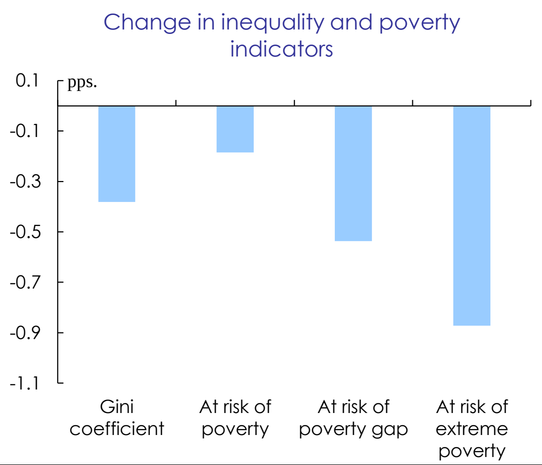
([30]) For instance Γ3γ/οικ. 28501 (ΦΕΚ Β'/1115/19-04-2016), Γ3γ/40426 (ΦΕΚ Β'/2221/18.07.2016), Γ3γ/οικ. 56177 (ΦΕΚ Β'/2324/27.07.2016).

income support programme targeted at households at risk of poverty and social exclusion. The SSI builds on the pilot project that was run in 13 municipalities between November 2014 and June 2015 and the subsequent ex-post evaluation carried out by the World Bank. The scheme has been rolled out in two stages, starting first in 30 municipalities in July 2016, and then expanded to the rest of the country as of February 2017. Up to 750,000 people, or some 7% of the Greek population, are expected to be eligible. The scheme provides a cash benefit to households who fall below a guaranteed minimum income level. It envisions an integrated approach to addressing the deprivations of the poor and vulnerable, promoting a tailor-made approach to better address the multi-dimensional nature of poverty. It rests on three pillars: i) poverty alleviation, with the provision of means-tested income support; ii) social inclusion, with the provision of complementary social services; and, iii) labour market reintegration, with the provision of personalised active labour market services (see Box 1.3.7).

158. **The new scheme is expected to improve both inequality and the risk of poverty.** By design, the benefit reaches individuals and households in the lowest decile of the income distribution. With this scheme, the poverty gap (i.e. the average distance from the poverty line of those below it) and the rate of extreme poverty (with the threshold set at 30% of average disposable income) are expected to improve appreciably (see Graph 1.3.12).

Graph 1.3.12: **Expected effects of the new guaranteed minimum income scheme**





Source: European Commission, Joint Research Centre based on the EUROMOD model

159. **The SSI scheme is being reinforced by connecting recipients to other social services and welfare benefits (such as the Fund for European Aid to the Most Deprived – FEAD, and social tariffs).** To this end, a network of "Community Centres" staffed with social workers is being established throughout the country, to serve as one-stop-shops for social welfare services at municipal level. In addition, it promotes the labour market reintegration of recipients, requiring beneficiaries capable of working to be registered with the public employment service, which in turn is expected to provide counselling services and to develop individual action plans that may include placement into different active labour market programmes (such as vocational training, public works and second chance education programmes).

160. **As a follow-up to the recommendations of the social welfare review, a number of other benefits are in the process of being reformed.** A number of smaller benefits that were considered ineffective and/or redundant following the introduction of the new SSI scheme have been abolished. The reform process is expected to be complemented with an assessment of certain other benefits, some of which could be improved in their design. In parallel, the administrative

structures are also being improved, with the establishment of a single payment authority for all welfare benefits (that could help improve clarity, functioning, and administrative oversight), and the implementation of a national mechanism for the coordination, monitoring and evaluation of social inclusion and social cohesion policies.

Box 1.3.7: Introducing the Social Solidarity Income scheme

One of the key commitments of the ESM programme has been the development of a basic social safety net in the form of a guaranteed minimum income to prevent social hardship.

The Social Solidarity Income scheme (SSI), which has been rolled out to the whole of Greece as of February 2017, consists of a cash transfer targeted to extremely poor households and guaranteeing a minimum level of disposable income. By May 2017, about 260,000 applications had been filed, of which 225,000 had been submitted, and 92% of which were accepted, for a total of about 481,000 individual recipients. The passive income support component is complemented a social inclusion component, whereby vulnerable beneficiaries with specific needs are taken in charge by the social services of the municipality for additional targeted support; and a labour market reintegration component, whereby work-able beneficiaries are taken in charge by the public employment services to receive dedicated support and improve their prospects of employability.

The ultimate aim of the scheme is therefore that of alleviating extreme poverty, not only by providing direct monetary support, but by allowing individuals to regain access to the labour market and fully participate in society. The main elements of the scheme are the following:

- The scheme is open to all households legally and permanently resident in Greece (including the homeless).
- The recipient unit is the household, defined as either a single person or a family composed of all individuals (adults and dependents) residing in the same dwelling.
- Each household is entitled to a (monthly) guaranteed amount, which varies according to the household composition (number and age of household members): EUR 200 for a single individual, increased by EUR 100 for each additional adult, and by EUR 50 for each minor (of less than 18 years of age). A higher amount (EUR 100 instead of EUR 50) is granted for unprotected minors and for children in single-parent households. A maximum ceiling of EUR 900 per month applies.
- This guaranteed amount defines also the income threshold for eligibility. Households with (monthly) incomes above the guaranteed amount are not entitled to the benefit. Households with incomes below the threshold are entitled to a (monthly) cash transfer that tops up their income to the level of the guaranteed amount.
- Eligibility is first assessed with reference to the household income in the six months preceding the application. Reported income includes income from all sources, before taxes and after social security contributions, received by all members of the recipient unit. Only selected transfers (such as non-contributory disability benefits) are excluded from the income definition.
- For eligibility purposes, 20% of net income from employment (including self-employment, work vouchers, training allowances, community work, etc.) is disregarded.
- Additional asset criteria also apply, with reference to the total taxable value of the immovable property (up to EUR 90,000-150,000, depending on household size), the objective expenditure of the movable property (e.g. vehicles, up to EUR 6,000) and the total amount of deposits and other financial assets owned by the recipient unit (up to four times the guaranteed amount over a 6-months period, or EUR 14,400).
- In case an unemployed beneficiary finds a job, the new earnings from work are fully disregarded for the first month of employment, and at 40% in the second and third month of employment.
- The amount of income support is paid on a monthly basis by crediting the bank account of the beneficiary. To encourage electronic transactions, only half of the transferred amount may be withdrawn in cash, while the remaining part can be spent exclusively through the use of a prepaid bank card, with no further restrictions and without any additional fee or transaction cost for the beneficiary.

With regards to the social inclusion component, applicants are informed at the stage of submission of the application about the possibility of accessing and receiving other complementary social services and benefits. In addition, beneficiaries with specific social needs are expected to visit the newly established

(Continued on the next page)

Box (continued)

Community Centres in their municipality of residence at least once a month, where they can be followed by the municipal social workers.

With regards to the labour market reintegration inclusion component, work-able beneficiaries are expected to register as jobseekers with the public employment service. Beneficiaries who are already registered as unemployed are expected to visit the local employment office to renew their individual action plan detailing the personalised activation measures proposed and agreed with the employment counsellors.

1.4. PILLAR 2: SAFEGUARDING FINANCIAL STABILITY

161. **Between 2010 and 2012, the Greek banking sector faced a serious crisis, both in terms of capital and liquidity.** The capital problems emerged following large losses in particular due to the restructuring of the Greek sovereign bonds and increasing non-performing loans (NPLs). Owing to serious political and economic uncertainty coupled with fears surrounding Greece's standing, mainly in 2012, bank deposits declined significantly and banks' access to capital and money markets disappeared. As part of the EFSF programme, the banking sector was recapitalised in 2013 and at the beginning of 2014, and also received substantial liquidity support from the central bank. Banks started to recover in 2014 both in terms of liquidity, owing to regained market access and return of deposits, and in terms of solvency, after the second recapitalisation in the second quarter of 2014.

162. **However, the instability that began in late 2014 led to a further crisis in 2015, which led to the imposition of capital controls.** This period was marked by a severe liquidity crisis, as large amounts of deposits were withdrawn from the banking sector, while NPLs increased further due to the protracted recession and deteriorated payment culture. In June 2015, a four-week bank holiday and capital controls were introduced to prevent the consequences of an imminent bank run.

163. **In the MoU signed in August 2015, the Greek authorities committed to take all the necessary policy actions to safeguard financial stability and to strengthen the viability of the banking system.** The measures related to the financial sector focus in particular on: (i) gradually normalising liquidity and payment conditions, (ii) strengthening banks' capital position by end-2015; (iii) tackling Non-Performing Loans (NPLs) and (iv) improving the governance of both banks and the Hellenic Financial Stability Fund (HFSF). A financial envelope of EUR 25 bn was envisaged for the resolution and recapitalisation of the Greek banking sector as part of the overall envelope of the ESM programme.

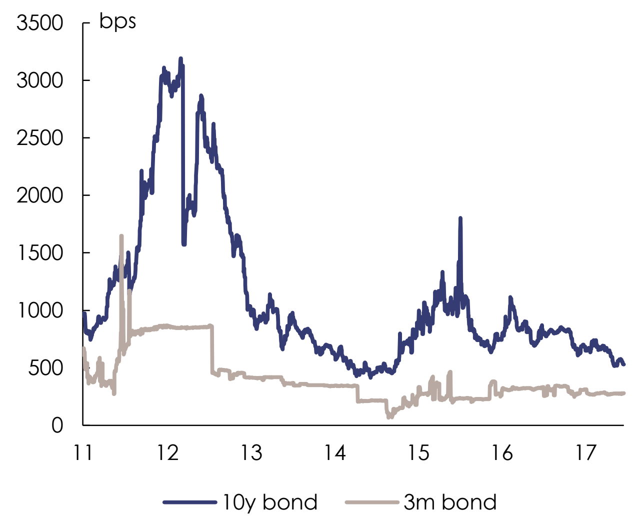
164. **The first and second reviews of the ESM stability support programme show significant progress in all four financial sector policy areas, albeit with some delays compared to timetables initially foreseen.** After a successful recapitalisation of systemic banks in late 2015, the average Core Equity Tier 1 (CET 1) ratio of Greek banks was brought to above 16%, thereby ensuring that the institutions have sufficient capital buffers. Deposits have stabilised. Greek banks managed to reduce their reliance on Eurosystem funding from EUR 128.1 bn in July 2015 to EUR 50.4 bn, a drop of EUR 77.7 bn. In the area of arrears management, several important reforms related to the out-of-court debt resolution mechanism, to insolvency proceedings, to the enforceability of collateral through auctions, and to the activation of a secondary market for loans have been decided and enacted. And much progress has been achieved already with respect to their implementation. The first monitoring reports show that banks managed to reach their NPL reduction targets. Finally, banks' senior managers and state representatives have been successfully replaced, as needed, by professionals who comply with the more stringent requirements of the HFSF law.

1.4.1. FINANCIAL MARKET DEVELOPMENTS

165. **Market sentiment, towards both the economy in general and the banking sector, in particular, changed dramatically in 2012.** By that time, the spread on the 10-year Greek government debt reached more than 3,000 basis points (see Graph 1.4.1), while the Athens Stock Exchange index (ATHEX) reached its lowest point (see Graph 1.4.3). This period was followed by a relative improvement until the spring of 2014, when Greek banks managed to regain access to the international markets for the first time since 2009, raising EUR 8.3 bn of private capital and EUR 2.3 bn of senior unsecured bonds. Eurosystem funding declined significantly, representing only 10.8 % of total assets in September 2014. Greek banks managed to do without any

Emergency Liquidity Assistance (ELA) from May 2014 to January 2015. Moreover, the Greek Government Bond spread declined significantly, the ATHEX continued to recover and the government returned to the bond market.

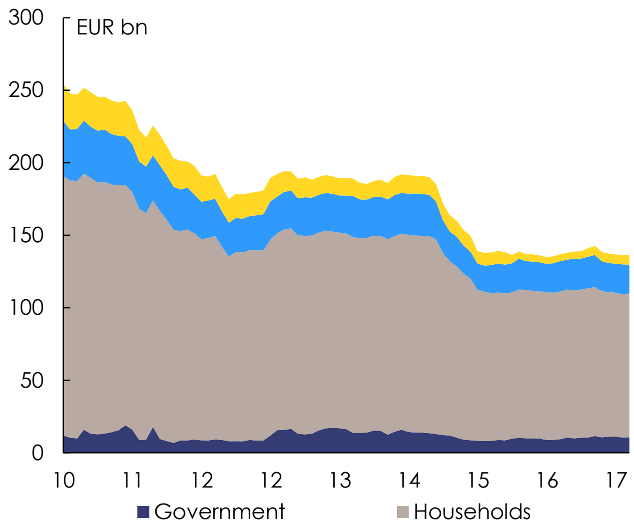
Graph 1.4.1: **Greek 10y and 3m bond yield spread against German bund**



Source: Bloomberg

166. **However, with increasing political uncertainty, accompanied by large deposit outflows, and a rapid rise in non-performing loans (NPLs), Greek banks' stability was put under severe pressure again from end-2014, culminating in a banking holiday and the imposition of capital controls.** Deposits decreased by EUR 55.6 bn (-28.2 %) from July 2014 to November 2015, reaching EUR 136.4 bn (see Graph 1.4.2). Since then, deposits have stabilised. The first signs of a bank run, following the announcement of a referendum, led to the introduction of bank holidays between 29 June 2015 and 20 July 2015, followed by capital controls. During the initial period of the bank holiday, all banks including foreign branches were closed, and cash withdrawals were limited to EUR 60 per day, per depositor. The use of credit and debit cards abroad was not allowed. Payment transfers abroad were prohibited, except for certain critical payments approved by a dedicated committee. (See Box 1.4.2)

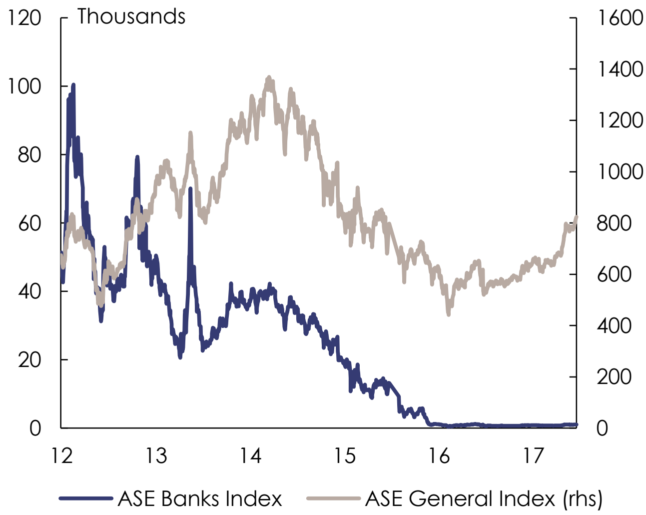
Graph 1.4.2: **Bank deposits**



Source: Bank of Greece

167. **Since the agreement on the ESM stability support programme in summer 2015, the situation on the financial markets has improved considerably.** At the height of the crisis in July 2015, the spread between 10-year Greek and German government bonds reached a peak of 1,803 bps due to political instability. During the period between the agreement on the ESM programme in mid-August and to November 2015, the spread narrowed by almost two thirds, reaching 635 bps by November 2015. Since then it has fluctuated, in line with expectations about the likelihood of closing the programme negotiations, but around a rather steadily declining trend and reached just 460 by mid-July 2017. The ATHEX was similarly on a downward trend since the beginning of 2014, having lost two-thirds of its value by February 2016 (see Graph 1.4.3). The Greek banking index exhibited an even worse performance (-94.0 % year-on-year in 2015), due to the renewed crisis, the identification of capital shortfalls by the ECB/SSM comprehensive assessment in 2015 and the subsequent recapitalisation. Since then, the banking index has been rather steady. The general stock index has also been recovering and gained more than 50% y-o-y by June 2017.

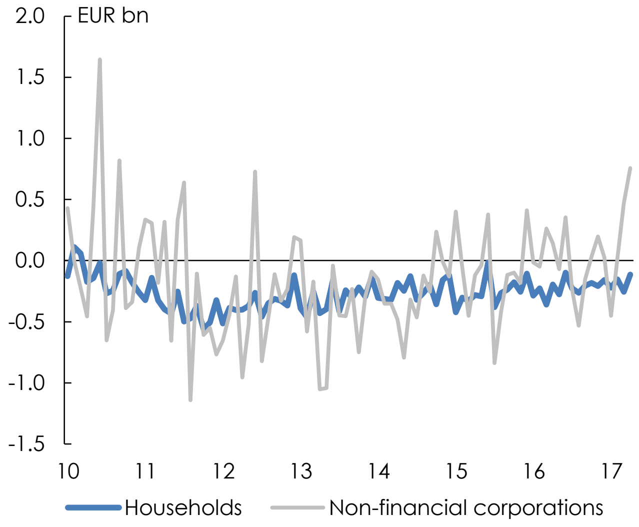
Graph 1.4.3: **Athens stock exchange indices**



Source: Bloomberg

168. **The funding situation has improved thanks to a number of factors, since the significant deterioration in the first half of 2015.** Recourse to central bank funding reached EUR 128.1 bn, or more than one third of Greek banks' balance sheets, in July 2015. Since then, and until May 2017, it went down to EUR 56.8 bn, reflecting the combined effect of deposit stabilisation and loan contraction. Overall, total private deposits increased initially before declining again at the beginning of 2017 and losing EUR 2.7 bn between end-December 2016 and end-April 2017. Despite successive steps towards a relaxation of capital controls, household deposits continued their downward trend, while corporate deposits stabilised and even increased during that period. At the same time, in order to improve their overall liquidity position, banks kept their loan book under control. The net flow of credit to the economy has been negative until 2017, when credit to corporates recovered somewhat (see Graph 1.4.4). At the same time, write-offs have accelerated and reached EUR 2.6 bn in 2016 and EUR 1.7 bn in the first four months of 2017.

Graph 1.4.4: **Credit to private sector (monthly net flows)**

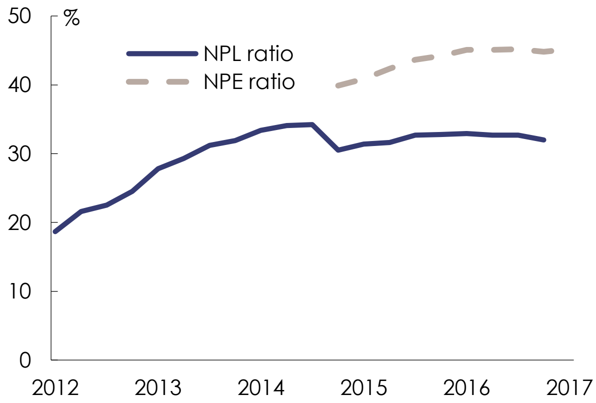


Source: Bank of Greece

169. **The asset quality of the banking sector deteriorated until the third quarter of 2016, when the ratio of non-performing exposures (NPEs)** ([31]) **reached 45.2%, although with subsequent progress and active strategies to tackle these challenges this trend has since started to dissipate** (see Graph 1.4.5). The continued rise in NPEs during the period up to the third quarter of 2016 stemmed from both borrowers' inability to service their debt obligations due to the deteriorated macroeconomic conditions and moral hazard issues, amplified by excessive debtor protection, expectations created by public announcements and the limited efficiency of the judicial system. Since then, the Bank of Greece has introduced a monitoring framework based on banks' own projections for reducing NPEs. This led to a noticeable increase in write-offs in late 2016 and early 2017. Thus, the nominal stock of arrears started to decline slightly, even though the NPE ratio itself increased from 44.8% from end-2016 to 45.2% in Q1 2017 owing to a faster reduction in the denominator via deleveraging. On average, the coverage of NPEs by accumulated provisions for impairment exceeds 50%, while collateralisation reaches around 40%, implying a total coverage of more than 90%. While all sectors of the economy are concerned, manufacturing, construction, trade and shipping account for almost two thirds of corporate arrears. NPE ratios also vary between sectors, ranging from 41% of all shipping loans to 79% in food service activities.

([31]) As per EBA definition, non-performing exposures include arrears above 90 days past due (non-performing loans), loans classified as unlikely to be re-paid without collateral realisation, or impaired or defaulted loans according to the applicable regulatory framework.

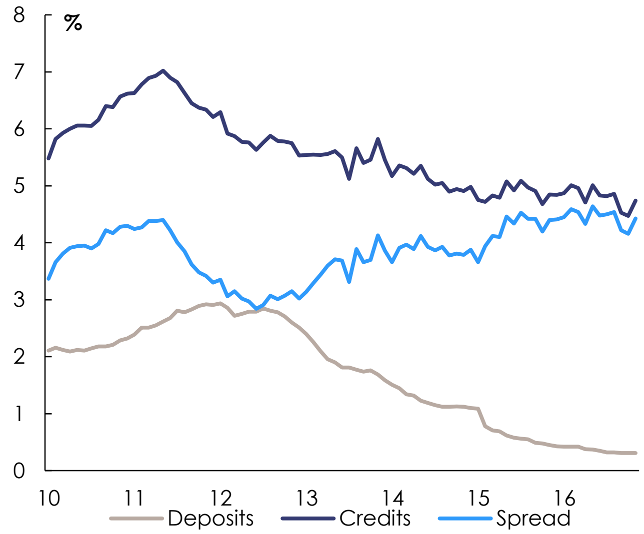
Graph 1.4.5: **NPL and NPE ratios**



Source: Bank of Greece

170. **Despite the deterioration in asset quality, Greek banks made significant efforts to restore profitability.** On average the four systemic institutions managed to increase their total operating income by 8.9% and to reduce their costs by 5.3% in 2016. As a result, the improvement of profits before provisions amounted to almost EUR 1 bn or an increase of 31% compared to 2015. Yet, despite these efforts, the overall continued deterioration of the asset portfolios justified a commensurate increase in the provisions for impairment losses that consumed all but EUR 70 million of the operating profits. The improvement in operating income has been supported by the low interest rate environment in the euro area, which helped banks to reduce their cost of funding and to improve their net margin on credits (See Graph 1.4.6). The persisting, though relaxed, restrictions on capital and deposits have reduced inter-institutional competition for funding and played a similar positive role in regards to the cost of funding. Both of these factors are not expected to be permanent, thereby implying that long-term profitability will ultimately be driven by the development of asset quality.

Graph 1.4.6: **Bank interest rates**



Source: Bank of Greece

Box 1.4.1: **The ECB comprehensive assessment of late 2015**

On 31 October 2015, ECB Banking Supervision released the results of a comprehensive assessment of the four significant Greek banks (Alpha Bank, Eurobank, National Bank of Greece and Piraeus Bank). The assessment was conducted in line with the decision by the Euro Summit on 12 July 2015 and the Memorandum of Understanding between the European Commission, acting on behalf of the European Stability Mechanism, the Hellenic Republic and the Bank of Greece, signed on 19 August 2015. There was an urgent need to complete the recapitalisation process by end-2015, as 1 January 2016 marked the date of the entry into force of the BRRD Directive, which in the event of capital shortfalls could quickly lead to the bail-in of depositors.

The comprehensive assessment comprised an asset quality review (AQR) and a forward-looking stress test, including a baseline and an adverse scenario, in order to assess the specific recapitalisation needs of the individual banks under the third economic adjustment programme for Greece. The AQR resulted in aggregate adjustments of EUR 9.2 bn to participating banks' asset carrying values as of 30 June 2015. Also, non-performing exposure (NPE) stocks were increased by EUR 7 bn across the four banks, with the corresponding provisions already considered in the aforementioned AQR adjustments.

In addition to adjustments made directly to current carrying values, the AQR result was also reflected in the projection of banks' capital adequacy under the baseline and adverse scenarios in the stress test. Overall, the stress test identified a total capital shortfall of the four banks of EUR 4.4 bn under the baseline scenario and EUR 14.4 bn under the adverse scenario, including AQR adjustments, after comparing the projected capital ratios against the thresholds defined for the exercise.

The four banks had to submit capital plans to ECB Banking Supervision explaining how they intended to cover their shortfalls by 6 November 2015.

Table 1:
Results of the comprehensive assessment by bank

		AQR impact		**Baseline scenario**		**Adverse scenario**	
	Pre-AQR CET1% Jun-15	Post AQR CET1% Jun-15	Shortfall vs. 9.5% post-AQR EUR mn	CET1% post-baseline	Shortfall vs. 9.5% post-ST EUR mn	CET1% post-adverse	Shortfall vs. 8% post-ST EUR mn
Alpha Bank	12.7%	9.6%	0	9.0%	263	2.1%	2,743
Eurobank	13.7%	8.6%	339	8.6%	339	1.3%	2,122
NBG	11.6%	8.1%	831	6.8%	1,576	-0.2%	4,602
Piraeus Bank	10.8%	5.5%	2,188	5.2%	2,213	-2.4%	4,933
Total	12.1%	7.9%	3,358	7.6%	4,391	0.1%	14,401

Source: European Commission

The AQR was performed in line with the methodology of the ECB comprehensive assessment 2014.[1]

The AQR findings were primarily driven by the deterioration in the macroeconomic environment in Greece, which led to higher NPE volumes as well as lower collateral values and cash flow valuations. Moreover, the standardisation of the definition of key metrics across the EU resulted in further NPE and impairment recognition in the AQR. For example, the full implementation of the European Banking Authority's implementing technical standards on NPE meant that forborne exposures could be better identified and tested for impairment. Finally, the disallowance of tax offsets within the AQR amplified the adjustments of the AQR 2015 vis-à-vis the comprehensive assessment 2014.

The stress test was led centrally by the ECB and based on data provided by the participating banks, which was quality assured by a central team. The methodology applied was largely based on the 2014 stress test performed by the European Banking Authority and the ECB. It consisted of both a baseline and an adverse scenario, applied for the period from 30 June 2015 to 31 December 2017. Greek banks were required to

[1] https://www.bankingsupervision.europa.eu/ecb/pub/pdf/assetqualityreviewphase2manual201403en.pdf

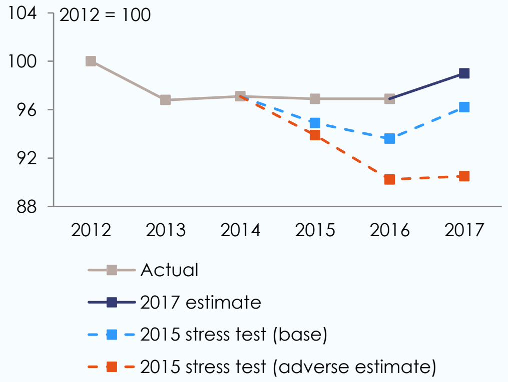
(Continued on the next page)

Box (continued)

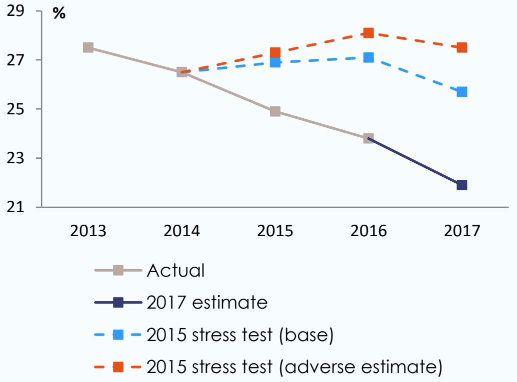
maintain a minimum Common Equity Tier 1 (CET1) ratio of 9.5% under the baseline scenario and 8% under the adverse scenario.

Where a bank had a capital shortfall in more than one part of the exercise, the maximum amount determined the final capital shortfall that needed to be covered. The baseline scenario was defined as part of the ESM stability support programme for Greece and the adverse scenario was developed by the ECB in consultation with the European Commission and the International Monetary Fund. The assumptions of GDP growth for both scenarios of the stress test are outlined in the table below:

Graph: Assumptions for real GDP



Graph: Assumptions for unemployment rate



1.4.2. CAPITALISATION OF THE BANKING SYSTEM

171. **The political and economic uncertainty in 2015 called into question the adequacy of bank capital levels.** The adverse developments, which *inter alia* led to the introduction of capital controls, significantly deteriorated expectations about macroeconomic developments for the coming years. This, in combination with the already observed deterioration in asset quality, started to put banks' solvency into question. The continued rise of NPEs, the materially worsened economic outlook and concerns about the solvency of Greek banks on a forward-looking basis necessitated a new Comprehensive Assessment by the ECB (as part of the agreement on the ESM programme), which identified a capital shortfall of EUR 14.4 bn in the adverse scenario (see Box 1.4.1). The four systemic banks were successfully recapitalised by-end 2015, as discussed below.

172. **In view of the capital shortfall identified by the Asset Quality Review (AQR) in November 2015, the recapitalisation framework was amended to preserve the stability of the system while incentivising private investment and minimising the need for additional state aid.([32])** The recapitalisation framework enabled the HFSF to secure the capital increase of all four systemic banks by underwriting the entire capital needs for all banks, drawing, if needed, from the EUR 25 bn envelope assigned in the ESM programme for this purpose. In line with the Bank Recovery and Resolution Directive (BRRD), which was transposed by Greece in July 2015, as part of the agreement on the ESM programme, the HFSF was able to provide precautionary recapitalisation for banks that managed to cover fully from private sources their capital shortfall identified in the AQR and the baseline scenario of the stress test. Under this condition, the law enabled the HFSF to provide public support to banks for the remaining amount up to the adverse-

([32]) The recapitalisation framework was adopted by Parliament with Law 4340/2015 and art. 5 of Law 4346/2015.

scenario capital needs in the form of common shares (without any voting restriction) and CoCos (CET1-eligible Contingent Convertible bonds), respecting a 25-75 % proportion. For cases where the baseline capital needs could not be covered fully from private sources, the government financial stabilisation tool (GFST) was available in accordance with the BRRD. Furthermore, the State decided to stop guaranteeing new deferred tax assets in an effort to limit the link between the banks and the State.([33])

173. **The recapitalisation of the four systemic Greek banks was successfully completed at the beginning of December 2015, with only limited use of the envelope of EUR 25 bn included in the ESM programme for the Greek banking sector.** Alpha Bank and Eurobank managed to cover the full capital shortfall from private sources, using both voluntary conversions of junior debt and issuance of new shares in the share capital increase. Piraeus Bank and National Bank of Greece received capital injections of EUR 2.7 bn each from the HFSF (25% common shares and 75% CoCos) to cover capital needs stemming from the adverse scenario (precautionary recapitalisation), while the AQR and baseline scenario needs were fully covered by private sources in the form of both newly-issued common shares and conversion of junior and senior bonds. Due to the underwriting provided by the HFSF, all banks had to submit updated restructuring plans to the European Commission services responsible for competition, which mostly aimed at further operational rationalisations. Updated restructuring plans of the two banks that received additional HFSF investments also include further divestment commitments (of which the most significant divestment — of Finansbank by NBG — was concluded in June 2016). As a result, the shareholding of the HFSF was reduced from the previously high levels (35 %-67 %) to below 50 % in all four systemic banks, and now ranges from 2 % to 40 % (see Tables 1.4.1, 1.7.2 and 1.7.3). NBG repaid the EUR 2 bn of CoCos in December 2016, following the sale of Finansbank in Turkey.

Table 1.4.1: **Results of the 2015 recapitalisation exercise**

EUR million	**Total**
Capital Plans	654
Voluntary LME	2,729
New Equity (excl. HFSF)	5,270
Mandatory Bail-in	302
Total (excl. HFSF)	**8,955**
HFSF Investment:	
Equity	1,356
CoCos	4,069
Total HFSF	**5,426**

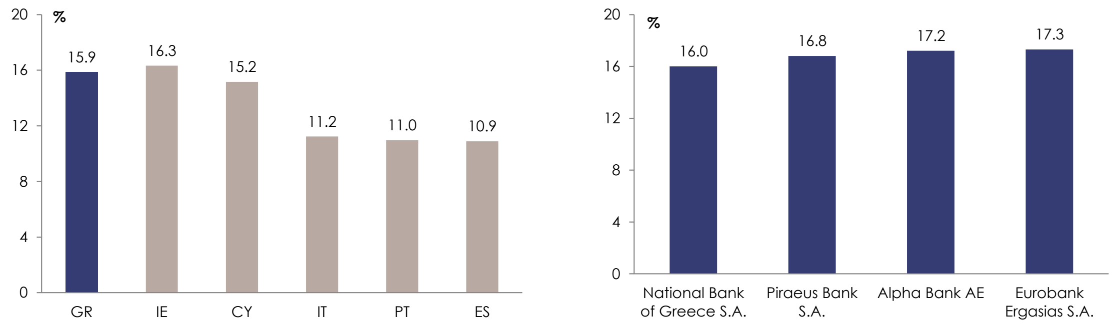
Source: European Commission

174. **The less significant institutions (LSIs) also managed to raise additional capital by end 2015.** The BoG applied the methodology of the ECB/SSM Comprehensive Assessment of the four systemic banks for the assessment of the fifth largest Greek bank (Attica bank). Following this exercise, Attica Bank managed to raise EUR 681 mn from private sources, enough to cover the capital needs coming from the AQR and the baseline scenario of the stress test. Attica bank entered into protracted negotiations with a potential equity investor with a strong interest in servicing its delinquent loan portfolio of EUR 1.2 bn. This innovative transaction, which is setting up a new recapitalisation model, was finalised by end-June 2017. The capital adequacy of the

([33]) Article 4 — L. 4340/2015 (FEK 134A/1-11-2015).

cooperative banks was also assessed by the BoG, following the introduction of International Financial Reporting Standards (IFRS) as reporting standard in the cooperative sector. Four cooperative banks were requested by the BoG to raise capital by December 2015. Three of them managed to raise enough capital from private sources, while the Cooperative Bank of Peloponnese was put under resolution, using funds available in the Hellenic Deposit and Investment Guarantee Fund (TEKE). As part of the MoU, the Bank of Greece committed to follow up on operational improvements of all LSIs in order to ensure that they remain well capitalised.

Graph 1.4.7: **Banks' capital structure: Core Tier 1 capital ratios**



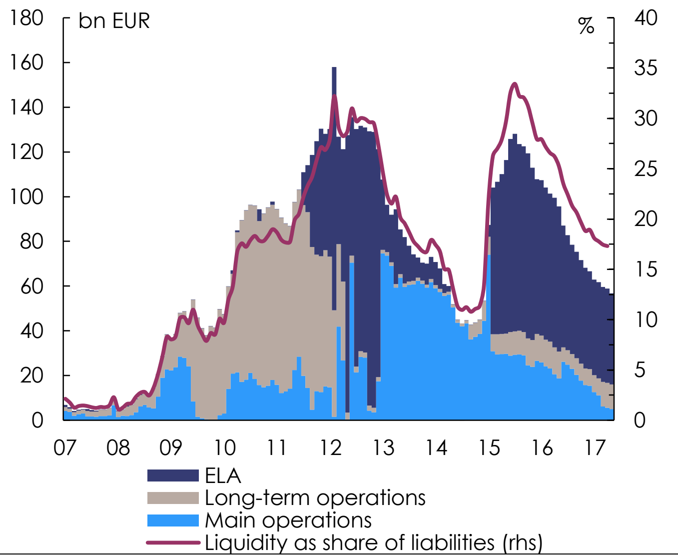
Source: EBA, Fitch

1.4.3. LIQUIDITY IN THE BANKING SYSTEM

175. **The reliance of Greek banks on central bank funding, which had dramatically improved up to the end of 2014, increased considerably in the first half of 2015.** Since 9 December 2014, there have been large deposit outflows (Graph 1.4.2), with EUR 47.5 bn (27.5%) of private sector deposits having been withdrawn from the Greek banks up to end-June 2015 owing to the political uncertainty at the time. Greek banks had to increase their dependence on emergency liquidity assistance (ELA), pushing total central bank borrowing from EUR 44 bn at end-November 2014 to EUR 127 bn at end-July 2015 (see Graph 1.4.8). The deposit drain was so sharp that a month-long banking holiday, followed by capital controls, had to be introduced on 29 June 2015.([34]) Since then, and after the agreement on the ESM programme, central bank funding reliance has been gradually decreasing on the back of improved access to the interbank market and the relative stabilisation of private sector deposits. In the last quarter of 2015, the liquidity position of banks also benefitted from the capital injections related to the completion of the recapitalisation that took place at the end of the year.

([34]) The bank holiday was enforced for 3 weeks (automatic payments were uninterrupted during this period). Banks reopened on 20 July with strict deposit withdrawal limits of €60 per day. Use of a pre-paid card for payments abroad was not allowed. No interbank payments or transfers abroad were permitted, except for urgent transactions, e.g. payments abroad for health reasons, which had however to be duly justified and approved by a Special Government Committee. Payments of pensions were exempted from these restrictions.

Graph 1.4.8: **Total borrowing from the Eurosystem**



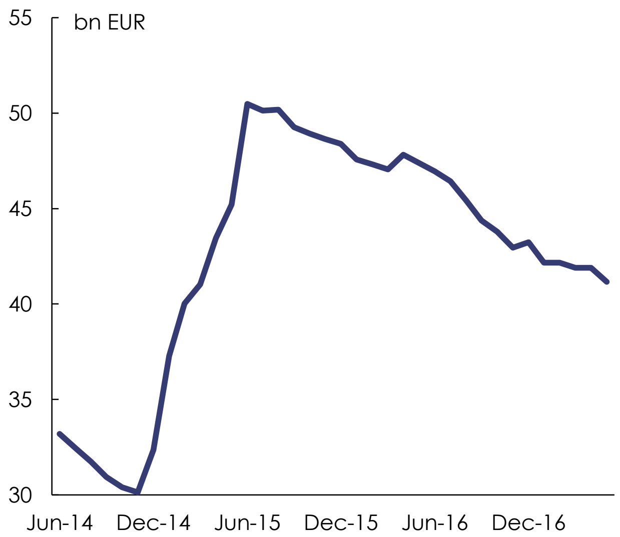
Source: IMF International Financial Statistics

176. **The 2015 recapitalisation, the availability of central bank support as well as the overall agreement on a new programme have improved confidence in the Greek financial system, resulting in a gradual relaxation of capital restrictions over time**. The continued deleveraging process, coming from both the divestment of non-core assets and a reduction of the credit stock (by 10 % yearly in 2016 and Q1 2017), reduced the funding needs of Greek banks. In addition, banks managed to attract new deposits back to the system by end-2016. Until December 2016 some EUR 6 bn of private deposits returned to the Greek banks, which represents 13% of the outflow observed from December 2014 to July 2015. At end-May 2017, ELA stood at EUR 40.7 bn down from EUR 70.2 bn end-December 2015. Similarly, total central bank borrowing went down to EUR 56.8 bn from EUR 108 bn in the same period. With a successful implementation of the programme policies, capital controls have been lifted in steps, but not yet fully abolished (See Box 1.4.2).

177. **Deposit outflows are very sensitive to the state of programme implementation.** Outflows in the first months of 2017 indicate that depositors' confidence remains sensitive to any rumours and deteriorates when progress in the programme slows; albeit this has significantly improved with the successful conclusion of the second review. In this context, it should be noted that, although capital controls are still in place, there are exemptions for corporate deposits and newly deposited funds, as money has to circulate in the economy to sustain business activity. After the conclusion of the second review, depositors confidence was noted with net inflows observed since May onwards.

178. **The amount of cash in circulation has risen considerably since end 2014, but is now starting to trend down.** Between November 2014 and June 2015 cash in circulation, which gives an indication of the scope of possible future deposit flows, increased by EUR 20 bn. By end-2016, EUR 7.2 bn, i.e. 36%, had returned to the Greek banks as deposits. As this money is not bound by capital controls, it can however leave the Greek banks overnight, subject to usual client-specific limits. From the beginning of this year until end-June, EUR 2.1 bn of deposits left the Greek banks. At the same time, cash in circulation declined by almost the same amount in the same period (See Graph 1.4.9).

Graph 1.4.9: **Cash circulation in Greece**



Source: Bank of Greece

179. **The Greek authorities are committed to achieving a sustainable bank funding model in the medium term.** For this purpose, banks are submitting quarterly funding plans to the Bank of Greece (BoG). The funding plans focus primarily on the reduction of banks' reliance on central bank funding, present banks' intentions on how to attract private-sector depositors and access interbank markets. The BoG, together with the Single Supervisory Mechanism (SSM), reviews the plans and challenges them when necessary.

180. **A Roadmap for relaxation of capital controls was published by the Ministry of Finance in May 2017 as a prior action for the second review, with the objective to help restore depositors' confidence.** Notably, the published roadmap aims at managing expectations of depositors and investors, as it indicates an end to the restricted flow of capital. In order to successfully manage expectations, the Roadmap is based on benchmarks that are in turn linked to improvements in the economic environment, progress with restructuring the banking system, the measures' impact on macro-financial stability, and progress with programme implementation.

1.4.4. RESOLUTION OF NON-PERFORMING LOANS (NPLS)

181. **In 2015, as part of the programme conditionality, the Greek authorities developed an updated strategy for addressing the issue of non-performing loans (NPLs).** This was one of the starting points towards resolving the core problem of the Greek banking system, with half of banks' loan portfolios exposed to non-performing exposures. The NPL strategy includes regulatory, judicial, supervisory and other actions to help accelerate NPL resolution. Based on commitments in the MoU of August 2015, the strategy was agreed as part of the milestones concluded in November 2015. Among the actions, the authorities committed to pass legislation to create an active NPL servicing and sales market by removing any unnecessary impediments to NPL servicing and the disposal of loans to non-banks. According to the strategy, borrowers become protected primarily by the provisions of the Bank of Greece's Code of Conduct, and the household insolvency law, among others. The strategy also aims to improve the household and corporate insolvency laws, ensure the effective implementation of the new Code of Civil Procedure, broaden and improve the out-of-court workout legislation, strengthen the capacity of

the courts, and address tax, accounting and administrative impediments. Moreover, the strategy also details the NPL targeting system, whereby the banks are further incentivised to deal with NPLs through the introduction of operational and financial targets to reduce NPEs, which banks had to agree upon with the BoG in cooperation with the SSM by end-June 2016. To facilitate the realisation of this strategy, the Bank of Greece set up a project management office for NPL resolution. A detailed presentation of the various building blocks that compose the NPL resolution strategy can be found in section 1.7.3.

182. **While most elements of the NPL resolution strategy have been put in place and several key reforms are currently in the process of being implemented (out-of-court workout, e-auction system, establishment of the insolvency administrator profession), they should not be expected to have an immediate positive effect as addressing this key issue takes time.** Key reforms to this effect were enacted in time to close the second review, albeit subject to some delays, most notably with respect to liberalising the market for NPL servicers, removing obstacles to the sale of loans to non-banks and fully operationalising the e-auctions platform. The final outcome of the NPL resolution strategy will depend on how effectively banks use the range of newly available tools. To some extent, this also highlights the importance of governance reform and the renewal of senior management positions in order to ensure the institutions' active involvement in implementing the strategy. In light of the availability of these new arrears management tools, the NPL reduction targets and timetable that were agreed between the Bank of Greece and the four systemic institutions might need to be reviewed and updated.

1.4.5. GOVERNANCE OF THE HFSF AND OF BANKS

183. **The governance of the Hellenic Financial Stability Fund (HFSF) has been further enhanced**. As agreed in the August 2015 MoU, a new selection process for members of the Executive Board (EB) and the General Council (GC) of the HFSF has been set up to ensure independence from political interference. The Selection Panel, which comprises six members – three members, including the Chair, nominated by the European institutions, and three by the Greek authorities – started its operation in January 2016. In addition to the selection of new members, the Panel's role also includes an annual evaluation of the EB and GC members based on a review of their performance and applicable eligibility criteria. Going forward, the HFSF aims to play a bigger role in the facilitation of banks' NPL management. In May 2017, the EB was completed with the nomination of a new HFSF CEO (see also section 1.7.2.2.2. for more details on the HFSF).

184. **One of the programme objectives is to improve the governance of banks, bringing it in line with international best practice.** In 2016 the HFSF reviewed all the boards of the systemic banks as well as their governance practices. The HFSF was required to undertake this assessment by amendments of the HFSF Law in November 2015. The criteria of the review went beyond the supervisory fit-and-proper assessment and focused on the needs of the Greek banks, which face substantial challenges both from a liquidity and asset quality perspective. As a result of this review conducted in June/July 2016, during the subsequent 6-8 months, all the boards of the systemic banks were strengthened with international experts who have adequate knowledge and appropriate long-term experience in areas such as banking or NPL management. (See Table 1.4.2 for the changes in the boards of the banks since the November 2015 HFSF law amendment.) These international experts chair all board committees of the systemic banks. A similar review was carried out by the HFSF in June/July 2017. This review had a special focus on the NPL management of the systemic banks, as well as on their Risk and Audit Committees. As per its findings, the four systemic banks have managed to make important changes concerning their board composition and framework since the review in 2016; however, much remains to be done along the corporate governance journey until the new cultures and processes are embedded in the different levels of the organisations.

Table 1.4.2: **Changes in the board of directors of the 4 systemic banks since Nov 2015**

(As of 30 Sept, 2017, unless otherwise indicated)	Total no. of changes*	Total no. of board members**	Total changes in bank boards, Nov 2015 - Sep 2017	Foreign NEDs	Total NEDs	Proportion of foreign NEDs, Sep 2017***
Alpha****	7	15	47%	5	7	71%
Eurobank	4	12	33%	6	8	75%
Piraeus	14	15	93%	4	7	57%
NBG	7	12	58%	6	8	75%
Total	32	54	**59%**	21	30	**70%**

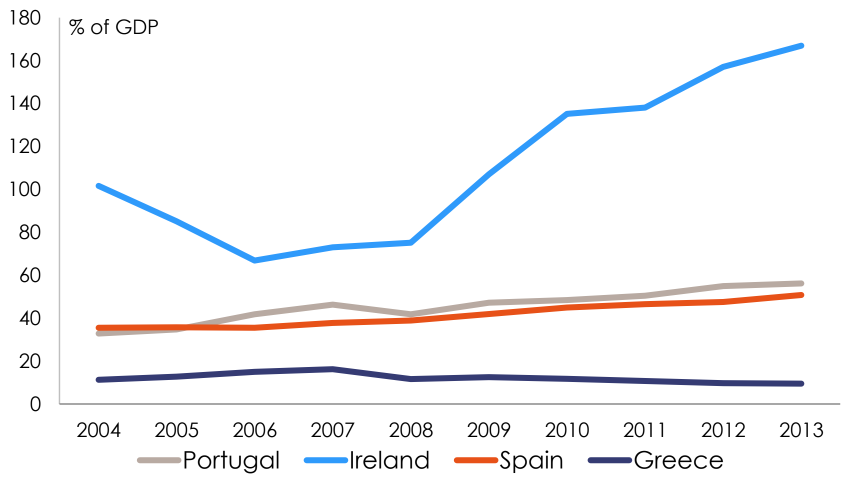
* Total number of resignations between Nov 2015 and Sep 2017
** As of Nov 2015, including the executives and the HFSF and State representatives
*** Non-Executive Directors in the board of directors
**** Alpha already had 2 foreign NEDs before legally strengthening the board member criteria
Source: European Commission

185. **Furthermore, the four systemic banks have committed to a rotation of their external auditors.** The rotations shall be implemented as soon as possible but no later than for financial year 2018, with binding decisions to change the auditors taken already in 2016. An immediate rotation of auditors is not feasible due to existing conflict of interest and required cool-off periods. The rotations are proceeding as scheduled, the latest with Eurobank having chosen a new auditor for the years 2018-2022.

1.5. PILLAR 3: STRUCTURAL POLICIES TO ENHANCE GROWTH, COMPETITIVENESS AND INVESTMENT

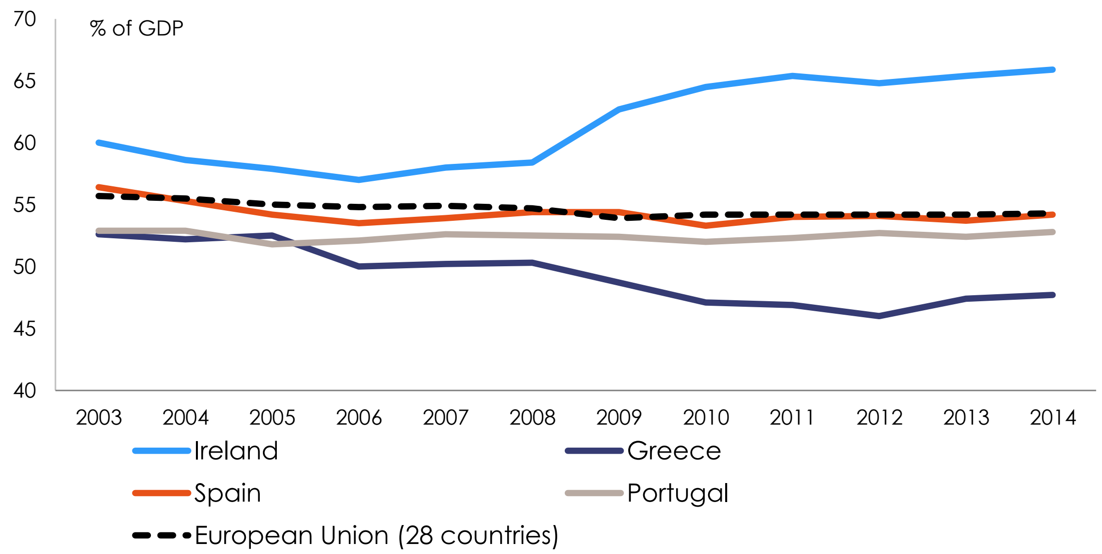
186. **Structural reforms tackle obstacles to the fundamental drivers of growth by liberalising labour, product and service markets, thereby encouraging job creation and investment — both in human and physical capital — and improving productivity.** They are designed to boost competitiveness, potential growth and the capacity to adjust to changing conditions in a globalised world. A notable feature of the Greek economy is that it has a very small tradable sector as a share of GDP compared to other euro area countries of a similar size, and does extremely poorly in terms of attracting foreign direct investment. The scope to achieve an export-led recovery is therefore much less compared with other euro area countries such as Ireland that required stability support programmes: increasing the size of the of the tradeable sector and becoming a more attractive location for investment will take time, but is the key to achieving a sustainable recovery and convergence of living standards in Greece towards the rest of the euro area.

Graph 1.5.1: **Stock of foreign direct investment in Greece and selected euro area member states**



Source: Eurostat

Graph 1.5.2: **Share of tradable sectors within the economy**



Source: Eurostat

Table 1.5.1: **Investment in Greece and other euro area countries**

	Total investment				Corporate investment			
as % of GDP	1995	1996-00	2001-08	2009-14	1995	1996-00	2001-08	2009-14
Spain	22	23.7	28.8	21	11.7	13	13.9	12
Grees	20.4	23.1	23.7	14.6	8.4	10.5	10.3	7.7
Ireland	18.2	22.3	26.1	16.2	10.6	12.3	11.4	11
Italy	19	19.4	21.1	18.6	11.3	11.8	12.9	10.8
Portugal	23.3	26.5	23.9	17.4	11.6	13.8	13.7	11.1
	Residential investment				Public investment			
	1995	1996-00	2001-08	2009-14	1995	1996-00	2001-08	2009-14
Spain	6	7	10.7	5.7	4.3	3.7	4.2	3.3
Grees	8.6	8.8	9.2	3.7	3.4	3.8	4.2	3.2
Ireland	5.2	7.1	10.6	2.7	2.4	2.9	4.1	2.5
Italy	5.1	4.8	5.3	5.1	2.6	2.8	2.9	2.7
Portugal	7.3	7.7	6.1	3.1	4.4	5	4.1	3.2

Source: "The Analytics of the Greek Crisis", P. Gourinchas, T. Philippon and D. Vayanos (2016), NBER Macroeconomics Annual, 2017, 31, 1-81.

187. **Since the launch of the first of its financial assistance programmes, Greece has recovered price competitiveness in the euro area which had eroded in the years preceding the economic crisis**. This can be seen in Graph 1.2.6, which presents the evolution of price, wage and cost competitiveness indicators in Greece over the past two decades. In the decade prior to the onset of the crisis, Greece steadily lost competitiveness relative to its euro area peers, as wage growth outpaced underlying productivity developments and inflation rates were above the euro are average, in part driven by market rigidities and a lack of competition. Under the first two financial assistance programmes, Greece largely recovered previous losses in price/cost competitiveness. Much of this was due to reforms in the labour market, including important changes to the framework for collective bargaining, as well as the system for setting minimum wages. It is striking that the pace of adjustment in terms of wage competitiveness was

considerably faster and larger compared to price competitiveness. Delays and poor implementation in product market reforms lie behind this; and arguably the burden of the adjustment burden has fallen disproportionately on wages/labour and not enough on prices.

188. **The emphasis of the reform efforts under the current ESM stability support programme is, therefore, focused on enhancing non-price competitiveness,** reflecting the need to increase the share of the tradable sector in the economy and to make Greece a more attractive destination for foreign direct investment.

189. **The structural reform agenda is multifaceted and spread across many policy domains.** It benefits from important technical assistance provided by the European Commission's Structural Reform Support Service (SRSS) and international organisations such as the World Bank and the OECD. The main areas of activity are:

- Labour market reforms and measures to enhance human capital.
- Policies to promote the business environment. This in turn has many components including measures to (i) enhance competition, (ii) reduce administrative burden including eliminating unnecessary restrictions on regulated professions, (iii) policies related to land use including the establishment of a land registry or cadastre, and (iv) policy measures to support investment and the use of structural funds.
- The opening up of network industries, with a particular emphasis on energy markets in the first review.
- The implementation of an agreed privatisation programme and the establishment of a new Privatisation and Investment Fund (HCAP).

1.5.1. LABOUR MARKET

190. **Greece undertook deep and wide-ranging labour market reforms as part of previous financial assistance programmes.** These included reforms in the area of collective bargaining to allow for more decentralised wage-setting, changes to the framework for setting minimum wages and changes to employment protection legislation. These were difficult measures undertaken in the face of a dramatic crisis affecting the economy and the labour market. At the same time, by introducing greater margins of flexibility, such reforms contributed to improving the resilience of the Greek labour market, reducing the extent of job destruction and helping the country regain cost competitiveness.

191. **Building on previous reforms, the aim of the current programme is to improve the balance between flexibility and fairness through more effective social dialogue, safeguarding the results achieved, and taking into account the still fragile economic situation and the high level of unemployment.** The main measure undertaken in this area has been a review of the existing labour market frameworks for collective bargaining, industrial action and collective dismissals. In addition, a set of measures has been designed to tackle structural weaknesses in the labour market, comprising the system of vocational education and training, the delivery of active labour market measures, the fight against undeclared work, and the administrative capacity of the administration with respect to policy formulation, implementation and monitoring.

Box 1.5.1: Review of labour market institutions

Labour market reforms implemented in Greece between 2010 and 2014 were motivated by the need to foster adjustment in the economy, address bottlenecks to job creation and potential growth and favour gains in cost competitiveness. This required ensuring a proper alignment of wages and productivity developments, expanding the margins to adapt pay and other working conditions also at firm level, improving active labour market policies so that they are commensurate with existing challenges, and reducing non-wage labour costs.

The new ESM programme puts emphasis on the need to ensure a right balance between flexibility and fairness, taking into account the very high unemployment and the need to pursue sustainable and inclusive growth and social justice. In this context, a consultation process was launched to review the frameworks for collective bargaining, collective dismissals and industrial action in light of European and international best practices. The focus on these three specific areas stems from the need to complete the process of modernisation of the Greek labour market initiated under the previous programmes, reviewing at the same time the effectiveness of the measures implemented in the past years (some on a temporary basis) in the context of the crisis.

A group of independent experts was established in April 2016 to conduct the review. The members were appointed jointly by the Greek authorities and the institutions, selected and among distinguished professors of labour economics, industrial relations and labour law. The group was chaired by Jan VAN OURS (Tilburg University, the Netherlands) while the other members were: Gerhard BOSCH (Duisburg-Essen University, Germany), Wolfgang DÄUBLER (University of Bremen, Germany), António MONTEIRO FERNANDES (ISCTE Lisbon, Portugal), Juan JIMENO (Central Bank of Spain), Ioannis KOUKIADIS (University of Thessaloniki, Greece), Pedro SILVA MARTINS (Queen Mary University, United Kingdom) and Bruno VENEZIANI (University of Bari, Italy).

The group of experts worked independently, with the support of the Greek authorities and the institutions. The group met on a regular basis to discuss and analyse the Greek labour market institutions in a comparative perspective. It gathered input from a broad range of stakeholders, including Greek social partners and various Greek and international institutions, such as the ILO, and delivered a report with recommendations in September 2016. Below is a summary of the recommendations issued, which were not all unanimous:

Recommendation 1. Current Greek law has an extensive regulation on the procedures for calling on strike. The Expert Group does not see the need for stricter rules on strikes. It is up to the Greek legislator to define the conditions of a legal strike by respecting the constitutional framework.

Recommendation 2. The Expert Group does not see any urgent reason to remove the prohibition on lock-outs. The provisions on industrial conflict in Greece have established a balance of power between employers and unions; its rules are accepted by both sides. The Greek legislator may clarify that the employer is entitled not to pay non-striking workers if they cannot continue to work because a strike is occurring in their enterprise or their establishment.

Recommendation 3. Before implementing a collective dismissal, employers should consult and bargain in good faith with workers´ representatives. According to the economic possibilities of the enterprise, a social plan should be established providing compensations for workers who are confronted with unemployment for an uncertain period. Retraining should be offered to enhance the chances of the affected workers in the labour market. Collective dismissals should be regulated in view of its importance as an operative instrument for adjustment of firms in times of crisis. The current system of ex-ante administrative approval of collective dismissals is being discussed in the framework of the European Court of Justice. After the result of that lawsuit is known, the current system could be abolished or replaced by another ex-ante control system.

(Continued on the next page)

Box (continued)

Recommendation 4. In temporary economic difficulties, short-time work can prevent collective dismissals. Short-time work has to be flexible according to the still existing needs of the enterprise. The employee shall get unemployment benefits from the labour administration or the social security system as a compensation for the hours he could not work. At the end of the crisis, the employer can restart his full activities with the help of an experienced workforce.

Recommendation 5. There should be a statutory minimum wage which takes into account the situation of the Greek economy and the prospects for productivity, prices, competitiveness, employment and unemployment, income and wages. The Expert Group disagrees on the responsibility to decide on the level and the increases of the minimum wage. One part of group recommends that after consultations with independent experts the minimum wage is implemented under a national collective bargaining agreement with automatic erga omnes effects. Another part of the group recommends that the government decides on the minimum wage after consultation of the social partners and independent experts.

Recommendation 6. The Expert Group disagrees on the role of youth minimum wages. One part of the group recommends to replace youth minimum wages by experience-based subminimum wages for a maximum of two years. There would be an evaluation of sub-minimum wages after two years. Another part of the group recommends maintaining youth minimum wages with the present age thresholds.

Recommendation 7. Representative collective agreements can be extended by the state upon the demand of one of the negotiating parties at sectoral or occupational level. Collective agreements are representative if 50% of the employees in the bargaining unit are covered. The decision on the extension of an agreement is taken by the Minister of Labour after having consulted the social partners. The government and social partners establish an administrative system that will allow for reliable monitoring of the share of employees represented in the bargaining unit. One part of the Expert Group proposes to make an extension possible, too, in the case of severe problems in the respective labour market (high turnover, high share of low wage earners, distortion of competition) and in the case of another public interest (e.g. introduction of an apprenticeship system). The other part of the Expert Group is of the opinion that an extension can only be issued if the 50% threshold is met.

Recommendation 8. The Expert Group disagrees on the principle of favourability. One part of the group argues that lower level wage agreements cannot undercut higher level national/sectoral agreements unless social partners agree on opening clauses on specified issues which allow temporary derogations in the case of urgent economic and/or financial needs of the companies. Another part of the Expert Group argues that micro wage flexibility is important. Therefore, the hierarchy of collective bargaining should follow a subsidiarity principle, whereby agreements established at a level closer to the workers and firms directly involved override agreements established at a level further way to the workers and firms potentially involved.

Recommendation 9. The time extension, the after-effect and the duration of collective agreements are decided by the social partners themselves. If they do not take a decision on the first point the time extension will be six months; if the second point is not regulated by collective agreement the after-effect includes all agreed labour standards; if the third point is not regulated by a collective agreement, the latter can be denounced with a notice of three months.

Recommendation 10. If social partners cannot reach an agreement the terms of an agreement may be established through arbitration preferably if both social partners agree on this. Unilateral arbitration should be the last resort as it is an indication of lack of trust. The system of arbitration was renewed recently and should be evaluated by the end of 2018 to assess its role in collective bargaining.

(Continued on the next page)

Box (continued)

Recommendation 11. The social partners should negotiate on the issues of seniority pay, equal treatment of white and blue collar workers, life-long learning, productivity and innovation and the integration of young people, considering the critical comments contained in this report. Since some of these issues are closely linked with strategies of the state to modernize the Greek economy and to improve the vocational training system, the strengthening of a genuine and sincere tripartite social dialogue is necessary. Within this framework a discussion about trade union law problems can be useful. In this field, we see, however, no contradiction with EU law and practices.

Recommendation 12. The Public Employment Service should also consider developing its efforts towards greater activation of the unemployed and promoting more vacancies in firms, including through well-designed hiring subsidies supported by the European Social Fund.

192. **A comprehensive review of the frameworks for collective bargaining, industrial action and collective dismissals was conducted between April and September 2016**. The review was led by a group of eight independent experts, who are renowned international professors of labour law, labour economics and industrial relations. The objective of the review was to allow Greece to develop a stable setting that protects workers' rights and is supportive of social dialogue, job creation and competitiveness. The group of independent experts produced a report with recommendations for further reforms in this area, following an extensive consultation process with social partners and key stakeholders (including international organisation such as the International Labour Organisation).([35]) The recommendations served as a basis for discussion for the changes to be implemented in the areas of collective bargaining, industrial action and collective dismissals.

193. **On collective bargaining, it was agreed in the context of the second review of the ESM programme, to preserve the existing framework until the end of the programme**. Under the current setting, firm-level agreements can derogate from sectoral agreements. In addition, the possibility to extend the applicability of sectoral agreements to the entire sector remains suspended. The decision to maintain a more decentralised system of collective bargaining was driven by the consideration that the Greek economy is still undergoing an important adjustment, with still very high levels of unemployment and continuing needs of Greek firms to restructure. At the same time, the Greek authorities are expected to develop, in consultation with the social partners, a reliable administrative system to monitor and assess the level of representativeness of sectoral agreements, improving transparency and legitimacy of sectoral-level social dialogue.

194. **On collective dismissals, following a judgement of the European Court of Justice in December 2016, the existing procedure was reformed as part of the second review with the abolition of the requirement of an administrative approval.** Previously, for collective redundancies to take place in Greece, the approval of the public authorities was required. In particular, the prefect or the Minister of Labour had the possibility to not authorise the projected redundancies on the basis of "*the conditions in the labour market, the situation of the undertaking and the interest of the national economy.*"([36]) *De facto*, such veto power prevented collective dismissals from taking place. In its judgement of 21 December 2016,([37]) the European Court of Justice ruled such provision to be against Article 49 TFEU (Freedom of establishment) and to be depriving Directive 98/59/EC on collective redundancies of its practical effects, on the grounds that the "*interest of the national economy*" is not an acceptable reason to justify a restriction on

([35]) The report delivered by the group of experts is available at: http://www.ypakp.gr/uploads/docs/9946.pdf
([36]) Art. 5(3) of Law 1387/1983.
([37]) Case C-201/15.

fundamental freedoms, while the remaining two criteria were formulated in very general and imprecise terms, leaving too broad a discretion to the public authority. In line with the Court ruling, the new procedure aims to ensure a sound and genuine process of workers' information and consultation in line with Directive 98/59/EC and with common European practice. It also introduces the possibility for the company to submit a 'social plan' outlining the possible accompanying measures to limit the consequences of the envisaged redundancies. The procedure is more in line with common practices throughout the EU.

195. **On industrial action, a modernisation of the existing framework has been promoted with the close involvement of social partners.** Already in 2014, the Greek social partners had agreed in the context of a tripartite conference promoted by the International Labour Organisation (ILO) on the need to review and modernise specific aspects of the existing legislation regulating industrial relations and trade union activity.

196. **Additional measures agreed in the context of the second review are intended to give effect to such agreement.** In particular, the existing formal prohibition of lock-outs, which was considered unanimously by all social partners as not being problematic for industrial relations, is left unchanged. At the same time, a fast-track procedure is established for the resolution of disputes relating to the non-payment of salaries when an enterprise cannot operate because of a strike, strengthening the existing legal guarantees provided in the civil code. With respect to union activity, the exclusive list of justified reasons for the dismissal of workers under protection as trade union members has been broadened with the addition of two new items: theft or embezzlement against the employer or his representative; and, unjustified absence of more than three days. In addition, a preliminary rationalisation of the system of leave benefits related to union activity has been carried out, with the understanding that these may be further streamlined following more extensive consultation with social partners.

197. **The fight against undeclared work is a key objective of the ESM programme.** In Greece undeclared work is commonly perceived as being widespread, and the system of incentives and controls is not up to the challenge. Addressing undeclared work is essential in order to strengthen the competitiveness of legal companies by fostering a level playing field, protect workers ensuring proper working conditions and improve tax and social security revenues. A technical assistance project was launched with the ILO to support the transition from informal to formal economy. The purpose of the project was to identify the drivers of informality, assess the regulatory framework with a view to supporting formalisation and to equip the labour inspectorate and other related enforcement authorities with modern strategies, methods and tools for ensuring compliance. As concrete deliverables, a comprehensive diagnostic report on the phenomenon of undeclared work was produced, and a roadmap to tackle undeclared work was drafted and jointly endorsed by the Greek authorities and social partners. On the basis of these documents, the Greek authorities prepared a concrete action plan to tackle undeclared work, which is in the process of being implemented. The plan promotes an integrated approach to undeclared work, reinforcing the cooperation among different entities of the public administration, and aims to improve the knowledge about the phenomenon and the capacity to detect it, the system of incentives for promoting a transition to the formal economy, and the capacity of the labour inspectorate.

198. **The authorities have committed to enhance the system of Vocational Education and Training (VET), to increase its quality and to create stronger links with the labour market so as to improve the transition from school to work.** VET is seen as a key tool for human capital development, which in turn is expected to be a key driver for sustainable and inclusive growth. Substantial progress in the area of VET has been registered in the last months, albeit this could be sped up in accordance with the initial planning. A number of actions have been finalised and adopted. These include an overarching strategy for VET, the quality frameworks for VET

curricula and for apprenticeships, the implementation plan for the modernisation and expansion of VET and the establishment of a framework to foster business led VET partnerships involving industry and social partners. The authorities have finalised the terms of reference and the budget for the VET partnerships and are ready to launch pilot tenders for a series of major business community-led partnerships with the relevant stakeholders.

199. **To underline the importance of human capital development, the government will adopt an integrated plan for Human Capital development** with technical assistance by December 2017, addressing economic growth supported by the VET Reform.

200. **In September 2015, a memorandum was agreed between the European Commission (represented by the SRSS) and Greece to improve the capacity of the Ministry of Labour to initiate and implement necessary reforms under its full ownership**. The technical assistance covers four dimensions: i) policy formulation, ii) implementation and monitoring in the areas of welfare reforms, iii) active labour market policies and iv) achieving the front-loading of the Structural Funds. Addressing the weak administrative capacity of the labour administration is indeed crucial to enhancing the implementation of reforms. To this end, the MoU also foresees the continuous enhancement of the Greek public employment service (OAED), which has undergone a deep reorganisation but is still confronted with the daunting task of providing services to a mass of 1.1 million unemployed.

1.5.2. EDUCATION AND RESEARCH

201. **Education has a high societal value in Greece, as *inter alia* reflected in an academically highly qualified teaching staff.** Tertiary attainment is one of the highest in the EU while the rate of early school leavers is among the lowest. At the same time, educational outcomes as shown in international studies such as PISA and PIAAC are comparatively poor**.** In general, the Greek education system lacks autonomy, mechanisms of assessment, evaluation and accountability. It is highly centralised with a strong focus on input control rather than on output monitoring. Monitoring and evaluation for the teaching staff, and the educational process in general, are minimal. Other problems have their origin in the geographic characteristics of the country, with small islands and villages scattered in mountainous areas, leading to a large number of small inefficient education units. Traditionally low funding levels for education have been further reduced due to the economic crisis while new challenges, such as the integration of refugees into the education system, have arisen. Over the past years, successive governments have sought to address a number of these issues through reforms. However, where reforms have been introduced, they have failed to make a real impact. New laws were often enacted but not implemented. Another weakness of past and current reform efforts is their fragmented nature and focus on particular levels of the system or on specific procedures.

202. **The MoU therefore puts a focus on a more systemic approach through a Three-Year-Education Plan as well as a review of the Greek education system by the OECD, which should feed into the planned and future reforms.** Detailed actions in the MoU aim at rationalising the school and higher education sector further and at improving their quality including through measures for evaluation and accountability. Efforts to reform general education and vocational training have picked-up again since the beginning of 2017. However their forward-looking approach is mixed. While some of the provisions are improvements compared to the status quo, others reverse earlier reform measures which aimed to achieve more accountability and transparency. Several previous reforms have been rolled back without a proper assessment of their outcome or impact or without allowing enough time to let them bear fruit. Further efforts are needed to bring the Greek education system in line with the best EU and OECD practices and to feed the planned national growth strategy.

203. **The Greek education and training sector has been strongly affected by low and constantly decreasing public spending and is facing significant structural challenges**. General government expenditure on education as a proportion of GDP is among the lowest in the EU (4.3% in 2015 compared to an EU average of 4.9%). In absolute terms the education budget has dropped by 20% since 2008. Given the tight budget constraints, efforts should focus on improving the efficiency of the system.

204. **The MoU of August 2015 foresaw a review of the OECD's 2011 assessment of the Greek educational system, covering all levels of education and the links between education, research and development and businesses, feeding also the country's overall growth strategy.** The conditions have changed significantly since 2011. First, the salary level of teachers in purchasing power parity terms in Greece is lower than the EU average across all levels of education. Along with significant wage reductions in the public sector, teachers' salaries fell by 30% between 2005 and 2014 Nevertheless, the teaching profession remains fairly attractive from a financial point of view, especially given the high overall unemployment rate. Second, Greece is on the brink of a generational turnover in the teaching profession, with the average age of teachers increasing both in primary and secondary education and the number of pupils falling. Indeed, less than 6% of teachers are under 30 years. In secondary schools, 42% of the teachers are more than 50 years old.

205. **Given the change in conditions since 2011, it was agreed to make a full new assessment and adapt the Three-Year Plan according to the results and policy recommendations of the OECD country review.** The focus of the new review lies on the effectiveness and implementation of the current legislation, the scope for further rationalisation (of classes, schools and universities), the functioning and the governance of higher education institutions, the efficiency and autonomy of public educational units and the evaluation and transparency at all levels of education. The assessment will evaluate the adequacy of resources devoted to education in Greece within the constraints of the medium-term fiscal strategy fiscal targets. The first review phase has been completed and the report been published on the OECD website. The second phase of the country review was launched in May 2017. Draft preliminary findings are expected in the second half of 2017 and the final report will be submitted in spring 2018.

206. **The impact of demographic changes on primary education has to be addressed.** First, the trend of increasing average age of teachers needs to be corrected with planned new appointments of teachers. The authorities were expected to prepare a report on the resource needs of the primary and secondary education sectors with the help of OECD by July 2017, but this report has been delayed. As regards the number of pupils, decreasing birth rates and emigration have led to a fall in recent years, which is already felt in nursery schools and is starting to be reflected at primary school level. Over the next six years, the number of children aged 5 and starting compulsory education is expected to fall by almost 25%. The Three-Year-Action Plan on education reflects these changes partially and tries to address them with possible school mergers. At the same time, planned further reductions in pupils per class run counter to efficiency gains, as Greece already has one of the lowest student/teacher ratios in the OECD. A credible plan for the renewal of retiring teaching staff and attracting the best candidates for the teaching profession should be put in place.

207. **Greece's primary and secondary education systems were significantly rationalised between 2011 and 2014.** However, law 4327/2015 adopted in May 2015 and other legislative provisions have rolled back a number of reforms, particularly regarding the autonomy of educational units (such as schools, University Departments, VET units) and the need for internal and external evaluation of schools and teachers. Greece previously had one of the lowest numbers of teaching

hours of all OECD countries, and one of the lowest numbers of pupils per class. Indeed, the classes in Greece remain comparatively small, especially in primary schools ([38]). In addition, numerous organisational rigidities impeded a rational allocation of staff. Thanks to the measures adopted in recent years, the increase in the number of students per classroom and in teaching hours has brought Greece closer to the OECD average by end-2014. However, the announcement of plans to reduce class sizes again partly reverses these developments. Other rationalisation measures were also introduced, such as a consolidation of the school network, a new electronic database of schools and legal changes to allow the possibility of more staff mobility. Since 2015, however, the reform process has changed course. The procedures for evaluation of schools and teachers have been frozen (self-evaluation for schools and external evaluation of teachers) in both private and public schools. The procedure for selecting school directors was changed again after the Supreme Court ruled unconstitutional that school directors are elected by the school teachers of the same school by secret ballot. The new law still does not guarantee meritocracy and de-politicisation as most of the members of the selection committee are trade union delegates or are appointed by the Minister. The selection of higher-ranked administrators (regional directors, directors of education) has changed in ways that may not contribute to the professionalisation of the education system administration. The restructuring of the school network has stopped and no further steps were taken to rationalise the system. The study programme of all-day schools as designed in 2011 has been shrunk. The experimental and model schools were significantly weakened as out of 60 experimental schools, only five have been kept. On the positive side, the private Education Act which was passed in May 2017 after extensive consultation with the institutions allows for adequate flexibility of private schools to define and implement their own programme.

208. **Greece also undertook a comprehensive reform of the governance and organisation of its higher education system between 2011 and 2014, but the modernising effort has since slowed down.** The 'Athina' project, which started in 2012, had as its main objective to rationalise scientific fields and to strengthen leading departments and institutions to make them more innovative and to create centres of excellence. In addition, the project aimed to better connect the academic sector with the development needs of the respective regions. The "Athina" project did not have a significant impact and did not produce the expected financial rationalisation. The two universities which were abolished were in fact merged with other institutions. Recent education laws adopted since the start of the ESM programme have reversed many of the reforms adopted under earlier programmes. In particular, the so-called 'eternal students' were reintegrated. These are about 170,000 students who appear to be registered in Higher Education Institutes (HEIs) while a considerably lower number have shown continued interest to pursue their studies. A legislative act introduced in October 2015 changed the way Rectors and Deans are elected, significantly reducing the role of the University Councils and restricting the eligibility criteria of Rectors and Deans. A new law on higher education adopted in July 2017 even reinforces these developments. University Councils have been abolished altogether, therefore eliminating any external element of checks and balances in the governance of universities. In addition, the law rolls back Greek higher education structures' conformity with adopted Bologna objectives by insisting on integrated masters. The HEIs should make their own Statutes and Regulations, and each HEI should establish a legal entity of private law to manage its property and its research funds, but no progress has been made so far. Discussions on these matters will continue as part of the 3rd review of the ESM programme.

([38]) The average primary class size in Greece in 2013 was 17 students compared to an OECD average of 21 students. The average class size tends to increase between primary and lower secondary education with the average lower secondary class being at 22 students compared to an OECD average of 24 (OECD, 2015).

209. **Closer linkages between R&D and businesses are needed to boost the productivity and competitiveness of the economy.** The authorities have recently adopted a framework law for research and development. The priority is to better translate scientific research strengths into marketable goods and services. Efforts are also needed to foster technology transfer and address bureaucratic obstacles. The final goal is to fully implement the revised legal framework for R&D and a comprehensive national research and innovation strategy for smart specialisation (RIS3). To this end, a comprehensive national research and innovation strategy for smart specialisation has been completed and a national digital growth strategy was published in December 2016.

1.5.3. COMPETITION AND PRODUCT MARKETS

210. **Substantial progress has been made in key areas, including business environment, competition and retail trade. Nevertheless, the authorities should continue their efforts given that there is still scope for further reforms.** According to the OECD, Greece has somewhat lowered its general level of product market regulation in recent years; however the level of regulation remains among the highest compared to other OECD countries (see Box 1.5.2). More open markets are essential to create economic opportunities and improve social fairness, by curtailing rent-seeking and monopolistic behaviour. Efforts to improve the functioning of product markets and the ease of doing business need to continue. This will require strong ownership and steadfast implementation of reforms by the government.

Box 1.5.2: Improving the business environment in Greece

The way out of the crisis for Greece depends critically on making product markets friendlier for investment and exports. As described by Richter *et al.* (2016),[1] during the economic crisis, companies, lacking financing and customers, downsized or went out of business. This severely curtailed investment and exports in Greece. However, even before the crisis, business investment, both domestic and foreign, and exports were low in Greece. Weak product markets and feeble innovation have held back Greek GDP and productivity growth since the early 1980s. Greece's predominately small and inward-looking enterprises were not just poorly equipped to reap the benefits of the European single market and globalisation, but also, in the absence of established export channels, fully exposed to the collapse in domestic demand during the crisis. Businesses struggled, especially as competitiveness deteriorated in the run-up to the crisis. This contributed to the loss of 30 positions between 2003 and 2007 in the World Economic Forum global competitiveness ranking.

The poor record on investment and exports relates to a host of long-term constraints confronting Greek businesses: fragmented and complicated regulations; unpredictable, time-consuming and costly procedures; restrictions to entry and on fees or prices; lack of clear property rights; and a complicated spatial planning system. Such weaknesses explain a significant part of Greece's export gap compared to similar countries in terms of GDP and geographical position. Böwer *et al*. (2014)[2] estimate that Greece exports about one-third less than what regular international trade patterns suggest. For example, exports of goods and services as percent of GDP were only 33 percent in 2014, compared to 43 percent for the EU.

The economic adjustment programmes in Greece included from the outset a strong focus on product market and other structural reforms. This included, among others, removing barriers to competition, reducing the administrative burden on businesses, opening regulated professions and improving land management. Over time, the structural reform pillar of the programmes became more detailed to address delays in implementation in the face of strong vested interests, low social capital and weak administrative capacity.

Some reforms are yielding results and the position of Greece in international rankings has improved significantly. For example, investment and environmental licensing procedures have been streamlined, barriers to competition in the retail sector have been removed, access to and exercise of various professions has become easier, and customs procedures have been rationalised.

However, the accomplishments are matched by the remaining challenges taking into account that progress stalled in 2015. In international comparisons of business environment rankings, Greece remains behind EU averages. Many reforms are only partially implemented or with delays. This includes, among others, the reform of investment licensing, the removal of barriers to competition *inter alia* in the construction sector, the opening of the engineering profession, the completion of the cadastral and forestry mapping, and the setting-up of a national single windows for exports.

Progress is also needed across these domains to eliminate bottlenecks. For example, investment is held back not just by complicated licensing procedures but also by a fragmented spatial planning system. Exports rely not only on efficient customs procedures but also on a friendly business environment for traders to expand production. And in view of the predominance of micro enterprises in Greece, a fast track approach for large companies is not enough. Restrictions must also be lifted for small businesses. Furthermore, other factors are critical for a sustainable economic recovery. This includes a stable financial sector, a stable, broad-based and equitable tax system, an efficient judicial system, a well-run public administration and an adequately regulated energy sector.

[1] Richter, K., Giudice, G. and A. Cozzi (2016): Product Market Reforms in Greece - Unblocking Investments and Exports. Vierteljahrshefte zur Wirtschaftsforschung: The Greek Crisis: A Greek Tragedy?, pp. 107-127, Vol. 84, 03.2015, Duncker & Humblot Berlin.

[2] Böwer, U., V. Michou, and C. Ungerer (2014): The Puzzle of the Missing Greek Exports. European Economy – Economic Papers 518. European Commission, Brussels.

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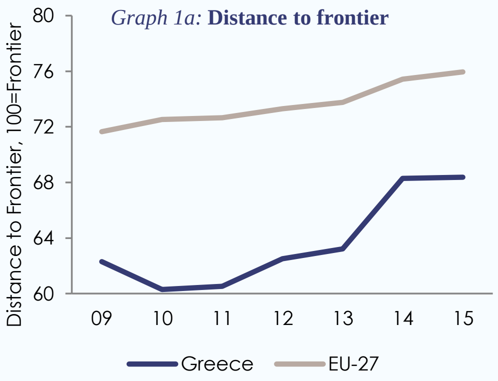
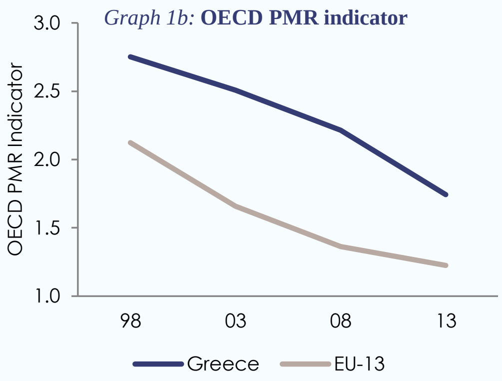
Box (continued)





(1) Graph 1a: years refer to year of publication of Doing Business report. For 2009 and 2010, Malta is missing. Higher is better.
(2) Graph 1b: EU-13 refers to countries with available data in 1998. The Product Market Regulation (PMR) indicator of OECD measures a country's regulatory stance and track reform progress over time. The index scales from 0 to 6, i.e. from least to most restrictive regulatory stance.

Source: World Bank Doing Business, OECD

As the remaining challenges are wide-ranging, the approach has to be comprehensive. This also helps to limit concessions to vested interest groups. Five ingredients are critical – though not necessarily present - for these reforms to succeed. Persistence in the reform effort tailored to country circumstances is needed to see through the required changes. Central coordination of the reform agenda is crucial as most reforms require multiple ministries or agencies to act. Implementation support is essential. Legislative changes need to translate into the administrative and operational changes on the ground that will help investors and exporters, whether small or large, to prosper. Finally, monitoring and evaluation is important to continuously improve the design and implementation of such reforms.

1.5.3.1. Business environment

211. **Product market reforms have advanced in key areas in support of the business environment: since the launch of the ESM programme in August 2015, several barriers to competition have been removed.** Following the progress made in the context of the EFSF programme, the authorities adopted an additional package of reforms as part of the ESM stability support programme on the basis of the advice given by the OECD and the Hellenic Competition Commission (HCC) to remove restrictions to competition. In particular, the authorities adopted legislation to address a number of pending recommendations of *OECD Competition Toolkit I* in August 2015. Additional recommendations were addressed in the areas of the liberalisation of sales channels for over-the-counter (OTC) pharmaceutical products, on pharmacy ownership, on foodstuff and on Sunday trading in the first and second review (see Box 1.5.3). There was also progress towards addressing the recommendations on building materials. Moreover, the liberalisation of tourist rentals that was adopted in August 2015 became effective on 1 November 2015 by removing the 30-day restriction on tourist rentals. The vast majority (83 of 88) of the *OECD's Competition Toolkit II* recommendations aiming at removing barriers to competition in the manufacturing of beverages and refined petroleum products were addressed in the context of the first review. Currently there are four pending recommendations on beverages (see Box 1.5.3).

212. **A new round of an *OECD competition assessment (Toolkit III)* in six sectors of the economy** (wholesale trade, construction, e-commerce, media, pharmaceuticals and chemicals) **was initiated in early 2016 on the basis of an agreement with the OECD.** The final report was delivered in early November 2016. A considerable 270 of the identified restrictions to

competition have already been removed and an ambitious timetable set for the remaining project (see Box 1.5.3).

1.5.3.1.1. Ex post assessments to assess the implementation of business environment reforms

213. **The implementation of the recommendations of the first round of impact assessments of selected reforms has started.** In October 2015, two studies were launched to assess the impact and the degree of implementation of selected reforms of Toolkit I and on licensing of business parks.([39]) On the basis of the findings and recommendations of the assessments, the authorities have already adopted measures to address a number of recommendations in relation to sales and promotion. The remaining recommendations on bakeries licensing are expected to be implemented in December 2017. As for the 58 recommendations on business parks from the impact assessment study commissioned by the Greek authorities, discussions are still ongoing to determine which ones can be implemented and only a small number of them are expected to be implemented by December 2017.

214. **A second round of ex-post impact assessment has also been initiated.** In consultation with the institutions, the second round of ex-post assessment will study the implementation of the OECD Toolkit I reform on book prices and of the reforms in the sector of tourism (stemming from OECD Toolkit I and the OECD administrative burden report). The Terms of Reference of the two studies on the implementation of reforms were agreed in early 2017. The procurement process for both studies was launched in the 2017-Q2 and the studies are expected to be delivered in 2017-Q4.

1.5.3.2. Investment licensing

215. **A comprehensive reform of licensing procedures towards establishing a simplified framework was launched in late 2015 and has already started to bear fruit.** With the help of technical assistance from the World Bank, the authorities are working on the simplification and streamlining of investment licensing procedures. The objective is to move from a system of ex-ante permits issued by public administration to a risk-based system for the determination of the appropriate regulatory instrument ranging from a simple notification to prior approvals. An inter-ministerial committee organises, follows-up, coordinates and promotes the necessary actions towards the simplification of the investment licensing procedures. A roadmap with three reform rounds was prepared in close cooperation with the World Bank and was adopted in October 2015. With some delays, the authorities adopted in late 2016 a new framework law (Law 4442/2016) on licensing. In March and May 2017, the authorities adopted the required secondary legislation for licensing simplification of the first three key sectors: a) food and beverage manufacturing; b) shops of health safety interest (e.g. cafés, restaurants etc.) and c) tourism. Moreover the overlapping competences on the licensing of enterprises in the food sector of animal origin were clarified by the adoption of primary and secondary legislation in May 2017. Finally, an electronic notification system for the abovementioned three sectors became operational in early June 2017.([40])

216. **The implementation of the licensing reform roadmap continues.** According to the revised roadmap of 2017, the authorities have committed to adopt primary and secondary legislation on the simplification of licensing in the quarry sector, in logistics and in the installation certificate. In

([39]) The Greek authorities selected the Centre of Planning and Economic Research (KEPE) for the study on the impact of selected reforms in food processing (bakeries), building materials (distribution of cement) and retail trade (sale of dietary supplements and baby milk, discounts and sales) and the Business Environment Observatory of the Hellenic Federation of Enterprises (SEV) for the ex-post impact assessment on the licensing on business parks.

([40]) The electronic notification system is available at: www.notifybusiness.gov.gr addition, primary and secondary legislation in the remaining mining sectors will be adopted. The implementation of the investment licensing roadmap will continue with the third round. As the new licensing reform moves away from the ex-ante licensing, the ex-post control becomes a focal point of the new system. To this end, the authorities will adopt a framework law on controls and inspections. Towards its effective implementation, an action plan for the promotion of effective and coordinated ex-post controls and inspections for businesses also needs to be adopted by the authorities.

1.5.3.3. Administrative burden

217. **Efforts to reduce red tape have started to gain momentum**. Following the advice of the OECD, the government reduced the administrative burden for business, including a simplification of financial statements and audits for small companies, in August 2015. The adoption of the pending recommendations on environmental licensing and on fuel traders' licensing proved to be more complex and technically arduous than initially anticipated. The adoption of the primary legislation on the simplification of the licensing procedure for fuel traders took place in late 2016. On environmental licensing, the ex-ante review of the draft Presidential Decree by the Council of State revealed the need for the adoption of a Joint Ministerial Decision prior to the adoption of the Decree. The adoption of the Decree is the first step towards allowing the creation of an external environment assessors' registry, which will facilitate and expedite environmental licensing. The authorities intend to promote also electronic one-stop shops for business. To this end, primary legislation on One-Stop-Shops (OSS) for businesses that allows *inter alia* the electronic incorporation of companies was adopted in late 2016. A roadmap for its implementation was agreed with the institutions; however there are delays in its implementation, partly due to IT-related issues in the operation of the electronic OSS.

Box 1.5.3: Implementation of competition assessments in the Greek stability support programmes (OECD Toolkits I, II and III)

Competition 'toolkit' assessments have been used in successive programmes to help improve the functioning of the economy by identifying and lifting regulations that restrict competition in *inter alia* product markets. These have been carried out by the OECD working together with the Greek authorities (e.g. Hellenic Competition Commission) and the institutions. The OECD's Competition Assessment methodology is designed to identify whether laws and regulations can restrict competition and to help develop alternative policies which are less restrictive, while achieving the same policy objectives. The Toolkit is organised around a list of questions (Competition Checklist) that assist in the initial mapping of all relevant legislation (laws and regulations) that potentially restrict competition. Then, the in-depth analysis assesses whether the identified laws and regulations indeed restrict competition; the analysis of the selected regulations can be qualitative and/or quantitative. When a regulation is found to be harmful to competition, recommendations for the redesign (i.e. alternative policy option) or even abolishment of the regulation are developed. During these projects, interviews were conducted with industry stakeholders to better understand the market and the legislation in place.

Toolkit I: A first project on competition assessment was initiated in 2013.[1] Toolkit I covered four sectors of the Greek economy, namely food processing, retail trade, building materials and tourism; these sectors represented approx. 21% of GDP in 2011. The report made 329 specific recommendations and the majority of them (around 300) were implemented as part of the 2nd programme, while the remaining recommendations became part of the current ESM programme conditionality. Specifically, for ten recommendations mainly in the areas of food processing (bakeries and milk), retail (sales and promotions) and tourism (tourist buses) legislation was adopted as a prior action for the launch of the ESM programme in August 2015. A number of additional recommendations (approximately seven) were addressed in the context of the 1st review of the ESM programme covering the areas of pharmacy ownership, of the sale of the OTC pharmaceutical products by retail outlets (other than pharmacies) and of food processing (yoghurt).

The key reforms that were included in the ESM programme conditionality are:

Sunday Trading: In January 2017, the Council of State issued a ruling[2] on the 2014 Sunday trading pilot phase. Taking into account the concerns raised in the above-mentioned ruling, the authorities adopted legislation in May 2017 that alleviated the restrictions on shops' size and type (e.g. shops-in-shop or maximum surface) in the areas where Sunday trade is allowed by a decision of the local authority. The same primary legislation set five touristic areas (e.g. municipality of Athens, Port of Piraeus, historic centre of Salonica) in which Sunday trading is allowed for the period May to October, with the exception of one Sunday in mid-August. Secondary legislation setting the exact limits of these areas was issued in July 2017[3].

Pharmacy ownership: the ownership of pharmacies was opened to non-pharmacists. Following the adoption of primary legislation on pharmacy ownership in August 2015, as a prior action, a Joint Ministerial Decision that defined the criteria for an establishment licence of a pharmacy was adopted in October 2015.[4] The new legal framework is compliant with the spirit of the OECD's 2013 recommendation on pharmacy ownership, as assessed also by the same international organisation. A recent Council of State decision annulled the JMD mainly due to formal reasons (e.g. the form of the secondary legislation) rather than in substance; its implications will have to be addressed going forward.[5]

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[1] OECD (2014), OECD Competition Assessment Reviews: Greece, OECD Publishing, Paris. Available at: http://www.oecd.org/daf/competition/Greece-Competition-Assessment-2013.pdf

[2] An appeal on the pilot implementation of Sunday trading in selected tourist areas was submitted to the Council of State in summer 2014. An injunction that froze the implementation of the pilot phase was upheld then. The ruling of the Council of State was issued on 13/01/2017 (Decision 100/2017).

[3] Government Gazette B' 2332/2017, Decision No.: 75812 - 06/07/2017.

[4] Government Gazette B' 2330/2015, Decision: Γ5(β)/Γ.Π.οικ.82829. The JMD was further amended in order to address some operational/implementation issues in May 2016 — Government Gazette B' 1445/2016, Decision: Γ5(β)/Γ.Π.οικ.36277.

[5] Council of State decision no. 1804/2017 published on 6 July 2017.

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Box (continued)

OTC pharmaceutical products: The liberalisation of retail sale channels for over-the-counter (OTC) pharmaceutical products was a key pending recommendation. To this end, the authorities adopted, as a prior action for the completion of the first review in May 2016, the primary legislation for the creation of a General Sale List (GE.DI.FA) within the OTC list. The required secondary legislation (Ministerial Decision) for GE.DI.FA was adopted in July 2016. However, as there were a limited number of applications for the inclusion of OTC products in the GE.DI.FA list, the authorities committed to issue a circular to expedite the licensing of GEDIFA products.

Building materials: In November 2016, a 12-month contract for a) the harmonization and the standardisation of 70 technical specifications and b) the review of another 375 ones was concluded between the authorities and the Standardization Body (ELOT). This will allow the harmonization and the standardization of building materials, in accordance with the Toolkit I recommendations. Moreover, the authorities submitted to the Council of State the draft Presidential Degree on fire protection

Toolkit II: A second toolkit assessment was launched with the OECD in September 2014.[1] The second competition assessment dealt with the laws and regulations in four sub-sectors of the manufacturing industry in Greece. The sectors were: a) beverages, b) textiles, clothing apparel and leather, c) machinery and equipment and d) coke and refined petroleum products. The project was performed with the assistance of the OECD and the Hellenic Competition Commission. The assessment revealed that the manufacturing sub-sectors of textiles, clothing apparel and leather and of machinery and equipment are not heavily regulated and therefore there are no specific problems that restrict competition. However, there were regulatory restrictions predominantly in the beverages' manufacturing sector, where 82 recommendations were made and – to a lesser extent – in the coke and refined petroleum products sector, where 6 recommendations were provided[2]. The combined gross value added of these two sectors amounts to more than 10% of the manufacturing one.

Beverages. The sector includes the manufacturing of both alcoholic and non-alcoholic beverages (e.g. wine, beer, soft drinks, bottled water). The gross value added of the sector (as percent to the overall manufacturing sector) is considerably higher than the EU average. The key restrictions to competition that were identified relate to:

a) Prohibitions on co-location of various beverages production facilities. Legislation was prohibiting the co-location of wineries with vinegar factories or wineries with spirit production factories. Such restrictions increase the investment expenses as companies need to investment in separate premises, increase operating costs as companies cannot utilising similar raw materials and/or resources and limit business choices.
b) Minimum space requirement and other manufacturing restrictions (e.g. limits on wine production) that was raising production costs and potentially leading to higher prices.
c) Legal framework for the small distillate (*tsipouro*) producers. The existence of a notable differential tax treatment in conjunction with the trade of unbottled tsipouro by small distillate producer[3] is a distortion of competition against distillate producers. This can undermine incentives of distillate producers to invest and grow.

From August 2015 to May 2016, 77 out of 82 recommendations on beverages were addressed.[4] For an additional one, legislation was adopted in December 2016. Currently, four recommendations are pending of which two relate to an ongoing Court of Justice of the EU case on *tsipouro* producers. The remaining two recommendations refer to the introduction of a gradual tax step function that, while providing incentives to

[1] OECD (2014) Competition assessment of laws and regulations in four sub-sectors of the manufacturing industry in Greece, OECD publishing, Paris. Available at: http://www.oecd.org/daf/competition/OECD-Competition-Assessment-Review-Greece-2014.pdf

[2] The Toolkit II report included also 3 additional recommendations (in total 9), as at the time of its submission (December 2014), the establishment of the Central Stockholding Entity (CSE) was scheduled for early 2015; the CSE has not yet been established.

[3] For example, vine growers and fruit producers are allowed to distil the raw materials of their own production using simple copper pot stills.

[4] In August 2015, 11 recommendations were adopted. As part of the first set of milestone in October 2015, 40 recommendations were addressed and for the second set of milestone in December 2015 another 12 recommendations. The remaining 14 recommendation were addressed during the first months of 2016.

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Box (continued)

small producers to enter the market, progressively reduces the barrier to grow. Overall, the authorities have committed to fulfil the pending recommendations on beverages, taking into account the process in the Court of Justice of the EU.

Coke and refined petroleum products. The sector includes the refining activities of coke and crude oil for the production of goods such as fuels and lubricants. It is an important manufacturing sector as its gross value added is more than 7% of total manufacturing value added. The regulations that were addressed related to restrictions on stock and on specifications of petroleum products. All the recommendations were addressed in December 2015 or during the first months of 2016.

Toolkit III: A third project on competition assessment was initiated in early 2016.[1] The Toolkit III aims at the alleviation of unjustified and disproportionate restrictions in the sectors of e-commerce, media, construction, pharmaceuticals, chemicals and wholesale trade in general, which represent a significant proportion of the Greek GDP and labour force.

Table 1:
Proportion of GDP and Employment in Greece by TKIII sector

	Construction	Media	Chemicals	Pharma	Wholesale	Total
% of GDP	3	1.1	1.2	4	5.6	**>14.9**
% of Employment	5.6	1.5	1.4	N/A	8	**>16.5**

Source: OECD

The initial scanning of the legal frameworks was completed in mid-June 2016 and the full report released in November 2016. The analysis covered more than 1200 pieces of sector-relevant legislation. Within these, 572 potential barriers to competition were identified. After in-depth review and discussions, the final list contains around 370 recommendations. Up to the conclusion of the 2nd Review of the ESM Programme, the authorities have made proposals for the adoption of 328 recommendations, out of which 270 have already been fulfilled and are therefore considered as done.

Table 2:
Recommendations per sector and progress towards fulfilment

	E-commerce	Construction	Media	Chemicals	Pharma	Wholesale	Total
Total	10	44	66	47	53	148	**368**
Proposal made	10	42	42	38	52	144	**328**
prpopsal as % of total	100%	95%	64%	81%	98%	97%	**89%**
Fulfilled	4	27	25	29	49	134	**268**
fulfilled as % of total	40%	61%	38%	62%	92%	91%	**73%**

Source: European Commission

The main recommendations fulfilled are:

Construction. A number of recommendations relating to public procurement were implemented through modification of the public procurement framework (now Law 4412/2016) before its adoption. Moreover, primary legislation on registries for public works engineers was adopted as part of the 2nd Review, which, amongst many other important changes, de-linked participation in tenders and classification. A follow-up Presidential Decree making the new framework on public works engineers operational has been submitted to the Council of State in July 2017.

[1] OECD (2017), OECD Competition Assessment Reviews: Greece 2017, OECD Publishing, Paris. Available at: http://www.oecd.org/daf/competition/OECD-Competition-Assessment-Review-Greece-Preliminary-version-2016.pdf

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Box (continued)

Media. A number of obsolete, outdated and/or conflicting provisions were repealed in order to increase legal certainty.

Chemicals. The framework regulating the responsible scientist was made more flexible, whereas legal uncertainty was removed. The legal framework on biocides was clarified and the one on detergents simplified, including the abolition of the prohibition to trade detergents in bulk at the wholesale level. The distorting excise duty on isopropyl alcohol was abolished.

Pharma. The maximum price reduction rule for generics was revised. The legal framework for the advertisement of OTC medicines was updated and aligned with recent legislation. The frameworks on parallel imports and pharmaceutical warehouses were updated and streamlined.

Wholesale. Strict licensing requirements in the wholesale trade of fuel were alleviated, e.g. for minimum capital and storage. Restrictions on the freight transport by road were removed. The exclusivity of central markets was abolished, allowing for the establishment of new public and private central markets. The profession of stevedores was deregulated and made more accessible.

Important outstanding reforms relate to:

E-commerce. The main recommendations of the OECD regarding this sector require an update and modernisation of the consumer protection framework, which in Greece is very fragmented, for example with relation to the definition of consumer and supplier, as well as legal and commercial guarantees. This is a particular obstacle for e-commerce, as this sector specifically depends upon the possibility to apply standardised processes. The increased legal certainty will benefit the entire economy, surpassing the e-commerce sector.

Construction. Electronic archiving of consolidated data in a single integrated e-system to improve transparency, tendering procedures, supervision and planning.

Media. Issue radio frequency maps, clarify the legal framework and launch the relevant tenders; review and streamline ownership and cross-ownership rules.

Chemicals. Update the framework on plant protection products; replace legislation on the levy for cosmetics companies with a more proportionate scheme.

Pharma. Update the legal framework on food supplements.

Wholesale. Modernise the framework on commercial exhibitions, as well as the wholesale of seeds and propagation material.

On many of the above mentioned topics, discussions are ongoing and further results are expected soon.

As the adoption of the recommendations of Toolkit II and III took place recently and in particular for Toolkit III is still ongoing, it is too early to assess their full impact. However, it is expected that they will have positive effects on the economy through the expansion of business activity in the sectors, new entry, innovation and lower prices for consumers. The effects of key reforms of Toolkit I are being evaluated with the use of ex-post assessment, as provided for in the MoU.

1.5.3.4. Modernisation of company law

218. **The supplemental MoU signed in June 2016 provides for the modernisation of company law.** This reform will undoubtedly be beneficial for businesses, facilitating the perusal and understanding of the law by legal practitioners and laymen alike and will facilitate investment. The limited company or *société anonyme*, is governed by law 2190/1920. This law has undergone numerous amendments since its adoption in 1920, notably, more recently, to transpose EU directives; however it remains outdated. For instance, it subjects all companies (the majority of which are closely held, family-owned corporations) to state supervision, an unnecessary and outdated requirement otherwise abandoned by modern company laws in Europe. Furthermore, the law has not taken into account recent developments in financial markets, such as allowing

companies to issue certain types of securities, such as warrants, which are instrumental for investments in start-ups, or mandatory convertible bonds. Also, the law lacks in effectiveness with respect to the protection of minority shareholders. In general, its structure lacks systemic coherence, mainly reflecting the layering of successive amendments. It therefore stands in need of an extensive reworking, to rationalise and simplify its layout.

219. **The authorities undertook the commitment to prepare a review of the law by December 2016 so that its revision could be completed by June 2017**. In the course of the second review, it was agreed to move these terms to April 2017 and September 2017 respectively and to enlarge the scope of this action so as to include other corporate types as well and to comprise the preparation of a uniform law on mergers and acquisitions. In May 2017, the authorities submitted a timetable foreseeing completion of the action by September 2017 save for the above-mentioned unified law on mergers and acquisitions, which would be enacted by December 2017.

1.5.3.5. Regulated professions

220. **The liberalisation of key professions is proceeding.** Measures such as broadening the geographical area in which court bailiffs can be active as well as lowering notary and bailiff fees have been already introduced at the inception of the ESM programme. In the context of the second review and on the basis of the recommendations of the external advisor and the OECD, unjustified and disproportionate restrictions were alleviated in key regulated professions such as stevedores, health providers, private employment agencies and lawyers. In particular, for stevedores, rules for obligatory registration were reviewed and streamlined and registration in the introductory registry for land stevedores was rendered voluntary. In addition, primary legislation was adopted as a first step towards alleviating barriers in the registry system for public works engineers in May 2017, followed up by a Presidential Decree submitted to the Council of State in July 2017. Key changes foreseen and already laid down in the law are the disconnection of classification and tender participation, contemporaneous registration of companies and individuals to various registries (while safeguarding against conflicts of interest), and abolishing regional registries and obligations of certain legal forms of companies. Following the adoption of primary law in late 2016 and the submission of the Working Groups' report in May 2017, a Committee has prepared a draft Presidential Decree on the activities of engineers. The Presidential Decree, which aims at opening up the engineer activities to more specialities, was submitted to the Council of State in July 2017.

221. **The process for the liberalisation of key professions needs to be further stepped up.** At a more overarching level, an inter-ministerial committee for regulated professions was re-instated in December 2015. The role of the committee is to prepare recommendations for the removal of unjustified and disproportionate restrictions in the exercise of regulated professions and/or activities. As a first step, the committee recorded the legal framework of more than 300 professions and activities in summer 2016. The adoption of follow-up measures to alleviate unjustified restrictions in regulated professions needs to gain momentum and be actively pursued by the authorities. In addition to addressing the pending recommendations of the external advisor, the authorities need to build upon the recommendations of *inter alia* the Hellenic Competition Commission and the inter-ministerial committee in opening up regulated professions.

1.5.3.6. Export promotion

222. **The implementation of the export promotion action plan has started**. The priorities of the action plan are focused on three kay areas: (a) diffusion of market information and export knowledge for exporters; (b) strengthening economic diplomacy and (c) developing administrative structures towards the creation of synergies in export promotion.. A draft of the export promotion plan, following consultation with public and private stakeholders in December

2015, was adopted in spring 2016 by the inter-ministerial committee on trade openness (so called *Coordination Committee of Extroversion*).; The committee was formed in March 2016 by a Prime Minister's Decision ([41]). It will *inter alia* monitor the implementation of the export promotion action plan and coordinate the actions of all competent agencies. The action plan, spanning over the coming two years, provides *inter alia* for the creation of an information system for exporters, the upgrade of an exporters' help-desk and the development of a system for targeted export promotional activities. Despite the slow start in the implementation of the action plan, partly related to the provision of the technical assistance, the project has recently started to gain momentum.([42])

1.5.4. LAND USE, CADASTRE AND AGRICULTURE

1.5.4.1. Land use and cadastre

223. **The authorities have taken significant steps towards modernising land registration and progress with the completion of the Cadastre project.** The project of developing a Cadastre in Greece was initiated back in 1994. The new Cadastral System aims to replace the existing system of Registrations and Mortgages, which maintains in paper-form a register of all the deeds on real properties. The completion of the cadastre will give legal certainty to property owners, will facilitate collection of property taxes and will be key to attracting major investments in areas such as tourism and industry. The plan is to complete the cadastre for the entire country by end 2020.

224. **The authorities have pursued further reforms in the area of land use.** They have adopted primary and secondary legislation to improve the framework of spatial planning, and have uploaded forest maps covering about one-third of the country for public consultation. With the help of technical expertise from the World Bank, they have prepared a proposal regarding the new framework principles and roadmap for nationwide cadastral offices. This proposal was subsequently endorsed by KYSOIP, the Government Council on Economic Policy, and the Greek authorities have already started drafting primary legislation to be adopted by September 2017.

225. **A law on spatial planning was adopted in December 2016**. The objective of the law is to introduce a clear hierarchy of planning and to facilitate private investments while protecting the outstanding natural beauty of Greece. The law facilitates the adoption of private development plans that modify the existing plans to allow major investments to take place.

226. **A Presidential Decree modernising the land use categories and content has been agreed with the institutions and has been submitted to the Council of State.** The technical specifications of local and special spatial plans have been completed as a prior action for the second review. With these actions, the spatial planning law has become fully operational.

227. **Forest maps covering 35% of the country have been publically presented in order to receive feedback from the citizens.** Through this procedure, several shortcomings of the existing forest legislation came into the foreground. In order to address them, a series of legal amendments have been made. The maps are expected to be corrected and ratified between September 2017 and March 2018. The tender process for the development of the forest maps for the remaining 45% of the country has been launched in July 2017. The completion of the forest maps is essential for the completion of the cadastre.

([41]) Prime Minister Decision Y132, Government Gazette B' 631 – 09/03/2016.

([42]) A dedicated website for the export promotion activities is available at http://www.mindev.gov.gr/index.php/25-2016-09-28-09-30-09/3817-2016-09-26-13-40-16

1.5.4.2. Agriculture and Rural Development

228. **Greece has untapped potential in terms of the agriculture sector being a driver of growth.** Agriculture in Greece is based on small-sized, family-owned dispersed units, while the extent of co-operative organisation stays at low comparative levels, against all efforts that have been taken in the last 30 years, mainly under European Union policies. Greek agriculture employs about 500,000 farmers according to ELSTAT, i.e. some 12% of the labour force. The Greek agricultural sector ranks ninth among the EU 28 Member States in terms of value of agricultural production. It produces 3.6% of the national GDP (about EUR 13 billion annually). Greek agriculture is heavily subsidised by the Common Agricultural Policy (CAP), with mixed results.

229. **The agricultural sector in Greece suffers from many structural problems**. Holdings are small and rural land is highly fragmented. The rural population is ageing, and the recession in complementary activities such as construction which used to provide additional income to rural populations, high production costs, low productivity and low competitiveness, and large regional and sectoral disparities. The severity of the crisis was partially mitigated by the support from the CAP and, subsequently, the arrival of migrants, who provided cheap labour and contributed to temporarily containing the crisis.

230. **A number of actions related to the implementation of the EU common agricultural policy (CAP) are underway.** The Rural Development Operational Programme was approved in December 2015. During the first half of 2016, all legislative and administrative requirements for the activation of the funds (enactment of secondary legislation, the establishment of a control and management system, new organisation chart of Special Services, allocation of resources and responsibilities to the Regions, etc) were completed. In 2017, the focus has shifted to the notices of the individual measures and actions of the programme.

231. **The amount of financial corrections, (penalties for errors in CAP implementation) has been greatly reduced, from an average of EUR 290 million per year over the period 2006-2008 to about EUR 68 million for 2014.** Further efforts are being made to continue reducing these penalties. These include renewing the ortho-photo maps with the most recent imagery, digitising and updating the corresponding reference parcel boundaries and the eligible area as well as ensuring that the Greek Payment Authority is staffed with the necessary specialised staff.

232. **The agricultural competitiveness strategy was completed in February 2016, then updated and extended in May 2017, and can feed into the national growth strategy under preparation.** As a result, a law reforming agricultural co-operatives was adopted in May 2016 and a Ministerial Decision modernising the institutional framework of the organisation of farmers into producer groups was signed in February 2017. The aim of these is to give the necessary incentives to the farmers to cooperate and thus to mitigate some of the structural problems of the sector. The authorities have also been working to set-up a farmers' advisory system, which aims at helping farmers to better understand and meet the EU rules for environment, public and animal health and other issues.

Box 1.5.5: European Structural and Investment Funds for Greece

By mid-2015 the 2007-13 programming period for the provision of EU structural funds support to Greece was affected by acute problems of liquidity. At the initiative of the Commission, this was resolved through an amendment to the Common Provisions Regulation, passed in October 2015, whereby exceptionally an early release was made to Greece of the last five percent of remaining EU payments which are normally retained until the closure of the programmes. In addition, a retroactive application of a 100 percent co-financing rate was adopted.

Some projects funded by ERDF and Cohesion Funds have experienced delays due to technical, administrative, legal and political bottlenecks. In accordance with the Regulations and the closure guidelines, such projects have to be completed with national funding until 31 March 2017. If by that date they are not completed and operational, the entire EU contribution might have to be recovered. A limited number of other projects can continue with EU funding under the 2014-2020 period as so called "phased projects", provided they satisfy the rules and priorities of the 2014-2020 period.

The key projects facing major problems were: the five highway concessions, the Thessaloniki metro, waste water and solid waste projects. The Commission services have been working closely with the Greek Authorities to help them avoid the risk of non-completion. It appears that by now the five highway concessions have been completed to a very large extent; this will be further verified in the on-going closure of the 2007-2013 programmes. The Thessaloniki metro has been notified as a phased project and will therefore be completed with 2014-2020 EU funds. Concerning the waste water sector, the treatment plants for Eastern Attica and for many smaller municipalities will be constructed with 2014-2020 funds on the basis of design studies carried out in 2007-2013; to this end a dedicated task force and action plan have been agreed. On solid waste, the Western Macedonia solid waste management PPP was successfully completed and has started operating. The solid waste management PPP projects of Epirus and Serres have been approved and will be co-financed by 2014-2020 EU funds.

To identify all problematic issues for each project at risk and ensure appropriate actions to address them, the Greek authorities have set up an Inter-Ministerial Committee under the Minister for Coordination of the governmental work. The authorities submitted to the Commission Action Plans for each project and, following comments, they were revised accordingly and are being followed. This Inter-Ministerial Committee will continue also to monitor a limited set of emblematic projects of the 2014-2020 period.

Another problem affecting the real economy was the low absorption of the financial engineering instruments (FEIs). For all Member States, the European Commission has extended the validity of the FEIs to reach the final recipients until March 2017, by revising the closure guidelines. A definitive view on this can be given only after complete analysis of the closure documents of the programmes concerned, but it is clear that the situation has improved significantly when compared to 2015, such that in this field losses, if any, are likely to be minimal.

For the period 2014-2020 Greece benefits from EUR 20.4 billion ESIF funding (ERDF, CF, ESF, EARFD and EMFF) through 20 national and regional programmes. **To this should be added an amount of EUR 970 million which results from the 2016 technical adjustment, bringing total ESIF support to almost EUR 21.4 billion.** For 2014-2020 Greece continues to benefit of some of the measures passed in October 2015. Notably it received in 2015-2016 special additional advances worth 7% of its overall allocation, which had to be justified at the end of 2016 by declared expenditure. This test was passed successfully except for one programme of the ESF and EMFF. In general Greece is at this moment among the fastest absorbing Member States for 2014-2020.

As regards EFSI, there should be complementarity with ESIF funds. They may be combined where appropriate in financial instruments, to bring more leverage and added value for investments either in SMEs and quality projects. EFSI and ESIF could e.g. support different parts of the capital structure of a project or cover different risk tranches of portfolios of SME and mid-caps financing.

1.5.5. STRUCTURAL FUNDS AND TECHNICAL ASSISTANCE

1.5.5.1. Structural and cohesion funds

233. **Significant strides have been made to increase the absorption and sound utilisation of structural and cohesion funds.** Greece had an initial allocation of EUR 20.6 bn for Structural and Investment Funds (ESIF) for the period 2014-2020. Following a technical adjustment, an additional allocation of EUR 970 million has been given, bringing the total to EUR 21.5 bn. Thanks to the extraordinary measures taken by the Council (see Box 1.5.5) Greece has been able to benefit from and maximise the use of the structural funds available to it. It ranks top in terms of the absorption of EU structural funds for the period 2007-2013 and is one of the best performers for the period 2014-2020. However the slow rhythm of preparation of new projects induces a downside risk for the following years.

234. **The implementation of all operational programmes of European Structural and Investment Funds for 2014-2020 started in 2015, with the exception of the Rural Development Fund EAFRD that started in 2016.** The designation of the Greek European Structural and Investment Funds (ESIF) authorities (managing authorities, certifying authorities, audit authorities) has been completed. Monitoring Committees for all programmes have met, the specialisation process is advancing and projects began on the ground. As a result, in 2016, EUR 4.6 bn were paid from all EU funds including the European Agricultural Guarantee Fund (EAGF), and, as of end of May 2017, EUR 2.4 bn have been claimed and paid across all funds (see Box 1.5.5). Legislation to establish a Secretariat-General for ICT was enacted in May 2016 as prior action for the completion of the first review.

235. **As agreed in August 2015, the authorities have undertaken key steps in order to fully implement the law on the use of structural funds.** The authorities have fulfilled most of the ex-ante conditionalities (the most important exceptions being public procurement and the water sector), and issued most of the remaining secondary legislation to fully put into operation the ESIF implementing law (Law 4314/2014). However, there was need to define and implement a number of additional measures to ensure an effective and efficient implementation of the ESI Funds. Greece still faces challenges in terms of lengthy and complex national procedures, delays related to critical personnel issues and need to implement and enforce anti-fraud mechanisms that were recently put in place, notably the system for State Aid schemes (PSKE). Coordination with line ministries through the new ‘executive units’ and lack of capacity of some beneficiaries are also issues to monitor. To address these issues, the Greek Authorities produced a work plan in December 2015, detailing all pending actions and the timetable for their implementation. The implementation of the plan was closely monitored by the Commission staff and was updated monthly after a joint meeting between Commission and ESIF authorities.

236. **An inter-ministerial committee on major projects was set-up and was decisive in proposing solutions to blockages on projects**. A dedicated bank account to ring-fence EU structural funding and associated domestic funding contributions has been created. This has helped to ensure the promptness of payments to projects. Thanks to the work of the inter-ministerial committee on major projects, the five motorway concessions were substantially completed by March 2017 in accordance with the Frameworks of Understanding signed with the concessioners.

1.5.5.2. Technical assistance

237. **In 2014 the Greek authorities decided to use significant resources for technical support purposes.** In order to fulfil the MoU commitments, the ESM programme enables the authorities to make extensive use of the technical support available to support the delivery of requirements in a number of fields. In particular, technical support has been advocated in the following policy

fields: public financial management and public procurement, health care, social safety nets, labour market, product market and business environment, energy, transport, water, privatisation, public administration, justice, anti-corruption and structural funds. Greece has made use of Article 25 of the Common Provision Regulation (CPR)([43]) and in 2014 it allocated EUR 15 million from its structural funds resources to the Commission to contract technical support through Member States and international organisations. The first contracts were signed in early 2015 and after a hiatus in the first half of 2015, the Terms of Reference for all contracts under Article 25 were agreed with the authorities. Since then, 24 support projects have been signed and deployed for a total amount of EUR 14.99 million. Out of those 24 projects, 15 have been completed for a total of EUR 5.47 million and 9 are still on-going for a total amount of EUR 9.52 million

238. **In October 2015, the Commission agreed with the authorities a "plan for technical cooperation in support of structural reforms (the Plan)".** The Plan defines a number of guiding principles, the areas of co-operation, working modalities and financing arrangements for technical support. In the plan, again making use of Article 25 of the CPR, the authorities committed to place EUR 30 million under Commission management to be used for contracting technical support as of 2016. In cooperation with the SRSS, at the end of December 2015, the Greek authorities defined their requirements for support and eventually made the necessary arrangements to transfer the relevant agreed funding.

239. **The SRSS – together with the other Commission services, international organisations and Member State experts – delivers support to Greece in practically every area of programme conditionality.** Since the beginning of the implementation of the Plan, 25 support projects were agreed and implemented for a total value of EUR 17.1 million. Of these projects, 18 grants are ongoing for a total amount of EUR 16.9 million, 3 small-value procurements have been completed for a total value of about EUR 75,000, and 4 small-value procurements are ongoing for a total value of about EUR 99,000. About 50 support projects (including 6 grants) remain to be launched for a total of EUR 12.86 million (including EUR 7.3 million for the grants). Work is ongoing with the Greek authorities to refine the Terms of Reference for the support and launch projects.

240. **All in all, massive technical support has been deployed on the ground since 2014.** The SMoU signed in July 2017 lists about 230 reform actions; it specifies that 56 of these actions should be undertaken benefitting from technical support. As of 12 June 2017, the Greek authorities had requested technical support on 52 of them. In addition, the Greek authorities have requested support for 92 reform actions for which technical support is not explicitly requested in the MoU/ SMoU, such as the improvement of public revenue collection, health care measures to improve the financial management of hospitals, development of the Three-Year Action Plan on education or support to export promotion.

241. **The Greek authorities have thus requested support for 144 reform actions that are MoU/ SMoU related** through 99 support projects([44]) for a total funding of about EUR 45 million.

([43]) Article 25/1 — Management of technical assistance for Member States with temporary budgetary difficulties: 'On the request of a Member State with temporary budgetary difficulties …, a part of the resources provided for [technical assistance] … may, in agreement with the Commission, be transferred to technical assistance at the initiative of the Commission for implementation of measures in relation to the Member State concerned … through direct or indirect management.'.

([44]) A support project is a "contract" (grant or small value contract) with a provider; a support project can cover one or more reform actions. In total 18 support projects have been completed for an amount of EUR 5,5 Mio; 31 support projects are on-going for a total of EUR 26,5 Mio; 50 support projects remain to be launched for a total of EUR 12,86 Mio

Box 1.5.4: The Structural Reform Support Service (SRSS)

The Structural Reform Support Service (SRSS), together with the other Commission services, International organisations and Member State experts, coordinates and delivers support to Greece in practically every policy area covered for the MoU and, more recently, by the Supplemental MoU (SMoU).

Support is closely aligned with the provisions of **the ESM stability support programme**, including on support **to improve the business environment and to strengthen growth**. On the overall reform agenda, the technical support provided in the past year and a half, i.e. since an agreement on a technical support programme was reached with the Greek authorities, was focused primarily on the preparation of changes to the legislative framework. Important support has been delivered to finalise a the technical work on a number of key initiatives such as the national rollout of the Guaranteed Minimum Income Scheme, the recapitalisation of Greek Banks, the fight against undeclared work or the support in the management of the migration crisis. **In addition, the SRSS provides support in areas that contribute to the growth and investment agenda**, such as judicial reform, public administration modernization, reform of public procurement and legislation, fight against corruption, and the reform of the labour market that are key components of the MoU.

A few examples of support on-going activities and results achieved in Greece so far are:

- In the area of review of **social services**, technical support contributes to fostering social inclusion: the review of social benefits and the creation of a Guaranteed Minimum Income (GMI) scheme form the cornerstone of a more effective social safety net to protect many disadvantaged citizens and households living in absolute poverty.

- In the area of **tax administration and public financial management**, technical support contributes to the successful transformation of the tax administration: the establishment of an Independent Authority for Public Revenue (IAPR) with enhanced autonomy and independence is compelling evidence. As a consequence, in 2016, tax debt collection and resolution of tax disputes have greatly improved[1]

- In the area of **competition**, the SRSS together with OECD support the authorities in amending or abolishing laws and regulations to foster competition in the sectors of e-commerce, media, construction, wholesale trade and manufacturing in order to remove barriers to competition in these key sectors. Technical support is also provided to the development of a public procurement capacity.

- In the area of **renewable energies and energy efficiency** technical assistance is being provided to facilitate the market integration of renewables into the electricity system and in to improve capacities of the administration of the planning, implementation and monitoring of energy efficiency measures.

- In the area of **Health care**, the aim is to support the Government plan to reform the primary health care delivery system and to strengthen the capacity of the system to make progress towards universal coverage and access to quality health services.

- In the area of **public administration**, the technical support has delivered a number of important results, in particular the establishment of the Secretariat General for Inter-ministerial Coordination, which is now playing a pivotal and essential role in the coordination and implementation of the ESM programme and the related technical support programme. SRSS has also assisted in the preparation of a number of important laws that have now been adopted and are being implemented: law on the unified wage grid, law related to the assessment, promotion and selection of top managers, mobility law, law on conflict of interest, to mention just a few. More recently, it provided important support in the definition of standard job descriptions for officials of the public administration.

[1] Collection of old tax debts approached € 2.5 billion in 2016, an increase of 50% on the previous year, while the rate of closure of cases submitted to the Dispute Resolution Unit has improved from 50% (Q1 2016) to 93%.

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Box (continued)

- In the area of **land registry** which has been a strong focus of technical support in Greece, the SRSS and the World Bank support the Greek authorities with the goal to complete the cadastre by 2020 through project and contract management support. Work has advanced well so far on the development of a roadmap and project management structure including a risk analysis to help overcome obstacles.

- In the area of **migration t**he SRSS, in close cooperation with other Commission services (notable DG HOME and DG ECHO), provides support for the migration crisis in Greece and implementing concrete actions. In addition, the SRSS also provides support for the structural reforms that are expected to have a long-lasting effect on the migration management capacity of Greece.

In addition to the above, **four major projects** which were initiated under the Art 25-2014 have been concluded and have led to the following results:

- **IMF – Support on Social Security Contributions in Greece**: the IMF project on support on Social Security Contributions in Greece contributed to the improvement of working methods and of overall collection performance within KEAO (Joint Collection Center for Social Security Funds). The project notably helped KEAO to target strategic dodgers (who could pay but did not) and to make extensive use of banking information provided by the indirect registry of bank accounts. Progress in "recovery" ("collection of tax arrears") increased from EUR 2.188 bn in 2011 to EUR 5,202 bn in 2016.

- **OECD - Review of Regulatory barriers to competition**: The Greek government has undertaken significant reforms towards the simplification of regulation and the elimination of competition distortions with a focus to lift regulatory barriers to competition and growth. Three successive competition assessment projects were carried out in order to review laws and regulations that may hinder the efficient functioning of markets. As a result, more than 350 recommendations were formulated in the context of the third competition assessment exercise, of which almost three quarters (more than 250) have already been endorsed by the Greek authorities by amending, repealing existing regulations or adopting new ones. The remaining recommendations are supposed to be addressed by the end of the second review. It is possible that the Greek administration will request legal support in the elaboration of the legislative changes that will address the remaining recommendations.

- **AT - Judicial system reform support for implementation**: The support is provided by the Austrian national experts notably on the digitalisation of justice and the promotion of mediation, where it provided best practices and recommendations. In particular, experts provided a structured process based on which the parties reach amicable solution for their disputes without resorting to litigation. Legislation has been drafted on e-auctions; the support provided TA for the framework enabling the creation of platform for electronic bids instead of bids in a room - it enhances transparency and increases competition among bidders for enforced collection of assets in case of debts (e.g. Banks against lenders) and several e-justice projects are being developed. Key achievements include the provision of a comparative analysis and proposal of family matters and the introduction of an automated payment order procedure. It also includes recommendations for a set of concrete, feasible and system-compatible ADR (alternative dispute resolutions) measures, the elaboration of expert opinions for the optimization of the civil, penal and administrative process and the elaboration of proposals for the improvement of a probation system.

WHO - Support to the Greek health reform programme: Support has been provided through the SRSS, in cooperation with the World Health Organisation (WHO) since 2016 and still on-going. The aim is to support the Government plan to reform the primary healthcare delivery system in Greece and to strengthen the capacity of the system to make progress towards universal coverage and access to quality health services. A few achievements (ended in summer 2016) are the development of the first and unique strategic document made available to the Ministry of Heath that puts together the overall principles of PHC to be developed in Greece, and develops the necessary framework for the piloting and further rolling-out of Local Health Units (TOMYs). The project has also managed in a very short period of time to build capacities of a

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Box (continued)

critical mass of policy makers from the Ministry of Health through training and the involvement of staff in the design of the current reform.

1.5.6. NETWORK INDUSTRIES

1.5.6.1. Energy

242. **The MoU recognises that the Greek energy markets need wide-ranging reforms ([45]) to bring them in line with EU legislation and policies.** These reforms will make the markets more modern and competitive, reduce monopolistic rents and inefficiencies, promote innovation, favour a wider adoption of renewable energies and natural gas, and ensure that consumers benefit from these changes.

243. **The reforms under the ESM programme are structured around three pillars:** (1) promotion of healthy competition in both the natural gas and electricity markets, (2) the separation of (transmission and distribution) infrastructure and supply (competitive market segment) to ensure non-discriminatory access and development, and (3) a strong regulatory framework and institutions. For a more detailed description of the energy sector reforms, see Section 1.7.1. Selected topics: Energy.

244. **In the electricity sector, competition in the retail markets is still very low, both for households and industry, but reforms are delivering results.** With a view to increasing competition, and to give a medium-term anchor for the evolution of the electricity market, in 2015 the authorities set a limit of 50% to the maximum share a single company can have in total Greek electricity generation capacity including imports. The deadline for reaching this limit is 2020. This objective is being pursued through two different instruments: NOME ([46]) auctions, being implemented since October 2016 following the adoption of relevant legislation in May 2016, and the sale of around 40% of the lignite-based generation capacity of the incumbent Public Power Corporation (PPC) by June 2018, as agreed under the second review.

245. **NOME is a system of auctions of forward products, which is to allow alternative suppliers to procure electricity from PPC and sell it at competitive prices, in order to spur competition in the retail markets and reduce PPC's dominance.** Targets were set for lowering the retail market share of PPC starting from the level of August 2015 (95.24%) with a view to reaching a retail market share of PPC below 50% by 2020. Under the second review of the ESM programme, quantities put to auction were redefined through a partial carryover of the quantities auctioned in the previous year, to ensure continuity in deliveries; and NOME auctions were complemented by the sale of a part of PPC's lignite-fired generation capacity by mid-2018 (see below). In addition, the system has been further refined. As a result of these measures, the market share of PPC was reduced from over 95% in August 2015, when the measures were defined, to 85.62% in June 2017.

246. **As part of the second review it was agreed that a part of PPC's lignite-fired generation capacity would be sold, in line with ongoing antitrust proceedings.** Following a ruling by the European Court of Justice in December 2016, a process has been launched under EU competition rules to bring around 40% of PPC's lignite-fired generation capacity under the control of other

([45]) MoU signed on 19 August 2015, pg. 25.
([46]) *Nouvelle Organisation du Marché de l'Electricité.* The mechanism is similar to the one implemented in France.

market participants. The technical principles based on which the exact package of divestment will be defined have been agreed and further specified in a formal communication of the Hellenic Republic to the Directorate-General for Competition of the European Commission. Discussions on the commitments package are ongoing and have not yet been completed at the time this report was finalised. Following agreement on the package, it will have to be market-tested before its finalisation, with the actual sale to be closed by June 2018.

247. **The second review of the ESM programme also contained actions for the short to medium term to address PPC's financial situation.** This includes both an overall action plan including a commitment to clear all public sector arrears by the end of 2017, as well as a commitment to adjust the PSO.

248. **A new framework for the support of renewable energies has also been approved,** which ensures financial sustainability and guarantees the respect of the EU State Aid Guidelines (EEAG). Its implementation is underway, including the design of the auction mechanism for larger-scale projects. The framework should facilitate the deployment of new projects, which were slowed down by uncertainties about future incentive schemes.

249. **PPC's tariffs for industrial (high-voltage) users were revised as part of the October 2016 milestones, to be based on actual costs and consumers' profiles.** The action was completed by the beginning of October 2016, with the signature of contracts between PPC and energy-intensive companies. Coupled with the already existing compensation for indirect carbon leakage, interruptible contracts, as well as the review of energy taxation, the revision of tariffs should imply significant benefits for the competitiveness of industrial consumers. At the same time, investments in the electricity transmission network so as to improve domestic and cross-border interconnections are crucial for lowering energy costs.

250. **Full ownership unbundling of the transmission system operator, ADMIE, from PPC was a necessary step to ensure that such investments are made and the transmission network is improved.** ADMIE was listed on the Athens Stock Exchange and transferred out of the control of PPC on 20 June 2017.

251. **A general reform of the regulatory framework of the electricity market is also being pursued, with a view to continue the implementation of the EU target model in Greece.** The outdated capacity payments system had been replaced with a transitional one. Given that the transitional system expired, discussions are now ongoing to define its successor. A revised adequacy study by ADMIE was submitted as a prior action for the second review. A transition to the new market design of the target model is foreseen for 2018, with legislation on the high-level market design having been adopted in September 2016.

252. **In the gas market, significant restrictions to competition were removed in order to properly regulate distribution and stimulate investment.** The August 2015 Omnibus Law removed significant restrictions to competition in the gas market, coming from a specific exemption to the application of the Third Energy Package, and separates supply of gas from the operation of the distribution network. The reform is underpinned by a roadmap including secondary legislation and regulation, which is being implemented. The market will be progressively liberalised, i.e. consumers will be able to choose their supplier. Following the reform, industrial and commercial customers are already free to do so, while full liberalisation for all customer groups will be effective in January 2018. Important steps which have been completed are the definition of new distribution and transmission tariffs and the review of the gas release programme. The review of the gas release programme increases available quantities and improves alternative suppliers' access to the gas supply offered by DEPA, the incumbent and currently quasi-monopolist in importing natural gas into Greece. Further reforms regarding the gas market are still outstanding.

The authorities have provided a draft roadmap to the institutions by June 2017, which is being discussed.

253. **A significant reform of natural gas excises was also approved as part of the fiscal package of the first review (see also section 1.7.1.4.).** Before the reform, Greece had an exceptionally high level of excises imposed on all uses of natural gas consumption, with rates up to ten times higher than the EU-mandated minima. This included gas consumed as an input for the production of electricity, in contrast with the provisions of Directive 2003/96/EC (energy taxation). The reform eliminated, effective as of 1 June 2016, the taxation on gas used for electricity production, and brought, effective 1 January 2017, to the EU minimum the taxation for households' heating, while also introducing a regressive taxation scheme for industrial use, so that the largest consumers will have a lower tax rate. The effects of the reform are manifold. Gas-based electricity production will be more competitive compared to more polluting and carbon-intensive sources, such as lignite; households will be encouraged to switch from oil to natural gas as a heating fuel; and costs for energy-intensive companies will be lower, making them more competitive. Overall, the reform reinforces the implementation of the gas market liberalisation.

254. **The financial and operational independence of the energy regulator (RAE) will be increased in the context of the horizontal review of all independent entities (see section 1.6.4.2. and 1.7.1.5.).** The authorities are committed to make RAE more autonomous in deciding how to allocate its resources, and to enable it to attract and retain valuable staff. This should allow RAE to better maintain and increase its knowledge and capabilities. This will be crucial to enable the regulator together with the market operator (i) to accompany the ambitious transformation programme of the energy markets as set out above and (ii) to increase their capacity to follow up on all regulatory processes, the implementation of which will be a focus going forward, such as NOME, Public Service Obligation (PSO), capacity mechanism, Renewable Energy Source (RES) support, RES account, etc.

1.5.6.2. Water utilities

255. **A stable regulatory regime is key for allowing much-needed investment in the water networks and protecting consumers in terms of pricing policies and in providing adequate services, and the Greek authorities have taken strong steps in this direction**. The Greek government has recently adopted secondary legislation setting out nationwide principles for the costing and pricing of water services and setting up a system of regular collection of information for the water network. Furthermore, the administrative capacity of the Special Secretariat for Water (SSW) has been strengthened and the Secretariat is further developing its regulatory capacity with the help of technical assistance.

256. **Significant regulatory work on water utilities has been undertaken in view of the privatisation of EYATH and EYDAP, the two state-owned companies in charge of water supply and sanitation in Athens and Thessaloniki.** Although, following a court ruling about the role of the State in water utilities, the privatisation process for majority stakes in these companies was halted, the Greek authorities are now committed to proceed with the privatisation of minority stakes while the majority stakes will be managed by the new privatisation and investment fund, the Hellenic Corporation of Assets and Participations (HCAP).

1.5.6.3. Transport and logistics

257. **Strategic changes are underway in the transport sector**. The Greek authorities have taken concrete steps in developing a general transport master plan for Greece covering all transport modes (road, railways, maritime, air and multi-modal, including logistics) and thus establishing a long-term strategy for the sector. This strategy will contribute to rationalising and prioritising

public spending (including EU funds) for investments or subsidies. In order to deliver this comprehensive long-term transport master plan, the authorities have requested technical assistance from the SRSS, who have mobilised the expertise of EIB. In addition, the authorities have completed in early 2017 a comprehensive medium-term review of all transport-related subsidies and will use the results for the fiscal spending review of competent ministries.

258. **The Authorities have adopted an important new law reforming the Hellenic Civil Aviation Authority (HCAA) in October 2016.** Under the new framework HCAA will be split into two new entities: a regulator for economic matters and air-navigation services, and a separate operator for air navigation services and airports. The new authorities, and particularly the regulator, will be structured so that they operate at an arms' length distance from the Government in order to provide their services independently, especially in view of the completed privatisation of 14 regional airports.

259. **In urban transportation, the restructuring efforts for OASA — Transport for Athens and OASTH – Thessaloniki Bus Transportation have stalled but the government remains committed to proceed with these reforms.** The implementation of the OASA restructuring plan, agreed in Law 4337/2015, has stalled and after its revision by the Greek authorities no actions have been taken. However, HCAP managers are expected to successfully implement the restructuring plan since OASA has now been transferred to the new fund. On OASTH, the authorities have committed to proceed in the preparation and immediate implementation of a restructuring plan to increase the efficiency and viability of OASTH aiming for a maximum annual deficit of EUR 40 mn before any state transfer.

260. **Major steps have been taken in the area of logistics, a core sector for growth.** The Greek government has issued the secondary legislation required for the implementation of the logistics law, which will provide for a simplified licensing procedure and a stable legal framework for the sector. In addition, the Greek authorities have adopted a logistics strategy with detailed government actions to promote the economic development of the logistics sector and are proceeding with its implementation.

1.5.7. PRIVATISATION AND MONETISATION OF THE VALUABLE ASSETS OF THE GREEK STATE

1.5.7.1. Privatisation tenders

261. **Substantial progress has been observed in re-launching the privatisation process, which had stalled in the last months of 2014 and during the first half of 2015.** A number of significant tenders had been awarded in 2014 but their conclusion and financial closing were delayed substantially in the following months. A decisive step for the re-launching of the privatisation process was the endorsement by the authorities of HRADF's Asset Development Plan (ADP) in July 2015 and of the updated ADP in May 2016. More recently, in May 2017, the authorities endorsed the latest updated ADP. The ADP foresees specific actions related to various privatisation projects.

262. **This subsection describes privatisation tenders finalised under the ESM programme as of July 2017, those currently ongoing and in the pipeline.** Developments since August 2015 have in particular included the completion of the transaction on the regional airports, the conclusion of the privatisation of Pireaus Port (OLP) as well as the financial closing of Astir (mixed use development – residential and leisure). On Hellinikon, in September 2016, the Greek Parliament ratified the Share Purchase Agreement and the MoU with a very strong majority, thus paving the way for the next steps to be taken before the financial closing. In addition: the preferred bidder has been selected for three projects: (i) TRAINOSE – the sale of a 100% stake in the Greek train

operating company; (ii) the sale of 67% of the shares of Thessaloniki Port Authority; and (iii) the extension of the concession of the Athens International Airport. All three files have been sent for approval to the Court of Audit. In the case of TRAINOSE, the formal clearance was issued by the Court of Audit in January 2017, with the sale and transfer of the 100% stake of TRAINOSE SA to Ferrovie Dello Stato Italiane S.p.A. for a total consideration of EUR 45 million being completed on 14 September 2017.

263. **Two more projects are in progress:** (i) ROSCO – rolling stock maintenance services to train operating companies, for which the expression of interest phase has been completed (the next phase is the submission of binding bids); and (ii) the Egnatia motorway concession, for which an open public consultation process has been completed (the next phase is the Expression of Interest which will be followed by the binding offers phase). For 12 projects (the remaining assets in HRADF's portfolio, according to its Asset Development Plan) are in the preparatory phase (hiring of consultants and preparation of the tender procedure).

264. **Developments on individual projects are as follows.**

265. **Hellinikon**: The development of the site of the former Athens international airport is a very significant project in the privatisation programme. It will create thousands of new jobs and will have a very positive contribution to value-added and income generation. In March 2014, the preferred investor was selected for the acquisition of the shares in the project after an improved financial offer of EUR 915 million. The tender was subsequently approved by the Court of Audit. However, the project has not progressed much since the tender was awarded, and it has been constantly facing headwinds. A successful conclusion would imply that the preferred investor undertakes an investment of EUR 6 bn (more than 3 % of GDP) over the coming years, out of which EUR 1.25 bn corresponds to infrastructure expenditure including for the metropolitan public park − the largest in Greece – the cost of which will be exclusively assumed by the company. This is a complex project with many steps and the main developments are summarised as follows:

- As part of the measures to conclude the first review in June 2016: (i) the authorities concluded and signed with the preferred investor a comprehensive MoU in June 2016 about the changes to the project requested by the government and the next steps for completing them, including all the actions to be taken by both sides to arrive to a financial closing and (ii) in September 2016, the Greek Parliament ratified the Share Purchase Agreement and the MoU with a very strong majority, thus paving the way for the next steps to be taken before the financial closing.

- As part of the measures to conclude the second review in June 2017: (i) The revised legislative framework regarding the granting of casino licences in Attica Region was approved by Parliament in December 2016. This amendment makes possible the licensing of a casino in Hellinikon (the casino is an important element in the overall development of the area). (ii) Agreement was reached in mid–January 2017 between the Government and the investors on the composition of the Special Committee of Experts, which would give an assessment and recommendation on the Integrated Development Plan prior to its submission to the Council of State. The draft Integrated Development Plan was submitted at the end of December 2016 by the investors to HRADF for a compatibility test of the Plan with the specifications of Law 4062/2012, the requirements of the supplementary agreement and the specifications of the privatisation tender that was concluded in 2014. The compatibility test was signed off by HRADF in January 2017. (iii) The archaeology and forestry issues had to be resolved before the Integrated Development Plan could be officially submitted. The declaration of a 37,000 sqm forest area on the site in May 2017 by the Forestry

Commissioner added to the complexity of the investment and posed further constraints. Following intensive consultations, the authorities agreed on 9 June 2017 with the investors of Hellinikon on the specific actions resolving the outstanding forestry and archaeological issues and the Integrated Development Plan was officially submitted by the investors to Hellinikon SA on 15 June 2017 in order to be forwarded to the competent authorities. It is also important to note that it was agreed between the Greek authorities and the investors to set up a working group with the participation of the Greek authorities, the investors and a representative of the Commission, which will meet regularly, to follow the developments and solve any problems that may arise. These recent positive developments on the Hellinikon project pave the way for the leap forward needed to ensure that the process for the smooth and effective implementation of this fundamental transaction is safeguarded and respected by all parties involved and notably by the Greek government.

266. **Regional Airports**: The ADP foresaw the long-term concession of 14 regional airports. The preferred investor of the concession for the upgrade, maintenance, management and operation of the 14 regional airports was selected in November 2014, as part of an international open tender process conducted by HRADF, resulting in an upfront payment of EUR 1,234 bn and a EUR 22.9 million annual concession fee, adjusted to inflation, along with a fluctuating variable concession fee, estimated annually at 28.6% of the airports' EBITDA. The Concessionaire was granted the right to use, operate, develop and manage the airports for a period of 40 years. Ownership of any infrastructure and facilities to be constructed will devolve to the Greek State and will be handed back to it upon expiry of the concession period. This major project is expected to bring significant investment and jobs to the regional airports and also boost regional growth and benefit local communities. The tender was approved by the Court of Audit in January 2015 and November 2015 respectively and the concession contracts for the two clusters of regional airports were signed on 14 December 2015, between the Greek State, HRADF, the Concessionaire and the Consortium of Initial Shareholders FRAPORT AG-SLENTEL Ltd. The contracts provide for the concession of use, management, development, expansion, maintenance and operation of the said airports, as well as the exploitation of commercial operations or other sites located within the airports. As part of the measures to conclude the first review of the ESM programme, the following actions were completed successfully: (i) The Concession Agreements were ratified by the Hellenic Parliament in May 2016. (ii) A working group with the participation of all stakeholders, including the investors, was set up, which monitored the process on a continuous basis and contributed positively to the fulfilment of all Conditions Precedent leading to the financial closing of the transaction, including the finalisation and signing of the Service Level Agreements between Fraport and the various Government Services (such as fire brigade, police, customs etc.). During the last phase towards the handover process, the Greek Authorities (Ministry of Finance, Ministry of Transport and Infrastructure and the Hellenic Civil Aviation Authority) did work closely and intensively with HRADF and the investors. Following a long and bumpy road, the Presidential Decree for the protection of the foreign capital imported by the investors to finance the concession was issued and published on 7 April 2017 cementing the last leg of a lengthy post-signing/pre-closing procedure and signifying the last milestone before the countdown for the official handover of the regional airports to Fraport that took place on 11 April 2017.

267. **Piraeus Port Authority (OLP)**: In February 2016, Cosco Group was announced as the preferred bidder for acquiring 67 % of the shares of OLP for EUR 368.5 million, through a tender process. The total value of the agreement is estimated at EUR 1.5 bn, including mandatory investment amounting to EUR 350 million over a decade, plus the concession revenues for the Hellenic Republic. The tender was approved by the Court of Audit and the share purchase agreement was signed in April 2016. As part of the measures to conclude the first review, an ad hoc working party has been set up to ensure that all actions needed to prepare the handover for the port of Piraeus would have been completed in due time. A new regulatory structure was established,

providing more independence to the Ports Regulator and re-assigning key administrative responsibilities among the various responsible entities including a new National Public Ports Authority. The privatisation of Piraeus port was completed and the formal handover took place in August 2016 with the transfer of 51% of the shares of OLP for EUR 280.5 mn. The remaining 16% of the shares and their consideration of EUR 88 mn, were placed in escrow pending completion of the mandatory capital expenditure programme scheduled over the period of the first five years.

268. **Athens International Airport** (AIA): Bilateral negotiations between HRADF and AIA for the extension of the Concession Agreement for AIA started in early 2016 and were completed in December 2016. The approval by the Greek government of the extension of the concession was given on 17 March 2017. The HRADF Board of Directors approved the AIA financial offer for the extension of the concession agreement on 30 May 2017. The net proceeds for the privatisation programme will be EUR 483.87 million. It is noted that a number of steps are required for concluding the transaction: consultation with DG Growth: Internal Market, Industry, Entrepreneurship and SMEs (for public procurement issues) to ensure that such a bilateral negotiation is permitted under the existing tender; decision – clearance by DG Competition (state aid issues); ratification by the Greek Parliament; financial closing.

269. **Egnatia motorway:** The privatisation process for the Egnatia motorway has also been launched after a decision of the Board of Directors of HRADF on 6 October 2016. The process started with a preparatory and consultative phase with potential investors that will lead to the publication of the Expression of Interest in 2017. The preparatory phase also includes the construction of additional toll stations. In the case of Egnatia, systematic delays have been observed and questions arose in various phases as to the political commitment of the government to proceed with the privatisation process. The following actions were taken as prior actions for the second review: (i) for a number of toll stations, the tenders were launched (six toll stations), and for four of them the construction contracts were awarded and construction is in progress; (ii) the Hellenic Republic (Ministry of Transport and Infrastructure and Ministry of Finance) issued a Joint Ministerial Decision for the implementation of the optimisation scheme of the existing open toll system, as proposed by the Technical Advisor of the HRADF on 20 May 2017. In addition, HRADF is performing a detailed technical and engineering auditing work of the motorway as well as other legal and financial preparatory work**.**

270. **Natural gas transmission system operator DESFA**: **The tender for a majority stake in DESFA was re-launched as a prior action of the second review, with a view to sign a shareholders' agreement by October 2017.** After a tender procedure in 2013 in the framework of the privatisation programme, the State Oil Company of Azerbaijan (SOCAR) had been awarded 66 % of the shares in DESFA, with the remaining 34 % to be directly held by the Hellenic Republic, but merger control clearance for this transaction was protracted, as initial competition concerns were identified. After legislation adopted by the Greek Parliament relating to the recovery of past outstanding compensation of DESFA, the share purchase agreement was terminated by the investor in November 2016. On 1 March 2017, the Government Economic Policy Council decided *inter alia* that the previous privatisation tender for the sale of 66% of DESFA should be terminated and that, as part of the measures for the second review, HRADF should proceed with the sale of the 31% of DESFA shares, out of a total of 65% of shares currently held through Public Gas Corporation (DEPA), along with the 35% of DESFA shares held by Hellenic Petroleum (HELPE) (also held through DEPA); a 34% stake in DESFA shall thus be retained by the Hellenic Republic. By virtue of the same decision, the Government Council for Economic Policy authorised HRADF to implement the tender process for the aforementioned sale. To this end, HRADF, HELPE and the Greek State concluded a Memorandum of Cooperation relating to the transaction, which was signed by all parties prior to the launch of the Expression of Interest (EoI). With a view to the above, HRADF has concluded

all its internal procedures for the appointment of its financial and legal advisors, who are on board since May 2017. Furthermore, on 12 June 2017 HRADF's Board of Directors approved the launching of the EoI under the condition that the current legal framework (Article 103 of Law 4472/2017) governing the tender process will be amended in order to allow for the participation of more potential investors and thus increase the chances for the successful completion of the privatisation. The proposed amendment was adopted by Parliament on 21 June 2017. The Expression of Interest was launched right after the publication of the amendment in the Official Gazette. Moreover, prior to the launch of the tender, legislation was adopted to ensure that DESFA will operate under full ownership unbundling once the sale is completed. Further, to ensure security of supply and the presence of relevant industrial knowledge among DESFA's shareholders, only parties or consortia comprising at least one member of the European Network of Transmission System Operators for Gas (ENTSO-G) will be eligible for participation in the tender, with the resulting corporate governance structure of DESFA being such that at least one member of ENTSO-G will be able to exercise, directly or indirectly, at least joint control over DESFA.

271. **TRAINOSE:** Ferrovie Dello Stato Italiane S.p.A. submitted a bid of EUR 45 mn for TRAINOSE in July 2016, after a long preparatory period, and many actions were completed by the government to facilitate this process. A formal clearance was issued by the Court of Audit on 16 January 2017 and the share purchase agreement was signed on 18 January 2017 with regard to the sale of 100% of the shares of TRAINOSE S.A. The European Commission (DG Competition) issued its decision on the state aid compatibility of the tender on 16 June 2017, opening the way for the financial closing of the transaction in the coming weeks. As mentioned above, the sale and transfer of the 100% stake of TRAINOSE SA to Ferrovie Dello Stato Italiane S.p.A. for a total consideration of €45 million was completed on 14 September. As regards the tender for the Rolling-Stock Maintenance Company EESTY-ROSCO, due to very weak investor interest, which is *inter alia* to be attributed to the delays in the closing of the TRAINOSE transaction, upon a proposal by the advisors, the period for the submission of final bids has been extended.

272. **Thessaloniki Port:** The privatisation process has been delayed somewhat due to difficulties in finalising the Concession Agreement, and the aim is to conclude by Q4 2017. As part of the measures for the first review, KYSOIP approved the Concession Agreement for OLTH, enabling the uploading of the final documents and eventually the submission of binding bids. Binding bids were submitted on 24 March 2017 and opened on 7 April 2017, and improved financial offers were requested. The improved financial offers were unsealed on 24 April 2017 and the consortium comprising «Deutsche Invest Equity Partners GmbH», «Belterra Investments Ltd.» and «Terminal Link SAS» which submitted an improved financial offer of EUR 232 mn for 67% of the shares was declared as the highest bidder. The total value of the agreement is estimated at EUR 1.1 billion and includes *inter alia* the aforementioned EUR 232 million offer, mandatory investments amounting to EUR 180 million over the next seven years and the expected revenues from the Concession Agreement for the Hellenic Republic (a concession consideration of 3.5% of the turnover of the Thessaloniki Port Authority) expected to total EUR 170 million overall. That total also includes the expected dividends to be collected by HRADF for the remaining 7.2% stake, as well as the estimated investments (beyond the minimum mandatory ones) up until the end of the concession in 2051. A file relating to the tender process has been submitted to the Court of Auditors in June for a pre-contractual review of the legality of the process. The share purchase agreement (SPA) will be signed following the Court of Auditors' approval. The completion of the transaction is subject to the competent competition authorities' approval and it is expected to be concluded in Q4 2017.

273. **Overall, since 2011 and as of June 2017, bids have been offered for 37 projects of a total value of EUR 7.5 bn.** Completion occurred and proceeds (excluding instalments and interest) were collected for 31 projects with total proceeds of EUR 4.3 bn (EUR 3.4 bn until 2016 plus

EUR 0.9 bn in 2017). As of June 2017, two tenders were in progress and 12 projects in the preparatory phase. Table 1.5.2 presents the Hellenic Republic Asset Development Fund (HRADF, or TAIPED in Greek) portfolio of projects since 2011. The MoU signed in August 2015 was anticipating proceeds amounting to EUR 6.4 bn during the programme period. This level of proceeds was estimated on the assumption of the strict implementation of the privatisation programme as reflected in the Asset Development Plan of HRADF, using the best available at the time information as to the expected proceeds per transaction. The estimate on the proceeds from the implementation of the privatisation programme as in June 2017 was reduced to EUR 5.2 bn. The main reason for this deviation is that the estimates are made on the basis of the prevailing market conditions at the time of the estimates. For a number of listed companies, the difference in the market values between mid-2015 and mid-2017 has led to a significant deviation. The proceeds of EUR 1.9 bn projected for 2017 in the SMoU signed in July 2017 are contingent upon the financial closing for the sales of shares in the port of Thessaloniki and in OTE, both of which may slip into 2018 and hence lead to delays. The proceeds until the end of the programme are subject to the strict implementation of the privatisation programme for 2018.

Table 1.5.2: **HRADF project portfolio since 2011**

Project	In preparation	In progress	Bid received	Value (mn EUR)	Proceeds collected (mn EUR)	Completed in Year	Expected Completion
MOBILE TELEPHONY			X	408	387	2011	
OPAP LICENSES - VLTs			X	560	560	2011	
OPAP LICENSES			X	375	375	2011	
SHARES ETE-PIRAEUS-ALPHA			X	15	15	2012	
BUILDINGS ABROAD (London, Tashkent, Brussels			X	30	30	2013	
STATE LOTTERIES			X	190	190	2013	
OPAP Shares 33%			X	652	631	2013	
OPAP Shares 1%			X	22	22	2013	
International Broadcasting Center (IBC)			X	81	81	2013	
E-AUCTION I			X	11	10	2013	
BUILDINGS ABROAD (Dusseldorf)			X	1	1	2014	
PALIOURI			X	14	14	2014	
DIGITAL DIVIDENT			X	385	333	2014	
SALE & LEASEBACK (28 assets)			X	261	261	2014	
E-AUCTION II			X	2	1	2015	
E-AUCTION III			X	9	7	2015	
BUILDINGS ABROAD (Belgrade)			X	2	2	2015	
XENIA SKIATHOS			X	3	3	2015	
AGIOS IOANNIS			X	10	10	2015	
ODIE - Mutual Horse-betting License			X	41	41	2015	
E-AUCTION IV			X	0	0	2015	
BUILDINGS ABROAD (New York, Washington)			X	11	11	2016	
BUILDINGS ABROAD (Rome, Yerevan)			X	10	10	2016	
BUILDINGS ABROAD (Ljubljana)			X	1	1	2016	
OLP (67%)			X	369	281	2016	
E-AUCTION VI			X	19	7	2016	
ASTIR VOULIAGMENIS			X	95	95	2016	
CASSIOPI			X	23	10	2016	
2 AIRBUS			X	4	4	2016	
MODIANO MARKET, THESSALONIKI			X	2	-	2017	
E-AUCTION V			X	1	1	2017	
REGIONAL AIRPORTS			X	2150	938	2017	
TRAINOSE			X	45	-	2017	
E-AUCTION VII	X				-	2017	
OLTH (67%)			X	232	-	2017	
ROSCO		X					2017
OTE (5%)	X						2017
AIA - CONCESSION EXTENSION			X	484			2018
MARINA CHIOS	X						2018
MARINA ALIMOS	X						2018
HELLINIKO			X	915	-		2018
AFANTOU, RHODES			X	42	-		2018
EGNATIA		X					2018
EYATH (23%)	X						2018
EYDAP (11%)	X						2018
AIA (30%)	X						2018
PPC (17%)	X						2018
HELPE (35%)	X						2018
DEPA (65%)	X						2018
OTHER MARINAS	X						2018
DESFA	X						2018
Count - 51				**7,471.90**	**4,329.50**		

Source: TAIPED

274. **The authorities have committed to proceed and complete their ongoing and ambitious privatisation programme. To this end, in May 2017, they extended the term of life of the Hellenic Republic Asset Development Fund (HRADF or TAIPED) for three years and endorsed the updated Asset Development Plan (ADP) of HRADF.** The ADP, approved by HRADF in January 2017, was formally endorsed by the Economic Council (KYSOIP) on 19 May 2017. The ADP is attached to the SMoU and constitutes an integral part of the agreement with the institutions. The privatisation programme of HRADF, has projected proceeds of EUR 4.4 bn for the years 2017 and 2018 with major privatisations or concessions taking place during this period (ports, airports, railway, energy and water utilities, real estate etc.). In particular, the implementation of the ADP aims to generate further annual proceeds (excluding bank shares) for 2017 and 2018 of EUR 1.9 bn and EUR 2.5 bn respectively, on top of the

EUR 0.3 b and EUR 0.5 bn collected in 2015 and 2016. The main forthcoming privatisation projects include the sale of stakes in energy companies (Public Power Corporation (PPC), Public Gas Corporation (DEPA), Hellenic Petroleum), minority stakes in Athens Water Supply & Sewerage (EYDAP) and Thessaloniki Water Supply & Sewerage (EYATH) as well as the sale of a 5% stake in the Hellenic Telecommunications Organisation (OTE) S.A. and a 30% stake in AIA. The processes to hire advisors for these key remaining tenders of the ADP have been launched and the HRADF is in the phase of hiring the consultants

Table 1.5.3: **Expected privatisation receipts (excluding sale of bank shares)**

By the end of	Yearly proceeds	Cumulative receipts since 2011
2011	1.2	
2012	0	1.2
2013	1	2.2
2014	0.4	2.6
2015	0.3	2.9
2016	0.5	3.4
2017*	1.9	5.3
2018*	2.5	7.8

* Forecast
Source: HRADF

275. **The government has committed to facilitate the privatisation process and complete all needed government actions to allow tenders to be successfully executed.** In this respect, it will complete all actions needed as agreed on a quarterly basis between HRADF, the institutions and the government. The list of Government Pending Actions is attached to the updated Memorandum as an Annex and constitutes an integral part of the agreement under the ESM stability support programme. For a successful privatisation process, it is imperative that HRADF is able to control the companies it owns to ensure that any action is consistent with the privatisation objectives.

1.5.7.2. A new vehicle: Hellenic Corporation of Assets and Participations

276. **In line with the statement of the Euro Summit of 12 July 2015, a new vehicle, the Hellenic Corporation of Assets and Participations (HCAP), which will have in its possession valuable Greek assets, was established through law 4389/2016.** It is comprised of HRADF – Hellenic Republic Asset Development Fund, HFSF – Hellenic Financial Stability Fund, EDIS (to manage State-Owned Enterprises) and the real-estate arm (ETAD). The overarching objective of HCAP is to manage valuable Greek assets; and to protect, create and ultimately maximise their value, through profitable management to create dividend streams, and divestment where assets are well-priced and subject to minimum holding requirements.. HCAP is established in Greece and managed by a Board of Directors, overseen by a Supervisory Board; two members of the Supervisory Board have been nominated jointly by the European Commission and the ESM and appointed by the Minister of Finance, together with three members nominated by the Minister. HCAP is expected to fulfil its objective by adhering to international best practices and OECD guidelines in terms of management, governance and transparency, as well as best practices for socially and environmentally sustainable business and consultation with stakeholders. HCAP and its assets will be under professional management at arm's length from the State. The monetisation of the assets will be one source to make repayments of the new loan of ESM, in line with the Euro Summit Statement. A detailed presentation of HCAP can be found in section 1.7.2.

1.6. PILLAR 4: A MODERN STATE AND PUBLIC ADMINISTRATION

277. **A modern State and an efficient public administration are paramount to ensure a high-quality provision of public services, and a key aim of the ESM stability support programme is to ensure the sustained implementation of agreed policies over many years.** Experience with previous programmes showed that the lack of capacity of the public administration to design and implement reforms played a key role in explaining shortcomings. The ESM programme therefore includes a fourth pillar, dedicated to the modernisation of the State and public administration, backed up with technical assistance provided by the Commission's Structural Reform Support Service (SRSS). Particular attention is paid to measures to increase the efficiency and effectiveness of the public sector in the delivery of essential public goods and services. This includes an ambitious programme to modernise all human resource policies of the public sector related to wage/salary grids, non-wage benefits, appointment of middle and senior managers, performance assessment and mobility of staff across public bodies. The programme also contains policies designed to improve the efficiency of the justice system, the functioning of which is slow and which acts as a drag on investment and economic activity in general, as well as policies to develop and implement a comprehensive anti-corruption strategy. A horizontal review of the provisions on independent bodies, to strengthen their autonomy from the Government, is also included, covering entities such as the Hellenic Statistical Institute (ELSTAT) and the Hellenic Competition Commission (HCC).

1.6.1. PUBLIC ADMINISTRATION

278. **Following a substantial scaling down of the public administration to address overcapacity, Greece is now implementing key reforms to improve its quality**. A very strong reduction in the number of employees in the core public sector, by 26% between 2009 and 2016, contributed to the even stronger reduction, by 38% , in the level of the wage bill, which is now brought in line with the euro area average in terms of GDP (9.1 % against 8.9 %). The ESM programme focuses on qualitative reforms and de-politicisation of the administration.

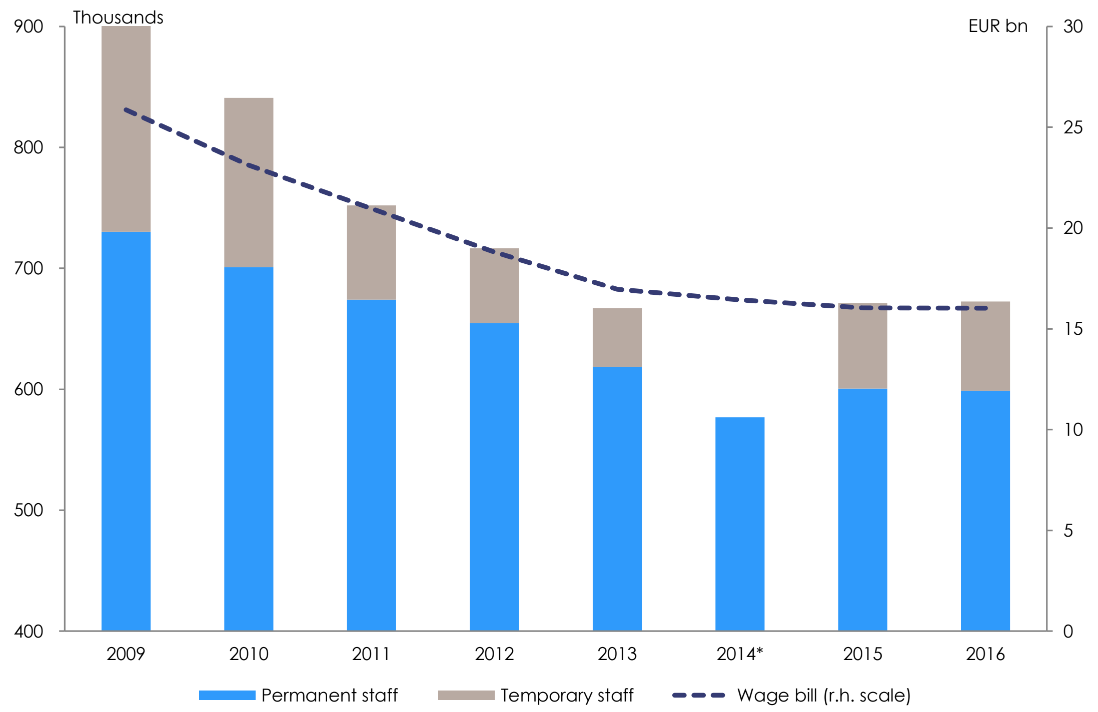
Table 1.6.1: **Greece -Employees in General Government burdening the budget**

	2009	2016	difference
Permanent staff	730,234	598,870	-18%
Temporary staff	175,476	73,789	-58%
Total	905,710	672,659	-26%
Wage bill (EUR mln)	25,866	16,018	-38%

Source: Apografi, Eurostat

279. **The legislative interventions which were planned under the programme have been adopted, and the key issue is now to keep the pace of their implementation, which has already started.** Technical assistance provided by the Structural Reform Support Service (SRSS) of the European Commission will be important in this regard.

Graph 1.6.1: **General Government - Employees burdening the budget and wage bill, 2009-2015**



* Data on temporary staff burdening/not burdening the budget is not available for 2014.
Source: Apografi database and Eurostat

280. **The unified ([47]) wage grid reform finally introduces a link between wages and performance.** The reform approved in December 2015 and already implemented simplifies and rationalises the pay system for more than 400 000 civil servants, with a 20% decompression in the wage scale, a streamlining of allowances, and a new system of career-based incentives for the best performers (see also Box 1.6.1). The reform is fiscally neutral and, in connection with the law on evaluation and hiring of managers, allows higher performers to be promoted faster. It also introduces provisions that could allow for suspension of automatic wage increases for sustained underperformance. Employees will be graded according to the new grid, taking into account the seniority rights matured in the recent years when promotions were frozen, with a four-year transition period to the new wage levels with the aim of ensuring fiscal sustainability. Decompression in the wage scale will be improved through an increase in managerial allowances and by including higher functions (Administrative Secretaries, which will replace Secretaries-General) within the grid. A further and essential step of the reform, in 2018, will be the transition to a system based on job descriptions, which will allow to better reflect duties and responsibilities in remunerations.

281. **Specialised wage grids have also been reformed under the second review, using the same principles as the unified wage grid reform, where applicable.** The number of special wage grids has been greatly reduced, from 20 to 8, and the salary structure strongly simplified, with a complex and widely diversified system of allowances now merged into the main remuneration or abolished. The reform covers almost one third of all public employees, with the other two thirds

([47]) As in many other EU countries, the unified wage grid does not cover categories such as uniformed personnel (military and police), doctors, judges, diplomats, university professors and researchers. These are covered by specialised wage grids which address the specificities of these professions.

covered by the unified wage grid reform. The reform did not cover the judiciary on grounds of constitutional concerns. The government has committed to address this issue by June 2018.

282. **The performance assessment system has been overhauled and modernised**. The new system, legislated in February 2016, will be applied from 2017 based on 2016 data. Evaluation is based on knowledge, behaviour and effectiveness of the employees. It includes an interview, and is used for career-based incentives, with a mechanism which should be able to prevent grade inflation, which was a significant problem of the previous system. Relevant secondary legislation and circulars have been issued and the first exercise is to be conducted in 2017, though the initial deadline of June has not been met.

283. **The new system for the recruitment of managers was also approved in February 2016 and is now being rolled out**. The new selection mechanism is still based on formal qualifications, including professional experience, assessment of performance and a structured interview, and is expected to bring stronger professional competence to the civil service. For the first time, relevant experience in the private sector is recognised when applying for managerial positions. Moreover, as a prior action for the second review, the call for Directors General for human resource functions and financial services was launched.

284. **The system of appointment of top civil servants in public and private entities, as well as Secretaries General of ministries, has been made more objective, to address politicisation**. The selection of top civil servants will now be performed through a non-political panel chaired by the Supreme Council for Civil Personnel Selection (ASEP), the independent entity in charge of the recruitment of civil servants. This is a very significant change in an area that was dominated by political interference. A similar reform for Secretaries-General, which are key figures at the top of all administrations, has been completed as a prior action of the first review and will be fully phased in by 2017. Secretaries-General will be replaced with Administrative Secretaries, hired through the same process that will restrict the choice by the political level to three candidates put forward by the independent evaluation panel. Administrative secretaries will have four-year contracts not linked to the political cycle, and cannot be replaced on a discretional basis. Legislation to address conflict of interest issues for top civil servants was also adopted.

285. **Greece has introduced a modern system for promoting the mobility of employees across the administration.** Before the reform, the transfer of employees was an extremely cumbersome process, involving *inter alia* the signatures of three ministers. This led to an abuse of secondments, which became the “normal” instrument of mobility, but raised significant issues in terms of transparency, organograms, and budgets. The reform introduces a transparent advertisement of open positions, with employees free to apply for transfer based on their qualifications. The receiving entity is the only one to decide on the transfer, without involvement of the political level. Secondments have now been limited to exceptional cases, can last no more than one year, and the cost of seconded employees is now borne by the receiving entity.

286. **A key challenge is now to secure sustained and full implementation of reforms.** The process which will lead to the complete renewal of all managers under the new rules is underway and will be completed by June 2018, while all secondary legislation for the implementation of the evaluation system is now in place. Implementing provisions on mobility have also been approved and the first exercise will be launched in September 2017.

Box 1.6.1: Reforming the civil servants' wage grids in the General Government

The 2011 reform of the wage grid aimed at bringing order in an extremely fragmented system, which included very significant differences among equally-ranking employees. While, in theory, all employees had the same salary, a complex system of more than thirty ministry-specific allowances created widespread differences. The key objectives of the reform were: i) the elimination of unjustified allowances and exceptions, creating for the first time a unified wage grid; ii) the provision of a connection between performance and pay; and, in combination with a policy of nominal wage cuts and the strict application of the attrition rule, iii) achieving significant fiscal savings.

The 2011 reform fell short of its aims. While the third objective of fiscal savings was achieved, with a level of the wage bill which is now in line with EU average, the first and the second were less successful, with a compressed wage grid as one of the negative results. A number of exceptions to the principle of the unified grid were later introduced in the system, benefiting a limited, but significant number of professional categories. Further, the connection between grade and pay provoked grade inflation in some professions (e.g. Inspectors-Controllers seconded to the SEEDD, Financial Auditors of the Financial Auditors Division of the Ministry of Finance, school Counsellors of the Ministry of Education and Religious Affairs, Special Inspectors seconded to the Office of the General Inspector of Public Administration), defying one of the purposes of the reform. A performance assessment system was never introduced. This is problematic *per se,* but brings two additional negative results: the connection between performance and pay, with monetary bonuses, was never implemented; and, given that Law 4046/2012 established that *'no promotion shall take place before assessing and readjusting the promotion rules'*, all promotions were frozen.

The 2015 reform of the unified wage grid was based on the idea of addressing the issues that emerged from the implementation of the 2011 reform, while at the same time retaining the fiscal savings that were achieved. Therefore, an overall fiscal neutrality constraint was introduced. It should be noted that the reform did not cover the special wage regimes (uniformed personnel, doctors, and other categories), which are relevant for about one third of the public sector and of the wage bill. This issue was addressed within the second review of the programme (see main text). The main elements of the 2015 reform of the unified wage grid are:

- Simplification of the structure of the wage. This would be composed of the basic salary, plus the allowance for managers. Only three other allowances are retained, i.e. family, border areas and hazardous jobs. By 2018, when the transition to job descriptions will be completed, the structure of the salary will be revised to introduce job-based remunerations.
- Wage scales independent from grades. Four wage scales are established, based on the level of education of the employee (primary, secondary, technical or university). Grade advancements are disconnected from salary advancements, and only serve the purpose of accessing positions of responsibility, when the highest grade (A) is achieved. Salary advancements are in principle automatic (every two years for tertiary education and every three for the others), but performance is taken into account to accelerate or decelerate the advancement (see below).
- Gradual unfreezing of the salary advancements. To recognise the years of service since the freeze was applied, employees have been re-graded and put in the corresponding place in the wage grid. However, to ensure fiscal neutrality, the salary advancement will only be phased in over four years, there will be no further advancements in 2016 and 2017, and retroactive salary rights will not be recognised.
- Career incentives based on performance. Monetary bonuses, which were introduced in 2011 and budgeted, but never implemented, were abolished. Instead, performance-based career incentives were introduced. As discussed above, the normal rule provides automatic step increases every two years for tertiary education and every three for others. The incentive scheme provides that employees who receive an average grade of "excellent" in three consecutive years may receive one additional salary step per three-year period. The maximum number of employees who can receive such incentive will range between 5% and 15% of the overall number of employees, with the exact number determined by a joint

(Continued on the next page)

Box (continued)

the incentive exercise is run every three years, which naturally limits the link between performance and pay. However, as an exception, it will be implemented for the first time in 2018 based on the evaluations of 2016 and 2017.

- Low performers. In case of inadequate performance in three consecutive evaluations, the employee can have his step increase suspended for up to one year. The suspension decision will have to be justified and will be subject to appeal.
- Decompression via increased management allowances. The need to retain fiscal neutrality and the governmental decision to discard a previous proposal to reduce the entry salary during the probation period of newly recruited employees gives little space for decompression, which is achieved through an increase (on average 20%) in managerial allowances. As a result, the compression rate moves from 1:4 to 1:4,9. The transition from Secretaries General to Administrative Secretaries will make the latter part of the administration. As a result, the compression rate is expected to move to about 1:6, more closely aligned with EU best practices (1:7).

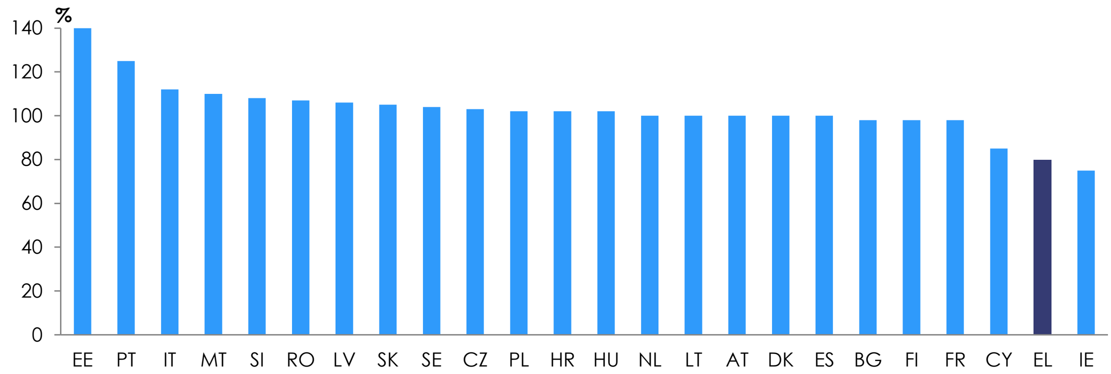
Additional elements of remuneration. Allowances for dangerous/unhealthy jobs will be reviewed in 2017, to bring them in line with EU definitions. Allowances for participation in committees and working groups are abolished. Concerning the personal differences, in cases where the employee's remuneration should be reduced because of the application of the new wage grid, the employee will be able to retain the higher salary as personal difference. This last provision will be phased out through non implementation of wage increases, i.e. wages will not be increased until the personal difference disappears.

The reform of specialised wage grids was completed as a prior action of the second review. Specialised wage grids cover categories such as uniformed personnel, doctors, judges, university professors, and researchers. Overall these categories account for around one third of the permanent personnel. Before the reform the number of grids was 20, leading to sometimes significant differences between categories which had in fact common elements. The number of grids was therefore reduced to 8, to streamline the system. The system of allowances was also very varied across the grids, leading to low level of transparency when it comes to understanding the structure of the total remuneration. Allowances were greatly simplified and, in most cases, consolidated into the main salary. It should be noted that the reform of the specialised wage grid of judiciary personnel is still pending, due to constitutional concerns. These should be addressed, and therefore the reform extended to this personnel, by June 2018.

1.6.2. JUSTICE

287. **Greek citizens and companies face an excessive length of judiciary proceedings, which is a major impediment to investment and growth.** The European Court of Human Rights has often found Greece in violation of its obligation to secure an expeditious trial, due to deficiencies in its justice system. Proceedings are excessively lengthy in large part because the Code of Civil Procedure was outdated and afforded litigants many opportunities to hold up the progress of a case. As a result, over a period of many years, the number of rulings output fell well short of the number of cases registered. This created a considerable backlog of pending cases, which further fuelled delays.

Graph 1.6.2: **Rate of resolving civil, commercial, administrative and other cases***



* Values higher than 100% indicate that more cases are resolved than come in, while values below 100% indicate that fewer cases are resolved that come in.
** Values for year 2015 except for Poland (2014) and for Greece (2010).
Source: CEPEJ

288. **In July 2015, the authorities adopted the new Code of Civil Procedure, which entered into force on 1 January 2016, and a roadmap for its implementation was delivered in November 2015.** The reform of the Code was one of the major reforms voted as a precondition for the MoU of the new ESM programme. It was urgently needed, given the many shortcomings of the repeatedly amended Code, which had ultimately proved ineffective in addressing the pressing problems created mainly by the excessive length of proceedings; (see box 1.6.2). To ensure the effective and smooth implementation of the Code, the authorities built up a roadmap taking into consideration the various types of actions needed. These range from the training of judges and clerks and informing all relevant professionals and the public on the new civil procedure to putting in place all the necessary tools and conditions for the implementation of the revised code and for monitoring its application on a continuous basis so as to identify and resolve potential problematic issues.

289. **The progress in the implementation of the revised Code of Civil Procedure in accordance with the requirements set out in the transitional provisions has been uneven.([48])** An auctions webpage was created([49]) but due to technical issues the full system only became fully operational after the closing of the first review. The new system dispenses with paperwork and enables consultation of all auctions to be conducted in the country through a web portal offering numerous search criteria and possibilities and providing summary information on relevant procedural points as well as descriptions of the assets being auctioned. Another key reform that was enacted([50]) under the first review was the setting up of a mechanism for assessing the market value of seized real-estate properties (as opposed to arbitrarily defined statutory values for the purpose of tax assessment). This reform is expected to significantly reduce disputes in the context of forced execution proceedings, since the asking price for properties put to auction will reflect their current market value. It is also expected to avert the likelihood of the need of repeated auctions, since the match of the asking price to the actual value will result in fewer failed

([48]) Provisions included in Article 1 (Ninth Article) of Law 4335/2015 which include: (i) inform and instruct judges, lawyers and court bailiffs, as well as all relative independent bodies, on the new provisions in order to achieve uniform application of the provisions; (ii) deal with technical issues; (iii) spread information about the CCP to the non-judicial public; (iv) e-documentation; (v) payment orders; (vi) webpage for auctions; (vii) property value estimation; (viii) e-auctions.
([49]) ETAA TAN (PD 67/2015 (OJ 110 A/17-9-2015).
([50]) Presidential Decree 59/2016 (OJ A 95/27.5.2016).

auctions. It is therefore expected that the overall average time for the completion of enforcement proceedings will be further shortened.

290. **Regarding the electronic auctions system,** progress was made in the context of the second review: all necessary primary and secondary legislation was enacted,([51]) the pilot version of the public electronic platform was delivered by the developer in March 2017, and the authorities conducted a successful demonstration of a live e-auction session. The testing of the platform has been completed, in view of its full operationalisation by end-July 2017. The preparation of user manuals and online audio-visual training material should proceed in parallel. The new electronic auction system shall operate under the principles of fairness, transparency and maximisation of the value of the proceeds through enhanced competition, by providing easy online access to all interested parties worldwide, dispensing with the need of their physical presence at the auction and guaranteeing legal certainty and security. The new legislation allows creditors to opt for the e-auction system also in cases where the seizure was imposed at any time prior to their entry into force. The enabling legislation regulates all specific substantive, procedural and technical requirements. It will be critical that this system if fully operational by the end of 2017, as otherwise banks will be severely constrained in the capacity to resolve NPLs and meet key targets.

([51]) Articles 59-60 of Law 4472/2017 (OJ A 74/19.5.2017), Article 7 of Law 4475/2017 OJ A 83/12.6.2017), Decision of the Minister of Justice 41756oik/2017 (OJ B 1884/30.5.2017) as amended by Decision of the Minister of Justice 46904oik/2017 (OJ B 2030/13.6.2017)

Box 1.6.2: **The reform of the code of civil procedure**

The previous Code of Civil Procedure was adopted in 1967 and frequently modified. After 50 years of implementation, the Code ceased to be up to the needs of a modern society, as its design and features did not allow for an effective handling of the case backlog. Parties could abuse the procedure to extend the duration of proceedings thus forcing Courts to take additional time to assess a case. The shortcomings of the old Code were weakening the efficiency of the judicial system. As a consequence, the authorities undertook an extensive overhaul of the Code in a major effort that took more than two years.

The new Code entered into force in January 2016 and addresses a wide range of issues. The procedure before the Courts of first instance is radically changed. Written procedure becomes the rule. Before the hearing takes place, the parties have set terms to produce their claims, counterclaims, memoranda and means of evidence, so that the hearing is not the first step of further long proceedings but offers a real opportunity to settle the case. To improve efficiency of the Courts, there is a rationalization in the use of single or multi-bench court formations, the latter not being the standard anymore. As for enforcement, the reforms aim at reducing unnecessary delays streamlining procedures and making them more efficient. This allows economic agents to perform their tasks, such as providing credit to the economy, in a more secured, timely and efficient way. Regarding auctions, the new Code aims at reducing the opportunities for parties to delay proceedings. In order to offer a more balanced protection to the rights of the various parties, the ranking of creditors whose claims are satisfied from the proceeds of auctions was revised. The new ranking also takes into account the limited capacity of the State to initiate enforcement proceedings. The provisions on payment orders and interim measures are improved. The Code also includes many *e-justice* friendly provisions, such as:

- the creation of an electronic docket, allowing for the efficient management of the courts' caseload and for the effective gathering of data in a standardized format in view of establishing reliable Justice statistics;

- the establishment of a web-based portal for the conduct of electronic auctions, which will uncouple the conduct of the auction from physical surroundings, will allow interested parties to submit bids irrespective of their physical location and will afford the possibility of simultaneous participation by the same bidder in several auctions.

A further review of the Code of Civil Procedure, the insolvency law and other related laws was agreed as part of the 2nd review of the ESM programme. The relevant legislation will be amended to strengthen the position of secured creditors, aligning the treatment of secured credit with EU best practices. This will allow lenders to provide financing based on the market value of the collateral and will thus help to restore credit flows to the economy.

291. **The authorities have committed to taking further initiatives to modernise the judicial system and improve its performance.** For this purpose, several working groups have been organised. The majority of proposals are either ongoing or in a preparatory phase. Following agreement, in the context of the second review on action plans for mediation, judicial statistics, electronic Justice and for dealing with backlogs in civil courts, regular monitoring is needed on the basis of updates to be provided by the Ministry of Justice, Transparency and Human Rights on the implementation of these action plans. In the context of the second review, the authorities adopted legislation to address the backlog of administrative justice cases([52]) and to make increases or decreases to court fees in all branches of the judiciary more transparent and selective([53]). Agreement was also reached on draft legislation securing access to justice for vulnerable persons, which is due for enactment by the authorities.

([52]) Articles 14-32 of Law 4446/2016 (FEK A 240/22.12.2016).
([53]) Articles 33-43 of Law 4446/2016 (FEK A 240/22.12.2016).

292. **A three-year strategic plan for the improvement of the functioning of the justice system was finalised, as a prior action for the first review, in May 2016, and should be seen as an integral part of the country's growth strategy.** The plan sets forth a number of proposed actions, both horizontal and specific to each branch of the Judiciary (Civil, Criminal and Administrative Justice), for the improvement of the functioning of the judicial system, to be attained by enhancing judicial efficiency, speeding-up judicial proceedings and addressing shortcomings in the functioning of courts, such as collecting information on the situation of the courts, computerisation, developing alternative means for dispute resolution, particularly mediation, rationalising the cost of litigation and introducing improvements in court functioning and management.

1.6.3. ANTICORRUPTION

293. **With the launch of the ESM programme in August 2015, the authorities agreed several anti-corruption policies**. Their commitments included implementing the national anti-corruption strategy and regularly updating it, improving the institutional and legal framework against any political interference in investigations, enacting a code of conduct for members of Parliament, improving legislation on declaration of assets and on political parties' financing and fully implementing it. In this field, the authorities benefit from the technical assistance provided by the Structural Reform Support Service (SRSS) of the European Commission.

294. **A new organisational set-up for anti-corruption policies was put in place by the authorities in 2015, replacing the national coordinator.** The function of the national coordinator, created in 2014 as a programme commitment, was replaced by the Minister of State in charge of the fight against corruption in early 2015, whose position was suppressed and its responsibilities were later — in September 2015 — transferred to the Alternate Minister of Justice. The effectiveness of the new institutional framework for the coordination of the combat against corruption will be assessed on the basis of the results achieved.

295. **The strategic plan against corruption was updated in 2015 and, after a slow start, its implementation has improved over time.** In agreement with the institutions, the authorities made an update of the 2013 national anti-corruption plan which was published([54]) in August 2015, in both Greek and English, on the website of the Secretariat-General for combatting corruption. The updated plan sets an implementation timeline that runs until the end of 2017. It sets out a series of 112 actions aiming at improving transparency to the public and to the Parliament, improving detection of risk areas of corruption, education of the public, strengthening monitoring and controls, improvement of the legal, framework, including criminal legislation, and enhancing accountability and compliance reporting. A revision was under preparation at the time of the closure of the second review of the ESM programme. Implementation of the plan has improved over time.

296. **The legal framework for the declaration of assets for politically exposed persons (PEPs) was further strengthened**. As a prior action for the completion of the first review of the ESM programme, the authorities amended the legal framework for the declaration of assets in May 2016. The key elements of the reform are: (a) the increased independence of the parliamentary committee that controls the declarations of PEPs by increasing the number of independent members from four to six and by minimising the parliamentary influence([55]); (b) the separation of

([54]) The national anti-corruption plan is available at: http://www.gsac.gov.gr/index.php/el/2015-08-12-10-16-53.
([55]) The Committee now consists of 9 members out of whom three are Members of the Parliament. The chairman of the Special Permanent Committee on Institutions and Transparency becomes the chairman of the Controlling Committee, while other two

the controlling bodies for PEPs and non-PEPs by the creation of a two-tier structure; and (c) the introduction of a system of administrative fines for minor misrepresentations on the declaration of assets, which is expected to alleviate the burden on judicial procedures and increase compliance. However, implementation seems to be lagging behind, notably because in 2017 the staffing of the controlling bodies is not up to adequate strength.

297. A C**ode of Conduct for the members of the Greek Parliament** was adopted in April 2016. The code, which is public, includes the main relevant elements (impartiality, selflessness, objectivity and mutual respect, serving the public interest, rules on conflicts of interests, on prudent use of and careful management of the resources and benefits available to members of Parliament, on gifts, confidentiality rules, rules of process against parliamentarians and sanctions). The code has legal force because it constitutes legal ground for disciplinary action by the Parliament Ethics Committee. The main priority will be proper implementation, which should be assessed in 2018.

298. As a prior action for the completion of the second review of the ESM programme and in order to **insulate financial crime and corruption investigations from political intervention,** the authorities amended, in December 2016, provisions put in place in 2015, which could be read as giving powers to the minister on individual investigations.

299. **The authorities prepared an assessment of the 2014 legislation reducing penalties for financial crimes**. They have committed to a revision of this legislation as part of the third review in the 2017 SMoU.

300. **Under the programme, progress has been made to bring the framework for the financing of political parties in line with best practice.** Significant funding now is provided be the State, donations above 500 euros must be made through a party bank account, there is a ceiling for each individual's donation, and there are strict rules on lending from banks.

301. **As part of the second review, the omnibus bill in May 2017 introduced further changes to legislation in response to recommendations from the Council of Europe's Group of States against Corruption, known as GRECO. The authorities' commitment to fully and timely implement the GRECO ([56]) recommendations will be assessed by GRECO in autumn 2017**. The new legislation passed in June 2017 improves the legal framework, notably by applying a provision limiting seizures on political parties' public financing only to past loans, and by abolishing a provision allowing EUR 150,000 per year of anonymous funding to be collected in "fund raising campaigns". However, the legislation contains a provision reinstating anonymous coupons for financing of political parties. Such anonymous coupons can now represent up to 5% of the state financing of the respective party, or EUR 100,000 per year. To ensure that this provision is in line with the recommendation by GRECO "*to abolish the possibility to use anonymous coupons for donations to political parties, coalitions and candidates"*, the authorities have asked for a further assessment of the legislation by GRECO, which is the competent authority. Given that such an assessment will not be available before autumn 2017, the authorities have committed to bring the legislation fully in line with GRECO's recommendations immediately once the assessment becomes available; this commitment has also been enshrined in the SMoU.

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parliamentarians are plain MPs. This structure compares favourably to the previous set-up where two deputy speakers of the parliament were participating in the Committee.

([56]) The Group of States against Corruption (GRECO) was established in 1999 by the Council of Europe to monitor States' compliance with the organisation's anti-corruption standards. .

1.6.4. INDEPENDENT AGENCIES

1.6.4.1. Hellenic Statistical Authority

302. **The Government has committed to ensuring the reliability of statistics, as signed in March 2012, by implementing the agreement, respecting statistical standards, guaranteeing and defending the professional independence of the Hellenic Statistical Authority (ELSTAT)**. One key step in this direction was the appointment of the new President of ELSTAT following a competitive selection process.([57]) Legal steps to strengthen the governance of ELSTAT have been undertaken since July 2015: (i) defining the role and structure of the advisory bodies of the Hellenic Statistical System, including the recasting of the Council of Hellenic Statistical System (ELSS) to an advisory committee, and the role of the Good Practice Advisory Committee (GPAC); (ii) other issues that impact on the independence of ELSTAT, including financial autonomy, the empowerment of ELSTAT to reallocate existing permanent posts and to hire needed staff, or specialised scientific personnel. The involvement of ELSTAT in legislative proposals pertaining to any statistical matter has been broadly legislated. On the other hand, the process to ensure ELSTAT's access to administrative data sources needed to be strengthened and the pace stepped up. The authorities have identified issues with the previous legislation([58]) not being sufficient to allow the SGPR to provide personalised information. For this reason, a new legislation was adopted by Parliament in November 2015 addressing the legislative gap, and permitting the transmission of the relevant data. On this basis, it is expected that the data will be transmitted to ELSTAT permanently and continuously.

303. **The Greek government has made significant additional important commitments related to ELSTAT in the context of the second review.** This includes in particular the following key deliverables to be adopted:

- legislate to facilitate the set up and staffing of the President's office;
- legislate to give the President of ELSTAT greater autonomy and flexibility in deciding how the organisation's agreed budget should be spent;
- increase ELSTAT's budget from January 2018 to facilitate the recruitment and retention of highly skilled staff;
- legislate State indemnification of the ELSTAT President - and other ELSTAT officials acting upon his authority - against costs incurred as a result of legal challenges against them in relation to carrying out their official functions.

1.6.4.2. Independent Agencies and Entities

304. **To simplify the normative framework and thereby enhance effective governance as well as the performance and effectiveness of the relevant agencies, the government committed to develop and adopt a unified common set of rules for all independent agencies, regardless of whether they are constitutionally protected or not.** To this end, the Government committed to assess the current legal framework of constitutionally protected independent agencies and,

([57]) On January 2016, following an international selection procedure, the ad hoc international Committee of Experts unanimously recommended the appointment of the new President of ESTAT, Mr Athanasios C. Thanopoulos. The selection committee was composed by members nominated by both Eurostat and the government ensuring a transparent procedure.

([58]) The relevant legislation hinges on: Art. 17 of Law 4174/2013 amended by 4254/2014 and 4258/2014, and the Memorandum of Understanding signed between ELSTAT, the Ministry of Finance (GSIS), the Secretary General for Public Revenues (SGPR) and IKA signed on 17/04/2014.

building on this as well as on European best practice, to propose amendments to this framework. The amendments should in particular address (i) the relationship between the agency/entity with the Government and with stakeholders, (ii) its operational autonomy in areas such as finances, IT and HR, including access to external providers of services and (iii) accountability and conflicts of interest. The proposal was received and agreed upon by the authorities in mid-June 2017. Subsequently, the authorities and independent agencies will amend primary and secondary legislation as appropriate so as to bring horizontal provisions and internal regulations in line with the results of the horizontal review.

305. **Hellenic Competition Commission (HCC): The authorities are committed to strengthening the effectiveness and safeguarding the independence of the HCC.** The strengthening of the HCC's advocacy unit is progressing. In November 2016, the Supreme Council for Civil Personnel Selection (ASEP) initiated a competition for 11 posts (compared to 12 posts that are postulated in the SMoU); however, the results have not yet been published. Moreover, the authorities amended, as a prior action for the first review, the provisions([59]) in relation to (i) disciplinary offences; (ii) the use of external lawyers; (iii) the conflict of interest for external lawyers; and (iv) the appointment and term of directors of the HCC. Going forward and following the results of the review regarding the horizontal treatment of independent agencies, the authorities are expected to amend areas of the legislation including those related to conflicts of interests among HCC board members and the staffing of the HCC's internal legal office.

306. **Regulatory Authority of Energy (RAE): The authorities agreed to significantly strengthen the operational independence of RAE.** This is essential given the magnitude of reforms underway in the energy sector and the role that RAE plays in their implementation. This strengthening will enable RAE to address a particularly acute need for attracting and retaining highly qualified personnel, as many have retired or left for the private sector and have not been replaced.

([59]) Provisions contained in Article 282 of Law 4364/2016 amending law 3959/2011.

1.7. SELECTED TOPICS

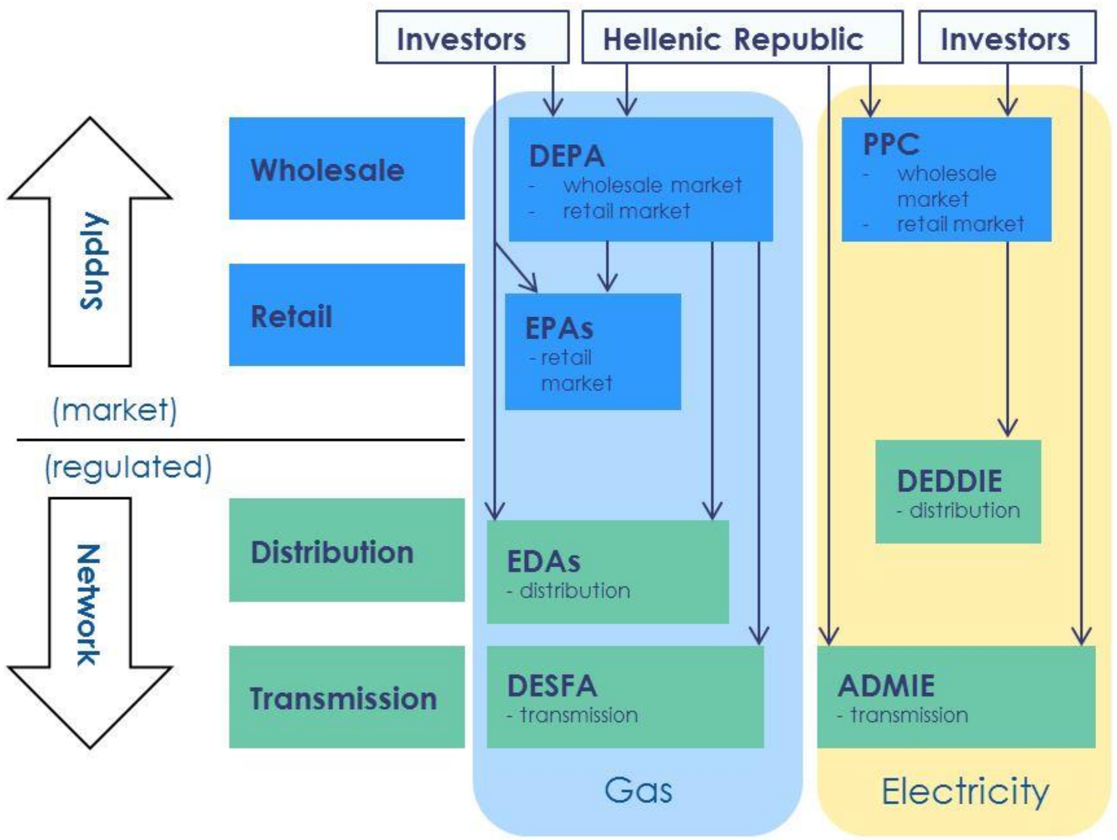
1.7.1. ENERGY

307. **Greece's energy markets need wide-ranging reforms** to make them more modern and competitive, reduce monopolistic rents and inefficiencies, promote innovation and efficient regulation, and in general transition to a more market-based approach in order to ensure that consumers benefit from these changes.

1.7.1.1. Features of the energy market in Greece

308. **Energy markets in Greece are characterised by the existence of state-owned quasi-monopolies, which are sometimes – at least partially – legally guaranteed.** In both electricity and gas, such quasi-monopolies exist both at the wholesale and retail levels, and usually have included the relevant networks, also being covered by partial exemptions from EU regulation, as depicted in Graph 1.7.1.

Graph 1.7.1: **Ownership structure of the main companies operating in the Greek energy markets.**



Source: European Commission

309. **In the electricity sector, the incumbent is the Public Power Corporation (PPC), which is owned by the Hellenic Republic (51 %) and private investors (49 %).** It is the main player on both the wholesale market (with a market share well in excess of 50 % in production and almost 80% in capacity) and the retail market (with an overall market share of 86.7 % in April 2017, according to the market operator LAGIE). PPC's quasi-monopolistic position on the electricity markets is in particular deriving from two aspects, namely:

- the sole ownership of the transmission system operator ADMIE (high voltage), which has however been moved out of PPC's control in June 2017, and of the distribution system operator DEDDIE (lower voltage);

- the exclusive exploitation rights of lignite-fired and hydro generation capacity, which were awarded to the company in its founding law (Law 1468/1950). Historically, these have been the two domestic low-cost sources for electricity generation, whereas alternative suppliers were left with the more costly gas-fired generation and electricity generation from intermittent renewable sources.

310. **The size of PPC, the market power derived from it, and the State ownership of the majority of its shares, are three factors which have significantly contributed to a distorted regulatory system, which measures committed to under the ESM programme seek to address.** Being at the centre of the system, PPC inevitably bears the largest responsibility of complying with regulatory interventions. This is coupled with pricing policies which are sometimes outside of the control of the management, which in turn implies the inability to have cost-reflective tariffs, at least for some segments of consumers, especially households and agriculture. As a consequence, there are cases in which PPC has to resort to cross-subsidisation, or has to bear straight-out losses, which in the first half of 2017 have resulted in a significant operating loss, by

- accumulating receivables from public service obligations (PSOs) since 2012;

- not collecting arrears from customers (both private and public) which it is then unable to disconnect, but instead implementing a 15% discount to customers who make punctual payments;

- not passing on the cost of the newly imposed supplier levy (ELAPE) to finance electricity production from RES.

On the other hand, PPC fails to comply with regulatory decisions because of the inability to transfer to consumers their cost, or because its market position would be negatively affected by them. The latter behaviour is made possible, in turn, by the prominent and unique position that PPC enjoys in the system. Any meaningful reform of the Greek electricity market has therefore to address the factors and behaviours outlined above.

311. **In the natural gas sector, DEPA is the incumbent company.** It is currently owned by the Hellenic Republic (65 %) and by Hellenic Petroleum (35 %), which in turn is partially owned by the Hellenic Republic. DEPA is active on the wholesale market, where it acts as a quasi-monopolist. DEPA is also active in the retail market both directly, for the supply to large industrial customers and power plants, and indirectly, through its participation in the regional distribution and supply companies, the so-called EPAs. Its dominance mainly derives from the following facts:

- DEPA is the only company holding active long-term supply contracts with natural gas producers (from Russia, Turkey and Algeria (liquefied natural gas, LNG)), whereas alternative suppliers have only been able to buy some spot cargoes of LNG.

- The natural gas transmission system operator DESFA is fully owned by DEPA, although its privatisation has been re-launched under the second review of the ESM programme, and a provision to ensure that DESFA operates under full ownership unbundling after the privatisation has been approved.

- DEPA holds 51 % of the shares in each of the three EPAs (Attiki, Thessaly and Thessaloniki), while private investors (Shell and ENI) own the remaining 49 % and the management rights. Before the 2015 reform, approved under the ESM programme, Greece enjoyed an exemption from certain provisions of EU legislation for the development and exclusive exploitation of distribution networks (Article 49 of Directive 2009/73/EC). As a result, the EPAs were geographical monopolies, operating under concession agreements the businesses of gas distribution and supply. Therefore, gas consumers in Greece were not – with very few exceptions – eligible to choose their supplier freely. These geographical monopolies prevented the development of any competition in the Greek gas retail markets. The 2015 reform, described below in greater detail, has introduced full eligibility for all customers, unbundled supply from distribution, which has become a regulated activity, and ended the geographical monopolies.

312. **In the absence of deep reforms, the parallel market structure between the gas and electricity sector would have supported the perpetuation of the current monopolistic situation.** Natural gas is an important input for electricity generation, and it is the only conventional source available to alternative suppliers, which otherwise own renewable generation capacity. The prevailing situation on the gas market, as described above, leads to higher gas prices than those deriving from a competitive market structure. This, in turn, poses a further obstacle to alternative suppliers' competitive strength on the electricity market. In other words, competition in the electricity market would be supported and facilitated by competition in the gas market.

313. **Ownership of transmission and distribution networks by the incumbents, both in gas and electricity, entails significant risks for consumers and for competition.** Transparent and non-discriminatory access to energy infrastructure is a pre-requisite for healthy competition to develop, and for this reason the third energy package of the EU (Directives 2009/72/EC and 2009/73/EC) introduces a number of constraints to limit such risks. In spite of such constraints, risks of a monopolistic misuse of the operation of the existing networks remained present in Greece. The regulatory framework did not ensure the correct incentives for future development/investments, which in turn risked becoming dissociated from the actual needs, possibly favouring the network-owning incumbents and damaging consumers. This was the main reason which spurred reforms in the ownership structure of the networks under the programme.

314. **In the energy sector, privatisation should be seen as one element of the market reform framework.** On the one hand, before any privatisation, it is essential that significant market reforms take place, in order to ensure the existence of a level playing field to all market participants and the transfer of the benefits of a competitive market to consumers. On the other hand, market rules are not able by themselves to deliver results if incumbents enjoy an almost unlimited market power that is reinforced through infrastructure ownership.

315. **Finally, besides the interconnected system, Greece also has 60 non-interconnected islands (NII), which form 32 autonomous electrical systems.** These are generally provided with electricity from fossil fuels (oil products) by PPC and some renewable generation and, absent interconnections, in general do not experience any noteworthy competition.

1.7.1.3. The electricity market

316. **The reform of the electricity market is based on three complementary pillars:** the reduction in the market power of the incumbent (PPC), the full ownership unbundling of ADMIE, and the reform of the market mechanisms, to achieve a more modern structure, which will be set out in more detail in the regulatory section of this report.

317. **To initiate the first pillar, the Greek authorities legislated in August 2015 that by 2020 no undertaking will be able to produce or import, directly or indirectly, more than 50 per cent of total electricity produced and imported in Greece.** This creates an overall constraint in the system, which is then complemented by other instruments: NOME auctions, being implemented since October 2016 following the adoption of relevant legislation in May 2016, and the sale of around 40% of PPC’s lignite-based generation capacity by June 2018, as agreed under the second review.

318. **NOME is a system of auctions of forward products which is destined to allow alternative suppliers to procure electricity from PPC and sell it at competitive prices, in order to spur competition in the retail markets and reduce PPC’s dominance.** The agreed design provides a reserve price for auctions based on the variable cost of production of lignite and hydro power, which should make the auctions attractive, as this allows alternative suppliers to replicate PPC’s cost advantage deriving from its exclusive right to exploit lignite-fired and hydro generation capacity in Greece. As described in the table below, starting from the level of August 2015 (95.24%), the mechanism has targets for lowering the retail market share of PPC by 8 percentage points in 2016, a further 12 in 2017 and a further 13 both in 2018 and 2019 each, so that by 2020 the retail market share itself will be below 50 %. The quarterly auction schedule and quantities are known in advance to create the predictability needed by alternative suppliers, in order to establish a viable business model for the retail market. The NOME mechanism takes developments throughout its lifetime, such as over- or underperformance compared to the targets, into account and can be adjusted accordingly. Quantities put to auction are defined as percentages of the total electricity sold in the interconnected system in the previous year. With the second review, quantities put to auction were redefined through a partial carryover of the quantities auctioned in the previous year, to ensure continuity in deliveries; and NOME auctions were complemented by the sale of a part of PPC's lignite-fired generation capacity by mid-2018 (see below). Other important refinements of NOME introduced with the second review are: (i) an acceleration of the correction mechanism, now meant to deliver an adjustment of the auctioned quantities in the semester immediately after a deviation from the target is ascertained; (ii) a clear timeline for the revision of the reserve price, which will be done every year in June; and (iii) an additional assessment in January 2018, to evaluate the need for additional structural measures or further adjustments in NOME quantities, following the implementation of the structural measures outlined below.

319. **NOME auctions have led to greater competition.** PPC's market share was reduced from over 95% in August 2015, when the measures were defined, to 85.62% in June 2017; however, underperformance compared to the targets is observed (see Table 1.7.1), underlining the need for structural measures.

Table 1.7.1: **First results of the NOME auctions**

	Quantities auctioned		Price in EUR/MWh		Market share of PPC	
	Planned (as modified in the 2nd review)	Bought	Reserve	Actual (highest)	Target (current month)	Actual
2016	8%	8%	37,37	37,5	87,24%	89,93%
2017	16%				75,24%	
31.01.2017	2,50%	2,50%	37,37	41,14	86,24%	89,68%
26.04.2017	2,50%	2,50%	37,37	40,02	83,24%	86,66%
19.07.2017	2,50%	2,50%	32,05	43,05	80,24%	
18.10.2017	8,50%				77,24%	
2018	19%				62,24%	
2019	22%				49,24%	

Source: European Commission

320. **During the second review of the ESM programme concluded in June 2017, an agreement was reached on structural measures relating to lignite.** PPC's exclusive access to lower-cost lignite resources had been under the scrutiny of the European Court of Justice (cases 553/12 and 554/12), which delivered its final judgment in early December 2016, confirming the Commission decisions of 2008 and 2009, making the divestiture of lignite mines binding. After this judgement, discussions with the Greek authorities and PPC were held jointly with the Directorate-General for Competition of the European Commission, and it was agreed that PPC would divest around 40% of its lignite-fired generation capacity, in line with standard rules for antitrust proceedings, regarding both the process and the buyer.

321. **In particular, PPC will not have any participation or link, including preferential supply of electricity, with any divested entity.** The purchasers will be independent of, and unconnected to, PPC and its affiliated undertakings, will need to have the financial resources, proven expertise and incentive to maintain and develop the divested generation capacity as a viable and active competitive force in competition with PPC and other competitors, and will not be likely to create, in light of the information available, prima facie competition concerns nor give rise to a risk that the implementation of the structural measures will be delayed.

322. **The divestment will represent around 40% of PPC's lignite-fired generation capacity, with the exact percentage to be defined after technical discussions with the Commission (DG Competition).** The divestment will have equivalent economic characteristics to PPC's lignite-fired generation capacity, in particular in terms of efficiency and lifetime, reflecting commissioning and decommissioning of lignite-fired generation capacity.

323. **The commitments package should be market-tested before its finalisation, with the actual sale to be closed by June 2018 before the end of the ESM programme.** When finalised, this sale will constitute a permanent measure structurally changing the market, whereas NOME from its inception had a more transitional character, leaving open questions as to the period after its expiry. A joint impact assessment by the authorities and the institutions was agreed upon in order to evaluate the impact of the aforementioned measures and evaluate any necessary additional structural measures or potential adjustments in NOME quantities.

324. **Ownership unbundling of the electricity transmission network operator (ADMIE) from PPC is a necessary step to ensure that all useful and necessary investments are made to improve the transmission network and to enhance non-discriminatory third-party access.** ADMIE was listed on the Athens Stock Exchange and transferred out of the control of PPC on 20

June 2017 as part of the second review. The process had started in December 2015 with an agreement on the transaction structure, and was followed by an international tender completed in the autumn of 2016. A strategic investor, State Grid of China, purchased 24% of ADMIE, while the Hellenic Republic now holds 51% and the remaining 24% was transferred to the private investors of PPC. The State and the strategic investor both have strong governance rights in ADMIE and inter alia co-decide on the CEO and the business plan, allowing ADMIE to fully benefit from the relevant sector experience of the strategic investor. Moreover, the shares of ADMIE and PPC held by the State will be managed according to the 'unbundling within the State' principles contained in Art. 9 of the EU Directive 2009/72/EC, to prevent conflicts of interest.

325. **The ownership unbundling is expected to bring about crucial investments in the electricity transmission network.** First of all, it is necessary to connect the Cyclades and Crete to the mainland to bring down the system costs caused by a lack of interconnections. For Crete alone, this could amount to savings for all customers in the order of EUR 400 mn per year, which would imply a very short payback time even in the face of the very significant investment which is needed. Another important issue is the improvement and management of interconnections with border countries, which should generate significant savings by allowing for cheaper electricity imports into Greece.

326. **In parallel to the market-power reducing measures outlined above, two actions were taken in the context of the second review to improve PPC's financial situation.** A roadmap was adopted to normalise the situation regarding the Public Service Obligation (PSO) for non-interconnected islands, and an action plan regarding receivables from consumers was also agreed. The PSO serves the purpose of making electricity consumers living on islands not interconnected with the mainland pay the same tariffs as other consumers, regardless of the higher cost of production of energy on the islands. Since the production costs for these remote islands are higher than elsewhere, PPC has to be reimbursed for the difference between the cost of production of the electricity it supplies on the islands and the tariffs paid by consumers, but the level of such difference (i.e. the PSO) has not been adjusted since 2012, when it was set by law. A similar situation is also observed for the social tariffs, which have however a much lower financial impact. During the second review, it was agreed that the authorities would adjust the level of the PSO, based on the data just collected, and will spread the clearance of PSO arrears over a maximum of five years, to minimise the impact on consumers while keeping it financially meaningful for PPC. The document agreed as prior action includes a plan for reimbursement as well as a planned way forward to avoid a repetition of the situation. This will improve the financial situation of PPC, as it is currently not adequately remunerated for the provision of electricity subject to PSO.

327. **PPC has a substantial amount of receivables to collect, both from the public and the private sector.** The agreed action plan describes how to finalise the clearing of arrears of the public sector by end-2017 and how to address the issue of private sector arrears through a variety of actions. These are intended to support PPC's transition from a quasi-monopolistic position to that of a genuine market player, with all relevant obligations and entitlements.

1.7.1.4. The gas market

328. In 2013, the failed privatisation process during the 2nd EFSF programme for DEPA, the Greek gas incumbent, created an opportunity to engage in a deep reform of Greece's gas markets, with the aim of ensuring that a privatised DEPA would be well contained by a competitive gas market and unbundled from its infrastructure participations, prior to restarting the privatisation process itself.

329. In August 2015 as part of the launch of the ESM programme, legislation was approved to unbundle distribution from the supply activities of the EPAs and to phase in full eligibility for all customers. Work has been ongoing since then to create the relevant regulatory framework.

330. In the gas market, the main ongoing developments relate to:

- **the definition of transmission and distribution tariffs,** which were completed as part of the milestones due by beginning of October 2016;
- **the sale of 66% of the gas transmission network operator DESFA**;
- **the unbundling of the EPAs:** the supply and distribution activities were separated at the end of 2016, in order to guarantee transparent and non-discriminatory access to the regulated distribution grid; work is still ongoing on this and will constitute the focus of the work on the gas market going forward;
- **the roadmap to full eligibility of all end customers to freely choose their supplier (effective abolition of supply monopolies):** this is happening gradually, depending on the customer category, and has been completed for all industrial and commercial customers. Full eligibility will be reached in January 2018, when household customers will be able to freely choose their supplier.
- **the reform of natural gas taxation** (also see section 1.5.6.1.).

331. **The tender for a majority stake in DESFA was re-launched.** After a tender procedure in 2013 in the framework of the privatisation programme, the State Oil Company of Azerbaijan (SOCAR) had been awarded 66% of the shares in DESFA with the remaining 34% to be directly held by the Hellenic Republic, but merger control clearance for this transaction was protracted, as initial competition concerns were identified. After legislation was adopted by the Greek Parliament relating to the recovery of past outstanding compensation of DESFA, the share purchase agreement was terminated by the investor in November 2016. As part of the second review of the ESM programme, the tender for DESFA was re-launched with the aim of signing a shareholders agreement by October 2017. Moreover, prior to the launch of the tender, in order to ensure the presence of relevant industrial knowledge among DESFA's shareholders and ensure security of supply, legislation was passed to make sure that investors have relevant industry knowledge and that DESFA will operate under the full ownership unbundling model in the future.

332. **A crucial action for the natural gas market, besides the continued implementation of the above steps, was a revision to the existing natural gas release program, in order to increase available quantities and facilitate alternative suppliers' access to DEPA's portfolio of natural gas.** The natural gas release program was introduced in 2012 by a decision of the Hellenic Competition Commission (Decision 551/VII/2012) and amended in 2014 and 2015. Before October 2016, 10 % of the natural gas quantity imported by DEPA had to be auctioned via annual and quarterly products. The reserve price of the auctions was the weighted average cost of the natural gas mixture imported by DEPA including relevant transport charges. For 2016, DEPA auctioned 184 mcm as annual products (the first time it successfully sold the full quantity designated for annual products) with the remaining quantities to be allocated in quarterly auctions. Overall, 23 companies, amongst which both industrial customers and suppliers, participated in the auction procedure.[60] As part of the October 2016 milestones, a gradual increase in quantities was agreed, to 16% in 2017, 17% in 2018, 18% in 2019 and 20% in 2020,

(60) http://energypress.eu/entire-natural-gas-amount-offered-at-annual-depa-auction-sold/.

with any quantities above 10% being auctioned only to suppliers, to create a more liquid market. Moreover, quantitative limits for purchases were eased and flexibility conditions improved for auction participants. The annual auction for 2017 took place on 18 November 2016 for 60% of the overall quantities for 2017, which were fully absorbed.

333. **Very high excises on natural gas hurt the competitiveness of the Greek industry and jobs, as well as dampen the incentives to invest in gas appliances and infrastructure, weakening the benefits of the ongoing market structure reforms.** The excise was introduced effective 1 September, 2011 at a level of EUR 1.5/GJ, or EUR 5.4/MWh. This level is five to ten times higher than the EU-mandated minimum, set in the Energy taxation Directive (2003/96/EC), of EUR 1.07/MWh for industrial use and non-business heating, and of EUR 0.54/MWh for business heating.

334. **There were significant concerns about the legality of having an excise on gas used for production of electricity.** Such kind of excise is explicitly excluded by the Energy taxation Directive, unless it is justified for environmental purposes, which is not the case in Greece.

335. **Estimates showed that an elimination of the excise on gas used for electricity generation would strongly benefit the cost of gas-produced electricity, which would go down by an estimated 14.6%, making both electricity producers and the energy-intensive industry more competitive.** Lowering gas excises would thus bring significant benefits in terms of competitiveness and as such would boost employment in the manufacturing industry. The net effect of a reduction in gas excises on energy costs would also be amplified by the implementation of other ongoing reforms in the energy sector, and it should be stressed that supporting electricity production with gas will provide considerable complementary support to the use of renewable energies in Greece, as gas plants for electricity production have the quickest and most flexible capacity to compensate supply volatility coming from renewable sources.

336. **Further, the high level of the excise on residential gas heating also discouraged switching from heating oil to gas.** Bringing the gas excise for households heating from EUR 5.40/MWh to the minimum required level of EUR 1.07/MWh would promote the use of gas for heating, in line with the objectives of the gas market reform.

337. Finally, the level of the excise for industrial/business use was deemed to be too high and to create competitiveness issues for the Greek businesses.

338. The reform, agreed in May 2016 in the context of thefirst review of the programme of the ESM programme:

- abolished as of 1 June 2016 the excise on natural gas used for the production of electricity;
- reduced as of 1 January 2017 the rate of the excise on natural gas used for heating in non-business (i.e. households), from EUR 5.4/MWh (EUR 1.5/GJ) to EUR 1.07/MWh (EUR 0.3/GJ);
- restructured and significantly lowered the rates of the excise tax on natural gas for industrial/commercial (non-heating) use, with the new rates based on consumption as follows:

Table 1.7.2: **Excises on natural gas for industrial/business (non-heating) use**

Consumption (in MWh)	existing rate (EUR/MWh)	existing rate (EUR/GJ)	new rate (EUR/MWh)	new rate (EUR/GJ)
Consumption>1,000,000	5.40	1.50	1.08	0.30
500,000 < C < 1,000,000	5.40	1.50	1.26	0.35
100,000 < C < 500,000	5.40	1.50	1.44	0.40
10,000 < C < 100,000	5.40	1.50	1.62	0.45
C < 10,000	5.40	1.50	5.40	1.50

Source: European Commission

1.7.1.5. Regulation of the energy sector

339. **Full transposition and implementation of EU legislation is a key component of a strategy to make energy policy an engine for growth and employment in Greece.** Without a clear commitment to a stable and attractive regulatory framework that creates a level playing field, the Greek energy sector will be unable to attract investments. Fair, non-discriminatory market rules aligned with EU best practice, their enforcement by an independent regulator and fully independent network operators are a prerequisite and, in fact, a requirement under EU law.

340. **For both the market operator (LAGIE) and the regulatory authority (RAE), it will therefore be important to increase their capability to follow up on all regulatory processes, the implementation of which will be a focus going forward**. Regarding the institutional setting, RAE still does not have its own Internal Operation Rules under Article 45 of Law 4001/2011. Under the SMoU signed in July 2017, these have to be adopted by September 2017. Moreover, a significant part of LAGIE employees are seconded by PPC, raising issues of conflict of interest. These secondments will expire in 2018 and a transition plan will have to be discussed with LAGIE and the authorities to secure the smooth operation of the agency.

341. **In general, a number of regulatory mechanisms have been put into place and require follow-up steps to a varying degree**. These relate to amongst others NOME auctions, Public Sevice Obligations, capacity mechanism(s), interruptibility scheme, Renewable Energy Sources (RES) support, RES account (ETMEAR and ELAPE), the electricity distribution code, electricity theft, etc. Some prominent examples are set out in the following paragraphs.

342. **Independent power producers (IPPs) are essential for security of supply in Greece, as their gas-fired power plants allow for the ramping up of the capacity to accommodate intermittent production from renewable sources.** To cater for the necessary flexibility, the existing capacity payment mechanism has been repealed and replaced with a temporary one, which is in line with the EU's Energy and Environmental State Aid Guidelines (EEAG 2014-2020) and is meant to ensure that flexibility services are indeed provided to the market, at a significantly lower cost than before. The temporary scheme was in force for 12 months from 1 May 2016 after which it expired without a new one being in place. Energy-intensive companies can also be compensated for services provided to the system. The so-called interruptible contracts allow the network operator to disconnect power from these companies in case there is an excessive load in the system, in exchange for a fee. This system was particularly important during the tight supply situation early in 2017. An assessment of its functioning in this period and investigation whether all companies participating in the scheme complying with their obligations is currently ongoing.

343. **Greece's renewable energy target, in the framework of the EU's renewable energy directive, is 18% of the final energy consumption by 2020.** Renewable energy sources support schemes had been financially unsustainable for a long time, until a comprehensive reform (the so-called 'new deal') was enforced in 2014. The reform balanced a significant reduction in internal rates of return of existing investments with an increase in the cost for final consumers, based on a levy (ETMEAR). The strong reduction in the market price for electricity, however, has posed new sustainability challenges for the so-called RES account, which is the tool used by LAGIE, the market operator, to collect the sources of financing and make the payments to RES plants. Therefore, the authorities have committed that ETMEAR shall be set by RAE, the regulator, at levels that ensure a balanced RES account on a forward-looking 12 months horizon, while respecting existing contracts. For the year 2017, with the aim of balancing the account by the end of the year, ETMEAR is being adjusted every quarter. Moreover, the authorities have introduced a charge directly on suppliers (ELAPE), which is supposed to capture the lower wholesale prices due to the presence of electricity from RES in the generation mix. However, from its introduction in late 2016, this charge quickly attained unsustainable levels and needed to be revised by the regulator with retroactive effect. Moreover, various market players have not been (fully) paying the invoiced amount, partially due to ongoing legal challenges. Still, it has led to an apparent improvement of the RES account balance in accounting terms.

344. **Looking forward, the RES support scheme for new investments is being revised to bring it in line with the Environmental and Energy State Aid Guidelines 2014-2020.** This will make it more targeted and increase cost efficiency, promoting the further deployment of renewable energy in Greece.

345. **A general reform of the regulatory framework of the electricity market is also being pursued, with a view to continue the implementation of the EU target model in Greece.** The Greek electricity market is to transition to the target model in 2018. Technical assistance is being provided by the Commission, *inter alia* to design the new market codes, while legislation on the high-level new market design was adopted in September 2016 and a detailed roadmap has been agreed as a prior action of the second review.

1.7.1.6. Next steps and longer-term strategy

346. **Energy costs are a concern for households and companies in Greece.** However, action needs to be properly thought through in this field, to avoid unintended consequences. In general terms, energy prices should be cost-based, and any legitimate social concern should be adequately addressed and financed. For the industry, concerns for energy costs should be addressed in a way that does not imply State aid, but take into account the effects of possible reductions of the system costs, and promote energy efficiency. On the other hand, artificial reductions of prices for some categories, at the expense of others (i.e. cross-subsidisation) generate distortions in the market and should always be avoided.

347. **In the medium term, the goal is the creation of competitive gas and electricity markets bringing the maximum benefit to end customers.** The desired competition will stem from the creation of an open market structure, avoiding conflicts of interest and foreclosure incentives:

- for alternative gas suppliers, new sources will become available through interconnections allowing the build-up of genuine supplier portfolios, surpassing mere participation in the gas release program, in particular through the Trans-Adriatic Pipeline (TAP), an infrastructure project that will allow access to the Italian natural gas market through reverse flows. Further, all customers will be available (eligible) as potential clients from 2018 and able to choose from a number of genuine competitors;

- for alternative electricity suppliers, an equally attractive generation mix to the one of PPC, the incumbent, will be available, both through NOME and through the implementation of structural measures, and further geographic areas will be accessible through internal (in particular the currently non-interconnected islands) and external interconnections;

- all infrastructures will be managed on a non-discriminatory and unbundled basis in line with the third energy package of the EU (Directives 2009/72/EC and 2009/73/EC).

348. **The potential of RES should be exploited to the maximum** while ensuring that any incentive is properly designed, auction-based, and dynamically linked to costs, to ensure cost minimisation and financial sustainability. Sufficient flexible generation capacity should be available to ensure grid stability and avoid black-outs.

349. **Strong attention should be given to energy efficiency, which is a large potential source of savings.** The energy intensity of the Greek economy is still significantly higher than the EU average. In 2014, final energy intensity with climatic corrections ([61]) was EUR 1.19/KWh in Greece, against 1.02/KWh for the EU. Greece has made very little progress since 2001, when it was at EUR 1.32/KWh against 1.26/KWh for the EU. This is particularly relevant for households and the public sector, where energy consumption for heating and cooling is inflated due to a lack of investment in the energy efficiency of houses and apartments. As an example, in 2014, Greece consumed 160.8 KWh to for heating one square meter, against 118.25 KWh for the EU. Exploiting this untapped potential would significantly reduce energy bills but also be an important source of jobs and growth through the associated investments, especially in the labour-intensive construction sector.

1.7.2. THE HELLENIC CORPORATION OF ASSETS AND PARTICIPATIONS S.A. (HCAP)

1.7.2.1. Organisation and governance of HCAP

350. **In the context of the ESM programme, and in line with the Euro Summit statement of 12 July 2015, the Greek authorities have established a new vehicle, called the Hellenic Corporation of Assets and Participations S.A. (HCAP).** It was legally set up in law 4389/2016 that was adopted in May 2016 as part of the first review of the ESM programme. In line with the statement of the Euro Summit of 12 July 2015 and the action plan agreed between the Greek government and the institutions, HCAP has in its possession valuable Greek assets. The overarching objective of HCAP is to manage these assets, and to protect, create and ultimately maximise their value which it will monetise through privatisations and other means. HCAP's centralised, holding-style structure sets the framework for stronger governance, as well as professional management at arm’s length from the State. In accordance with Article 185 of Law 4389/2016, HCAP is set up to serve a specific public purpose, i.e. to contribute resources (i) for the implementation of Greece's investment policy and (ii) for reducing the financial obligations of the Hellenic Republic, in accordance with Law 4336/2015.

351. **HCAP is expected to fulfil its objective by adhering to international best practices and OECD guidelines in terms of governance**, oversight and transparency of reporting standards and compliance, as well as best practices for innovation, socially and environmentally sustainable

([61]) Source: Odyssee database (http://odyssee.enerdata.net).

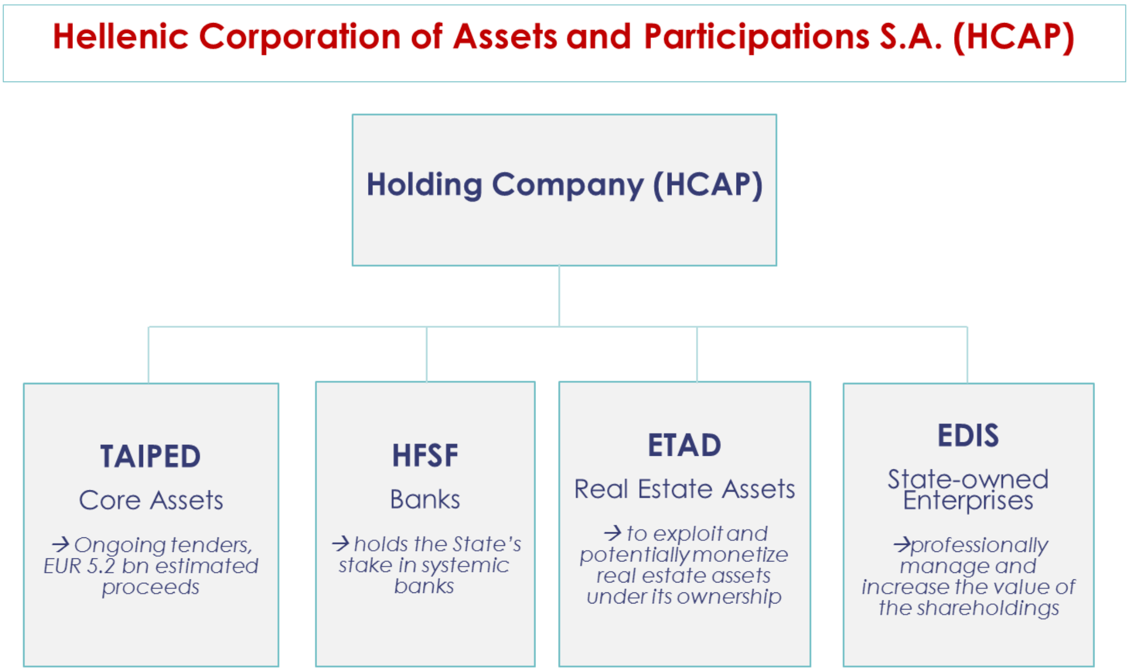
business and consultation with stakeholders. HCAP will also serve as a vehicle to facilitate reforms of state-owned enterprises (SOEs) through commercial restructuring, improved governance and continued depoliticisation of their management. The structure is expected to result in an increased customer focus that improves the products and services that the SOEs provide to the Greek public, and also increase the SOEs' ability to fund investment in their operations.

352. **HCAP is formed along the lines of a *Greek Societe Anonyme* established by law, subject to general corporate law.** The mission, governance policy and structure are designed and set out in the legislation establishing it in line with international best practice for companies, with due considerations to reinforce its independence from political intervention. The sole shareholder is the Hellenic Republic through the Greek Ministry of Finance. HCAP's Board of Directors operates at arm's length from the Hellenic Republic to ensure that HCAP's operations and its functions are based on commercial principles and best practices. The monetisation of the assets will be one source to make repayments of the ESM loan, in line with the Euro Summit Statement of July 2015.

353. **The structure and governance of HCAP is unique and tailored to its purpose.** As illustrated in Graph 1.7.2, HCAP is in effect a holding company with four subsidiaries, namely (i) the privatisation agency Hellenic Republic Asset Development Fund (HRADF or TAIPED), (ii) the Hellenic Financial Stability Fund (HFSF), which holds the State's stakes in systemic banks, (iii) the Public Properties Company (ETAD), an existing company charged with exploiting the large and diverse real estate assets that have come under its possession from the Greek State, and (iv) the Public Holdings Company (EDIS), a new holding company that will hold the State's shareholdings in different enterprises across different sectors, some of them listed, others with mixed ownership and others in which the State is the majority or sole shareholder, to manage/monetise state-owned enterprises and other shareholdings of the Greek State. The HFSF has been brought under the HCAP without impinging its independence and internal governance arrangements: the HFSF governance was modified in November 2015 as part of the bank recapitalisation process.

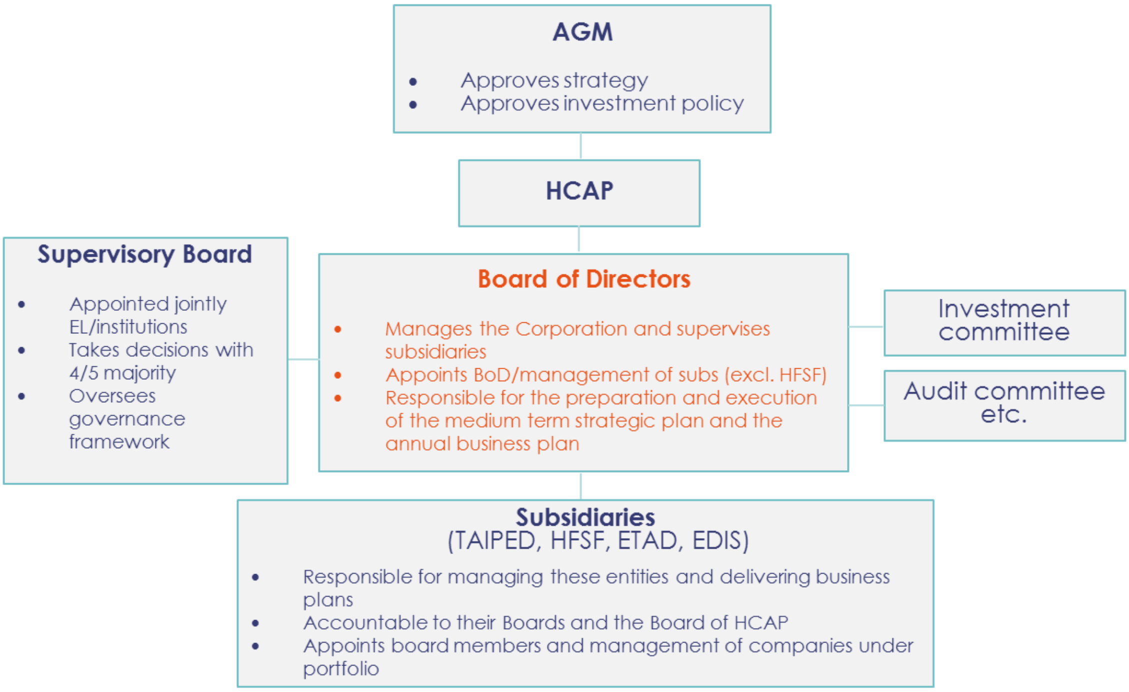
354. **Particular attention has been paid to the governance of HCAP to ensure that it is protected from undue interference from political and/or business interests.** As illustrated in Graph 1.7.3, HCAP is managed by its board of directors. The board of directors comprises executive and non-executive members. It is selected and overseen by a supervisory board, whose members are selected jointly by the Greek Government as well as the European Commission and the ESM acting jointly, and which is responsible for overseeing the governance framework but which does not take commercial decisions.

Graph 1.7.2: **Structure of the new Hellenic Corporation of Assets and Participations S. A. holding company and its sub-entities**



Source: European Commission

Graph 1.7.3: **The governance arrangements of HCAP**



Source: European Commission

355. **The supervisory board has the responsibility for the overall supervision of HCAP in relation to corporate governance and other specified matters, whilst responsibility for the company's performance and commercial management lies with the board of directors of HCAP.** The supervisory board is appointed jointly by the Greek authorities (three members) and European Commission and the ESM acting jointly (two members). The supervisory board takes decisions on the basis of a four-fifths majority and the chairman is one of the members appointed by the European Commission and the ESM. The supervisory board may dismiss a member of the board of directors of HCAP, including the executive members of the BoD. The supervisory board is responsible for ensuring full compliance with HCAP's founding legislation.

356. **Management authority rests with the board of directors of HCAP which has the overall responsibility and accountability for the execution of the Corporation's (and its subsidiaries') strategic plan (with the exceptions of HFSF and HRADF), and for meeting HCAP's return targets.** The board of directors oversees the boards of the sub-funds, with the exclusion of HFSF, and is responsible for the appointment of their directors; however, selection procedures for the HFSF governing bodies will continue to follow the HFSF law. The boards of directors of both the HFSF and HRADF will continue to exercise full executive control over the respective entities in order to ensure continuity in their operations.

357. **HCAP is expected to not rely on the government budget.** As an independent corporate vehicle it has independent financial management as well as human resources autonomy, including the latitude to set remunerations at competitive levels. It will be audited by reputable external auditors. The founding law of HCAP provides to the members of the board of directors of HCAP and the members of the supervisory board a level of legal protection to ensure that they operate effectively and independently.

1.7.2.2. A closer look at the subsidiaries of HCAP

1.7.2.2.1. Hellenic Republic Asset Development Fund (HRADF or TAIPED)

358. **The Hellenic Republic Asset Development Fund was established in 2011** (L. 3986/2011), under the authorities' medium-term fiscal strategy. The aim at that time was to restrict government intervention in the privatisation process, and to ensure further asset development within a fully professional context. The Fund was a '*Societe Anonyme*', of which the Hellenic Republic was the sole shareholder until the establishment of HCAP.

359. **HRADF was transferred under the HCAP along with its core assets and continues to operate through its board of directors in order to execute its Asset Development Plan (ADP).** The latest version of the ADP was approved by KYSOIP on 19 May 2017. HRADF's core assets targeted for privatisation / monetisation are presented in Table 1.7.3. In the first half of 2017 as part of the second review of the ESM programme, the work of HRADF accelerated and advisors have been hired by HRADF in June 2017 for a number of key tenders of the ADP. The financial closing of the agreement for the use, management, development, expansion, maintenance and operation of the 14 regional airports by a consortium led by Fraport is an important deal, expected to lead to investment and job creation in the country and the second major privatisation transaction concluded by the current government. The other important transaction was the financial closing of the sale of 67% of the shares of the Piraeus Port Authority SA (OLP) to COSCO in August 2016. A similar tender has been launched for the Thessaloniki Port Authority SA (OLTH); the preferred bidder has been selected, and the transaction should also be concluded by the end of 2017. There has also been progress on other key tenders: the share purchase agreement was signed on 18 January 2017 for the sale of 100% of the shares of TRAINOSE SA and the financial closing of the transaction has been completed on the 14th of September 2017. Finally, the HRADF board of directors approved the Athens International Airport (AIA) financial offer for the extension of the concession agreement for AIA at the end of May 2017. The company has performed very strongly under private management and the extension reaffirms the aim of the government to allow private operators to run the airport and provide the same, and gradually even better, level of services to domestic and foreign travellers.

360. **A number of assets will be transferred from HRADF to the respective subsidiaries of HCAP.** These would be essentially assets that are not yet in the process of being monetised by HRADF or where no plans exist, also in conjunction with other related tenders, for launching such processes soon. According to the SMoU of July 2017 as part of the second review, HRADF will transfer the 23 remaining regional airports as well as Hellenic Post SA to EDIS. Additionally, some 900 real estate assets have already been transferred to the real estate subsidiary.

361. **Once completed, it is expected that the privatisation/monetisation process will yield over EUR 5 bn overall during the ESM programme period.** To achieve this, however, the government's ownership of the privatisation programme and very strong and continued government support is needed in terms of resolving various legal and regulatory issues. A number of relevant government pending actions (GPAs) that had been identified were prior actions for the first and second reviews. These were essentially conditions for unblocking tenders and as such, crucial for allowing privatisation to proceed and financial targets to be met. This process requires the strong support of the government on a continuous basis. Several other actions in the area of privatisation are also considered key deliverables under the programme and the authorities are well aware that without their delivery, these targets will remain unattainable.

Table 1.7.3: **'Core assets' which will remain in HRADF**

	Current status
REGIONAL AIRPORTS	Completed
HELLENIC GAS TRANSMISSION SYSTEM OPERATOR (DESFA)	Under preparation
PIRAEUS PORT AUTHORITY (OLP)	Tender awarded
THESSALONIKI PORT AUTHORITY (OLTH)	Nomination of preferred bidder
10 PORT AUTHORITIES	Under preparation
TRAINOSE	Completed
EESSTY	In progress
ATHENS INTERNATIONAL AIRPORT (AIA)	Extension of Concession Agreement approved by HRADF / Sale of 30% under preparation
EGNATIA MOTORWAY S. A.	Under preparation
HELLENIC PETROLEUM S. A. (HELPE)	Under preparation
OTE S. A.	Under preparation
PUBLIC POWER CORPORATION S. A. (PPC)	Under preparation
THESSALONIKI WATER SUPPLY & SEWERAGE S. A. (EYATH)	Under preparation
ATHENS WATER SUPPLY & SEWERAGE S. A. (EYDAP)	Under preparation
PUBLIC GAS CORPORATION (DEPA)	Under preparation
HELLINIKON	Bid received / Ongoing
ASTIR VOULIAGMENIS	Completed
AFANDOU RHODES	Bid received / Ongoing
E-AUCTION VII	Ongoing
OTHER REAL ESTATE	Ongoing
MARINAS	Under preparation
Cumulative receipts ≈ EUR 5.2 billion	

Source: HRADF

1.7.2.2.2. Hellenic Financial Stability Fund

362. **The Hellenic Financial Stability Fund (HFSF) was founded in July 2010 (under Law 3864/2010) to contribute to the maintenance of the stability of the Greek banking system.** The HFSF, acting in line with the Memoranda of Understanding (2012 and 2015) in compliance with the obligations arising from or in connection with the Master Financial Facility Agreements (2012 and 2015), was involved in the bank recapitalisation and thus holds shares and capital instruments of banks on behalf of the Greek State. The involvement of the HFSF in the three rounds of recapitalisation is presented in Table 1.7.4. It should be noted that, out of the HFSF investment in Piraeus (EUR 2.7 bn) and NBG (EUR 2.7 bn), EUR 2.0 bn and EUR 2.0 bn were in the form of CoCos (contingent convertible bonds), of which the NBG's CoCos in value of EUR 2.0 bn were duly repaid to the HFSF in December 2016 and subsequently to the Hellenic Republic and finally to the ESM in February 2017.

Table 1.7.4: **HFSF involvement in the recapitalisation of systemic Greek banks (amounts in EUR unless otherwise indicated)**

	Alpha Bank	Piraeus Bank	NBG	Eurobank	Total
2013 (Recap 1) – capital needs	4.571	8.429	9.756	5.839	**28.595**
HFSF investment (1)	4.021	6.985	8.677	6.700	**26.383**
Private sector investment	0.550	1.444	1.079	0.000	**3.073**
Total investment	**4.571**	**8.429**	**9.756**	**6.700**	**29.456**
HFSF shareholding pre-recap	n.a.	n.a.	n.a.	n.a.	
HFSF shareholding prost-recap	83.7%	81.1%	84.4%	98.6%	
2014 (Recap 2) – capital needs					
Baseline scenario	0.262	0.425	2.183	2.945	**5.815**
Adverse scenario	0.560	0.757	2.502	4.980	**8.799**
HFSF investment					
Private Sector Investment	1.200	1.750	2.500	2.864	**8.314**
Total investment	**1.200**	**1.750**	**2.500**	**2.864**	**8.314**
HFSF shareholding pre-recap	81.7%	80.9%	84.4%	95.2%	
HFSF shareholding prost-recap	69.9%	67.3%	57.2%	35.4%	
2015 (Recap 3) – capital needs					
Baseline scenario	263.000	2.213	1.576	339.000	**4.391**
Adverse scenario	2.743	4.933	4.602	2.122	**14.401**
HFSF investment	0.000	2.720	2.706	0.000	**5.426**
Private Sector Investment	1.552	1.340	0.757	1.621	**5.270**
LME / Burden sharing	**10.011**	**0.602**	**1.019**	**0.418**	**3.050**
Capital actions SSM	0.180	0.271	0.120	0.083	0.654
Total investment	**2.743**	**4.933**	**4.602**	**2.122**	**14.400**
HFSF shareholding pre-recap	66.2%	66.9%	57.2%	35.4%	
HFSF shareholding prost-recap	11.0%	26.4%	26.1%	2.4%	
HFSF shareholding post-recap (incl. prefs)	11.0%	26.4%	40.4%	2.4%	

(1) Includes EUR 0.9 bn for NHPB SCIs
(2) 25% in shares and 75% in CoCos
Source: HFSH Annual Reports 2013, 2014, 2015

363. **With the transfer of HFSF to the HCAP that took place on 25 October 2016, HFSF retains all its assets (shares and CoCos and other capital instruments as well as receivables from liquidation), and it will operate as an independent subsidiary.** Notwithstanding the legal integration into the HCAP, the HFSF will continue to operate intact, with no change on governance and independence – including selection procedures for board members – with respect to the new HFSF law, with the aim of preparing the banks for eventual disposal of shares. The decision on the timing and modalities of the re-privatisation of the four Greek banks and the sale of all bank capital instruments held by the HFSF will rest exclusively with the HFSF, whose executive management will operate in full independence from HCAP and in accordance with the current HFSF law, and the proceeds of sales or redemptions of bank capital instruments will be used for debt repayment consistent with Eurogroup agreements.

364. **HFSF holds shares in the four systemic banks.** The share of HFSF in the four systemic banks, in percentage terms is shown in the Table 1.7.5. Moreover, the HFSF holds some EUR 2.0 bn in CoCos in Piraeus, while the net recoverable amount for the HFSF from the entities under liquidation was EUR 1.7 bn as per the HFSF's unaudited Trial Balance of 30 June 2017.

Table 1.7.5: **HFSF shareholdings in systemic banks**

	ALPHA BANK	EUROBANK	NATIONAL BANK OF GREECE	PIRAEUS BANK
Total Number of Shares (million)	1,544	2,186	9,147	8,733
Number of Shares held by HFSF (million)	169	52	3,695	2,308
% share of HFSF	10.96	2.38	40.39	26.42

Source: HFSH Weekly Report 16 June 2017

1.7.2.2.3. State-Owned Real Estate Corporation SA (ETAD)

365. **The State's real estate assets are being transferred to ETAD, the real estate subsidiary of HCAP,** with exceptions related to Greek law, including the Greek Civil Code, such as coastline properties, archaeological sites, etc. and related aspects that affect the commercial potential of the properties. ETAD has been transferred to HCAP including the legal ownership of all the assets that have come under its property by the Hellenic State. In total ETAD manages some 70,000 assets that have been transferred. Identification and registration of its legal title is under process. HRADF has already transferred some 900 real-estate assets to ETAD.

Table 1.7.6: **Real estate assets to be transferred to HCAP**

	NO. ASSETS	TRANSFER TO NEW FUND	DATE OF TRANSFER
ETAD	≈70,000	All management rights Legal ownership except few cases to be specified	Ongoing
TAIPED ASSETS	≈950	Full-ownership	Transferred
MINISTRY-MANAGED ASSETS	≈200,000	All assets to be reviewed	Gradually, by June 2018

Source: Supplemental MoU

366. **As part of the measures for the second review of the ESM programme, the authorities agreed with the institutions on the processes for determining the remaining portfolios of real estate assets that will be transferred to ETAD.** The process includes the setting up of a working group, composed of expert representatives of the Ministry of Finance, competent ministries and HCAP (via HRADF and ETAD). The working group will share regular reports with the Ministry of Finance and HCAP (and the Ministry of Finance will share the reports with the institutions). The working group will have full access as a group to the database of all Ministries and to the database of the General Secretariat for Public Property (GSPP) on the real estate assets as necessary to complete its mandate and in line with data protection laws. As a prior action, within the framework of the second review, the authorities adopted the necessary legislation to this effect. The understanding is that exclusions from real estate assets owned by the State (including real estate assets under the management of specialised companies owned or controlled through shareholding by the State, under the supervision of the Ministries) will take place based on solid grounds to be jointly agreed between institutions and the Greek Authorities, and in line with Greek legislation.

367. **The main tasks of the new real estate subsidiary of HCAP are as follows:** (i) manage and exploit existing properties during the transition to monetisation, or exploit those remaining under the ownership of HCAP; (ii) prepare/mature the thousands of properties under its management so that these can be exploited/monetised noting that many properties do not have fully clarified or transferable titles, are not geographically located or registered on the cadastre, are not accessible, and may have other issues such as illegal occupation and use and (iii) execute monetisation projects as its management considers appropriate and in consultation with the board of the HCAP.

1.7.2.2.4. State-Owned Enterprises sub-fund: EDIS

368. **HCAP will serve as a vehicle to facilitate reforms of state-owned enterprises (SOEs) through commercial restructuring, improved governance and continued depoliticisation of the public sector.** SOEs will be managed in accordance with best practices, including relevant OECD principles, to ensure ethical and responsible business, in addition to taking into account stakeholders' interests. They will be expected to be financially sustainable and able to fund reinvestment in their operations. Good business practices by the Fund and SOEs will be promoted by high transparency, ensured through rigorous, regular information and reporting obligations; long-term, strategic management encouraged through appropriate incentives for managers; and a culture of stewardship and ethical/socially responsible management as ingrained in the Fund's founding Law and internal regulations.

369. **As the SOEs in the SOE sub-fund, EDIS will be involved in activities of public policy concern, a mechanism to coordinated interactions between Ministries and HCAP/EDIS has been agreed in line with international best practice.** This coordination mechanism agreed between the Greek Authorities and the institutions provides for compliance with EU legislation regarding Services of General Economic Interest (SGEIs) and relevant national sectoral legislation, and best practices, including applicable OECD principles and in particular the OECD Guidelines on the Governance of State-Owned Enterprises, on the basis that HCAP/EDIS shall exercise the State's ownership rights in respect of shareholdings owned by EDIS. The mechanism includes the following key elements:

- The State will agree the mandate of each SOE with HCAP/EDIS, will commission specific special obligations objectives as needed, and will engage with the SOE in relation to regional, sectoral or industrial initiatives.

- The mandate sets out a simple, high-level objective and mission for the SOE in the long run which include its policy goals, defines the main objective of the SOE's mission, and sets out generic goals, such as ambition in terms of market leadership, level of excellence in service delivery or coverage, as well as broad financial goals and its main activities.

- Special obligations may be assigned to SOEs directly by the State to achieve public policy goals. These special obligations will be set out as binding performance contracts between the SOE, relevant State entities, and EDIS/HCAP where appropriate. Such special obligations must be for the purpose of ensuring the delivery by the State of a service of general economic interest. If special obligations are entrusted to an SOE through the coordination mechanism (that is, where they do not arise from legislation, regulation or other instruments), then the SOE will be fully compensated by the State for its costs, including a reasonable profit as provided by national sectoral legislation and any applicable regulatory framework.

- In cases where the State foresees a potential role for an SOE in relation to the State's public policy relating to regional, sectoral or industrial activities, the SOE's board, in consultation with HCAP/EDIS, shall engage with the State in good faith to consider such involvement. In doing so the SOE should evaluate the compatibility of any such involvement with its mandate (if applicable) and with its existing goals, strategy and operations. Any obligations agreed by the SOE, the State and/or other relevant parties shall be on arm's length terms and set out contractually unless this is not appropriate or feasible. As a matter of principle, the SOE / HCAP / EDIS should try to implement important objectives related to the State's development policy where the SOE's board considers that this is in the interest of the company and in line with the Strategic Plan of HCAP and the SOE's mandate. In case that the SOE considers that it should not participate in such engagement, then at the request of the State, it and HCAP/EDIS will engage with the State in a process of independent mediation to attempt to seek agreement. The ultimate decision of whether to participate in such policy activities will be taken by the board of the SOE, acting independently and in the interest of the SOE. The SOE, following the mediation procedure, will publish a reasoned report explaining the rationale for not participating in such engagement.

- SOEs should be required over time to earn rates of return that are, taking into account their operational conditions including socio–economic and market conditions, consistent with those obtained by well-regarded and comparable private and, where appropriate, public enterprises. Moreover, there should be fully operational autonomy of the SOEs, as well as professional and independent management of these companies.

370. **In the second half of 2017, HCAP is focusing on the structure of EDIS.** The structure should on the one hand facilitate sound management, at arm's length from the government, in order to improve its financial position and increase its value and; on the other hand, it should cater for the public nature of these companies and hence their responsibility, where relevant, to help address specific public policy objectives in line with the agreed coordination mechanism. The governance framework gives to EDIS the full responsibility for appointing boards of SOEs in line with applicable company law.

371. **The agreement envisages a three-stage asset-transfer process** (see Table 1.7.7). In phase 1 (in the 1st programme review), the Greek authorities have agreed to transfer to HCAP ten companies that operate in the sectors of transport, infrastructure, utilities and energy. In phase 2 (in the 2nd programme review), the remaining SOEs have been assessed with the support of technical assistance, and the Greek authorities have agreed to transfer an additional set of companies. Part of this second list of SOEs was scheduled to be transferred in September 2017 after the Greek government and the institutions jointly review legal impediments related to those assets. In a final phase 3, according to the SMoU, the Greek authorities will review on a regular basis the portfolio of SOEs as well as real estate assets belonging to the State and shall transfer to HCAP or its subsidiaries those complying with the purposes of HCAP. The Board of HCAP will assess and monitor strategy implementation in relation to possibilities for monetising such assets which could include direct sales, concessions of certain parts of their business, securitisation of income streams and dividends etc. In addition to the direct proceeds, the professional management of these companies will result in better financial results, and will lower significantly the transfers from the state budget.

Table 1.7.7: **The asset transfer process**

a/a	Company - TRANSFER BY LAW	Sector
	PHASE 1 – 1st REVIEW	
1	OASA - Transport for Athens	Transport
2	Hellenic Railway Organization (OSE) S.A	Transport
3	Olympic Athletic Centre of Athens (OAKA)	Sports
4	Hellenic Post (ELTA) S.A	Post
5	Thessaloniki Water Supply & Sewerage (EYATH) S.A	Infrastructure
6	Athens Water Supply & Sewerage (EYDAP) S.A	Infrastructure
7	Hellenic Vehicle Industry (ELVO) S.A	Defence
8	Attiko Metro S.A	Transport
9	Building Infrastructure (KTYP) S.A	Construction
10	Public Power Corporation (PPC) S.A	Energy
11	Hellenic Aerospace Industry (EAV) S.A 1/	
	PHASE 2 – 2nd REVIEW	
1	Athens International Airport (25% stake)	Transport
2	Remaining airports 2/	Transport
3	GAIAOSE 3/	Transport
4	Greek Salt Company	Other
5	Hellenic Defence Systems (EAS) 4/	Defence
6	ETBA VIPE	Other
7	Corinth Canal	Transport
8	Central Markets: OKAA, KATH	Other
9	HELEXPO 5/	Other
10	Transfer of the commercial assets and/or concessions belonging to the Hellenic Republic held by LARCO 6/	Manufacturing
11	Minority holdings: OTE (1%) 7/, KAE (Folli Follie Group), Hellenic Duty Free	Other
	PHASE 3 – Regular assessment of SOE portfolio belonging to the state	
	All remaining SOEs (including newly set up SOEs) to be assessed. The State shall transfer to HCAP those complying with the purposes of HCAP.	

1/ The authorities have provided the report prepared by the external advisor in relation to Hellenic Aerospace Industries (HAI) on the basis of the terms of reference agreed with the institutions.
2/ A potential transfer also of the management and operation rights of the remaining regional airports shall be reviewed by September 2017.
3/ The transfer refers to the management rights for the rolling stock and real estate assets managed by GAIAOSE and not the legal entity. The transfer will not affect the financing for the upgrade of the rolling stock directly held by the HR as required by law 3891/2010. A potential transfer also of the ownership rights of the assets (rolling stock and real estate) managed by GAIAOSE and directly held by the HR shall be reviewed by September 2017.
4/ The Authorities and the institutions will review the operations of EAS by July 2017 to assess to what extent they give rise to compelling reasons for a national security exemption from transfer to HCAP.
5/ HELEXPO will preserve its existing role in Thessaloniki with the organisation of the annual fair.
6/ The shares of LARCO should not be transferred. The meaningful assets associated with LARCO are the smelter and certain mines. After the existing relevant legal issues are clarified, these commercial assets or the concessions should be transferred.
7/ The transfer of the OTE stake will be subject to not putting into question the rights of the HR under the existing shareholders' agreement.
Source: European Commission

1.7.2.3. The use of proceeds and the investment policy

372. **The use of the proceeds of HCAP is specified in the founding legislation in line with the agreement of the Euro Summit of July 2015.** More details were agreed in an Action Plan of December 2015, and it will be further specified in detail in the internal regulations of the company, specifically:

- The sale or redemption of bank capital instruments will be used for debt repayment.

- Receipts from privatisation of HRADF core assets will be used for debt repayment through the Treasury Single Account at the Bank of Greece as part of the baseline programme financing.

- Half of all other proceeds will be earmarked for decreasing the debt–to-GDP ratio through debt repayment and the other half will be used for investments. The proceeds of HCAP that are channelled for investment purposes will be used for (i) growth-enhancing purposes in Greece and (ii) for investment in HCAP's own assets (for example, to fund viable projects by an SOE or to mature real estate). The Board of Directors of the holding company will appoint an investment committee which will propose, as part of an integrated investment strategy, the selection of the investments that will be made by HCAP.

373. **Growth-enhancing investment will be structured in a manner to maximise the impact on potential growth and to ensure good governance of projects.** In consultation with the European Commission, priority will be given to boosting national co-financing of spending on EU-funded or other multilateral (e.g. EBRD, EIB, CEB, IFC, BSTDB) sponsored projects. Investment should be directed towards financing nationwide, medium- and long-term projects, which have been assessed ex-ante to have significant impact on long-term growth, thus contributing to decreasing the debt to GDP ratio. In addition, proceeds could be directed to fund the Government's share in PPP projects assessed ex-ante to have significant impact on long-term growth, notably those identified in the Juncker plan.

374. **A share of the proceeds destined for investment will be directed towards investments in the Corporation's own assets.** This could be used to fund the preparation of assets and restructuring processes, undertake minor enhancements/repairs and infrastructure projects.

1.7.2.4. An overview of steps taken regarding HCAP up to mid-2017 under the second review of the ESM programme

375. Following the adoption of the law in May 2016 as a prior action for the first review, the following steps were taken to ensure that HCAP is now operational:

- The Supervisory Board (SB) was appointed in October 2016. In line with the relevant provision of the law, three members were selected by the sole shareholder, with the agreement of the European Commission and the European Stability Mechanism which act jointly; two members, one of which is the chairman of the Supervisory Board, were selected by the European Commission and the European Stability Mechanism, acting jointly, with the agreement of the Minister for Finance.

- Following its appointment, the SB set in motion the process for appointing the Board of Directors (BoD). The SB selected all the members of the BoD by 20 January 2017, whereas the announcement was made on 9 February 2017.

- Following its appointment, the Board of Directors has been constituted as a body and started working as from 16 February 2017.

- As part of the prior actions for the second review, the General Assembly of HCAP adopted the key internal regulations agreed between the Greek authorities and the institutions (framework for the preparation of the strategic plan, coordination mechanism, internal rules of the SB, eligibility and appointment criteria of the SB and the BoD and conflict of interest, reporting and audit, corporate governance).

- The provisions of the SMoU signed in July foresee a number of steps to be taken, with a view to making HCAP fully operational, by the end of 2017 and that will be taken up under the third review of the ESM programme.

1.7.3. STRATEGIES TO TACKLE NON-PERFORMING LOANS

376. **Greek banks face an unprecedented amount of non-performing exposures (NPEs) of around EUR 105 bn or approx.** 45% of banks' total exposures as of March 2017. While the NPEs are provisioned and collateralised above the EU average levels, they raise two major medium-term challenges. First, the resolution of such a large stock of NPLs may create risks for bank profitability. Second, and this is of concern to the broader economy, delays in cleaning up their balance sheets from these legacy assets may impair banks' ability to provide new credit to the economy Thus, from a wider perspective, the issue of how non-performing exposures are managed is crucial. Accordingly, this issue has been prominent in the design of the stability support programme for Greece, with various measures aimed at addressing it. The out-of-court workout framework, the activation of the loan servicers' profession, the encouragement of a secondary loan market, the enhanced enforceability of collateral and facilitated insolvency proceedings are all complementary tools that support banks' efforts to divest from some legacy assets and turn others into performing loans. The use of these tools is to be supported by banks' efforts to observe their own NPE reduction targets, which will be monitored by the competent supervisory authorities in the context of the Single Supervisory Mechanism. According to the banks' targets within the established monitoring framework, the stock of non-performing exposures should reach around EUR 66 billion (one-third of projected GDP) by the end of 2019.

377. **As one of the supervisory tools to monitor and incentivise the resolution of NPLs, the Bank of Greece in cooperation with the ECB/SSM has developed an extended set of Key Performance Indicators (KPIs) for non-performing loans and related targets.** KPIs with detailed statistics on the stocks and flows of NPEs and restructured arrears facilitate the comparability between credit institutions, while the targets provide a yardstick against which the performance of banks is measured and against which bank managers are to be held accountable. Banks have submitted their projections of KPIs and target templates in May 2016 and agreement on the bank-specific calibration of targets was reached by June 2016. In addition, action-oriented operational targets focus on the process of the NPEs and early arrears workouts. They present the intermediate steps that banks are taking in order to reduce the overall stock of their NPEs. As a parallel stream, the BoG asked the banks to update their internal NPL strategies. The BoG has published on their website bank-by-bank specific tables comprising the main NPL targets. (See Table 1.7.8) The quarterly monitoring of NPE reduction shows that banks are broadly on track in meeting their NPE/NPL targets. While Alpha and Eurobank have slightly missed one of their respective nominal targets, all relative targets (percentage changes) have been met. In the three-year period to end-2019, Greek banks plan to reduce their NPEs by EUR 40.2 billion (almost 40% of their total NPE stock or some 20% of projected GDP). The NPEs and NPLs as a share of total loans are expected to reach 33.9% and 20.4% respectively. A large part of the net reduction is expected to be back-loaded in 2018 and 2019 and will be driven by write-offs (EUR 13.9 bn), liquidations (EUR 11.5 bn), sale of loans (EUR 7.4 bn), collections (EUR 6.0 bn) and others (EUR 1.4 bn).

Table 1.7.8: **NPE/NPL targets**

	2017-Q1	NBG	Alpha	Piraeus	Eurobank	4 Sis
NPE volume	Actual	18.5	27.5	33.3	20.3	103.8
	Target	19.3	27.3	33.9	20.6	105.2
NPE ratio	Actual	45%	52%	54%	49%	51%
	Target	46%	50%	54%	49%	51%
NPL volume	Actual	13.9	19.5	23.0	15.6	75.2
	Target	14.2	19.7	22.3	15.3	74.7
NPL ratio	Actual	34%	37%	37%	37%	37%
	Target	34%	36%	36%	37%	36%

Source: European Commission

378. **The legal and judicial framework was subject to extensive reforms to address weaknesses and improve efficiency in the insolvency framework, which is expected to enhance NPL reduction.** The August 2015 omnibus bill,([62]) adopted at the launch of the ESM programme, included a set of amendments to the corporate insolvency law necessary as an initial short-term step to address some of the deficiencies of the corporate insolvency procedure and improve its efficiency, thereby supporting creditors' efforts to recover NPLs. In addition, the authorities enacted, in December 2016, as a prior action for the completion of the second review and on the basis of a proposal by the law-drafting committee that was constituted in July 2015,([63]) extensive amendments to the corporate insolvency law. These amendments included improvements in, and streamlining of, procedures aiming at the preservation of viable enterprises, simplification and acceleration of insolvency proceedings, improving credit recovery, overcoming obstruction by uncooperative shareholders of debtor companies, addressing abusive tactics by strategic defaulters and enabling bona fide debtors to obtain discharge no later than three years after the declaration of bankruptcy. The competence of the bankruptcy court and the referring judge (rapporteur) were redefined and the corporate insolvency law was harmonised with the requirements pertaining to the establishment of the insolvency administrator profession. Following the amendments to the corporate insolvency law enacted in December 2016, the institutions asked for the additional enactment of amendments to further simplify and accelerate insolvency proceedings regarding specifically SMEs. In May 2017, on the basis of a further proposal by the law-drafting committee, the authorities enacted this second set of amendments to the corporate insolvency law. ([64])

379. **The newly-established profession of insolvency administrators is in the process of being fully operationalised.** The August 2015 omnibus bill ([65]) contained provisions enabling the creation of a regulated profession of insolvency administrators, aimed at reinforcing the institutional infrastructure for NPL resolution in line with international experience. In the past, the complex tasks associated with insolvency proceedings (provision of pre-bankruptcy guidance with a view to rescuing viable businesses, verification of claims, liquidation of assets, collections of amounts due to the debtor, distribution of net liquidation proceeds) was entrusted to "syndics" (bankruptcy receivers), recruited from the professional body of lawyers without the need of any further particular qualifications. By contrast, the new profession will be highly regulated and supervised; it will be open to accounting (in addition to legal) professionals and recruitment will be subject to strict conditions, requiring substantial expertise in insolvency cases, to be verified

([62]) Law 4336/2015 (OJ 94/14-08-2015)
([63]) Law 4446/2016 (OJ A 240/22.12.2016).
([64]) Law 4472/2016 (OJ A 74/19.5.2017).
([65]) Law 4336/2015, OJ 94A, Part B', art. 2, Subpar. C3.

by means of accreditation examinations; license renewal will be subject to continuous training so that insolvency administrators always keep abreast of the latest developments in their field of activity. The operationalisation of the new profession has required the adoption of several pieces of secondary legislation regulating the required qualifications, terms and conditions relating to the certification of insolvency administrators, the definition of the normative framework for the performance of their duties, the establishment of rules on professional conduct and on disciplinary matters and the organisation of continuous training programmes. The authorities enacted, as a prior action for the second review, all secondary legislation([66]) and proceeded with the publication of a notice for the conduct of the first accreditation examination,([67]) so that successful candidates may be duly enrolled in time for the profession of Insolvency Administrators to be effectively and fully operationalised as from the beginning of the judicial year (September 2017). In order to ensure the alignment of the newly enacted normative framework with best international practices, the authorities submitted, in May 2017, a request to the Commission's Structural Reform Support Service (SRSS) for the provision of technical assistance regarding the preparation of an operational plan for the Insolvency Administration Committee over the next three years of its operation, the drafting of a code of conduct and related professional rules and standards for insolvency administrators, and advice on capacity building and training of insolvency administrators, as well as of magistrates active in insolvency proceedings. The technical assistance should be provided in the course of 2018.

380. **The household insolvency law was amended in August and November 2015 in order to reduce moral hazard while protecting vulnerable households, and to address the excessive backlog of pending cases.** The August 2015 omnibus bill ([68]) amended the household insolvency law to improve the framework and address the excessive backlog of pending cases which impedes credit recovery and negatively affects the payment culture. The main changes to the framework related to the introduction of a time-bound stay on enforcement in line with international experience; the establishment of a stricter screening process to deter strategic defaulters from filing under the law; and the inclusion of public creditor claims in the rescheduling scheme foreseen by the law, so as to provide eligible debtors with a fresh start. In November 2015, a new set of amendments allowed the courts to adjust the monthly payments of debtors eligible for protection to the liquidation value of their primary residence. The most vulnerable debtors are required to pay a minimum contribution of five per cent for an income below EUR 8,000 and 10 percent for any income above that amount, periodically adjusted to their actual repayment capacity. For a maximum period of three years, the State shall cover the difference between the monthly instalment of the debt settlement plan and the contribution of the borrower, pursuant to confirmation by the bank of due and punctual payment of the borrower’s share. The amended framework included also an expedited household insolvency procedure for debtors with no assets and no income. Furthermore, measures to address the large backlog of cases were agreed (e.g. increasing the number of household insolvency judges and judicial staff). In order to increase the capacity of the Justice of Peace courts (dealing with personal insolvency cases), which are struggling under the caseload generated by the massive filing of hundreds of thousands of lawsuits under the personal insolvency law and a further wave of new filings in December 2015, just ahead of the implementation of a tightening of its requirements, the authorities proceeded to the appointment of 36 successful candidates, placed on the reserve lists of previous competitions, to secretarial and clerical posts with such courts across Greece; the authorities also proceeded to the appointment of 196 successful candidates of a Justice of Peace magistrates' competition and

([66]) Presidential Decree 133/2016 (OJ A 242/2016) and a series of ministerial decisions as foreseen by the Presidential Decree, regulating the conduct of examinations, professional supervision, training-related matters, professional conduct and disciplinary proceedings.
([67]) Decision 46318 of the Insolvency Administration Committee (OJ C 535/9.6.2017).
([68]) Provisions in Law 4336/2015 (OJ 94/14.8.2015) Part B’, Art. 2 par. A subpar. A4, Chapter A’ Art. 1.2.3.4 p. 935-943. Further amendments to Law 3869/2010 voted in art. 14 Law 4346/2015 (OJ A’ 152).

provided them with focused training sessions and materials in the field of personal insolvency law. The prioritisation of high-value cases on the basis of a mandatory update of pending applications, also agreed with the Greek authorities, remains to be completed. The first assessment of the effectiveness of the above-mentioned reforms to the legal and institutional framework regarding household insolvency cases will evaluate the experience of the current judicial year, i.e. up to end-June 2017.

381. **As a prior action for the completion of the second review, the authorities enacted the required primary legislation to establish a new out-of-court workout framework.([69])** While Law 4307/2014, which was adopted in November 2014, provided an out-of-court debt resolution mechanism for both small and larger companies, very few borrowers showed interest in applying under this framework, mainly due to inadequate incentives offered. The major shortcoming of the law was that public debts of businesses could be restructured only to a minimum extent, even though tax debt and social security contributions in arrears represent a significant amount (EUR 87.5 bn for tax debt alone at end-March 2016) and hence played a key role in the viability of businesses. The new framework treats public debt in the restructuring process similarly as private debt, in line with the ranking of creditors foreseen by the insolvency and civil procedure codes. Moreover, regarding the State's claims, up to 95% of penalties and 85% of surcharges on accumulated arrears can be subordinated, and ultimately written down if necessary; regarding private sector claims, the totality of default interests is submitted to the same treatment. This is necessary for private creditors to accept a write-down of portions of their claims and will provide debtors with a strong motivation to participate, as it will ensure a global treatment of their aggregate outstanding obligations to public and private creditors. Regarding the logistics and infrastructure, the law provides for the treatment of the workout requests by specially appointed and trained coordinators (recruited amongst licensed mediators); it also provides for the screening of applicants through the application of standardised criteria and for the automation of the proceedings through the use of an IT-supported platform for the sharing of debtor-related information between banks, tax administration and social security entities. The second review also insisted on ensuring the timely implementation of the law; secondary legislation was agreed in July 2017, instructions to the administration (in the form of circulars) were issued, while work on the electronic platform for the submission of rescheduling requests, verification of eligibility, correlation of relevant information and its dissemination to creditors, processing of and deciding on rescheduling proposals, is ongoing in view of its operationalisation within the current year. Additionally, to overcome the reluctance of public and private officials dealing with NPL restructurings to proceed to write-downs of their respective principals' claims, for fear of being accused of felonious mismanagement and breach of trust, the authorities adopted, as a prior action for the completion of the second review, legislation([70]) protecting such public and private officials from civil or criminal liability and from undue pursuit for acts or omissions related to write-downs on public and private debt in the context of the out of court mechanism, as well as personal and corporate insolvency liquidation proceedings (including the special liquidation of banks and NPL transfers).

382. **Further steps were taken towards the improvement of the framework for the settlement of private debt**. The Code of Conduct of banks for the management on non-serviced debts, modified([71]) in October 2015 to introduce several debt restructuring possibilities for various groups of borrowers, was restated anew in the context of the second review, to address practical shortcomings identified by stakeholders involved in its implementation.([72]) The dormant

([69]) Law 4469/2017 (OJ A 62/3/5/2017.
([70]) Article 65 of Law 4472/2017 (OJ A 74/19.05.2017)
([71]) The amendment to the Code has been issued (Committee for Credit and Insurance Matters decision No. 148/10/5.10.2015, OJ B 2219/15.10.2015).
([72]) Committee for Credit and Insurance Matters decision No 195/1/29.7.2016 OJ B 2376/2.8.2016)

Government Council for the Management of Private Debt was re-activated and is now supported by a Secretariat for the Management of Private Debt established by Law 4389/2016.([73]) Within the framework of the enhanced structures, a Coordination Committee is being set up to facilitate the implementation of the decisions of the Council. The Coordination Committee will be chaired by the head of the Secretariat for the Management of Private Debt. The full operationalisation of the new structure is expected to contribute to the coordinated and effective implementation of the NPL strategy. Finally, to identify borrowers' repayment capacity for the facilitation of credit institutions, a credit bureau including a central database with consolidated information on arrears on public liabilities will be developed. This database will be accessible to all parties with a legitimate interest.

383. **Judicial capacity building (also see section 1.4.4.)**. The improvement of the institutional framework supporting NPL resolution and the reform of the Corporate Insolvency Code are expected to increase the recourse of creditors to judicial insolvency proceedings, thereby possibly increasing the workload of corporate insolvency courts. As part of the first review, the Greek authorities committed to undertake a number of necessary actions to address shortcomings associated with household and corporate bankruptcy courts (i.e. appointment of additional judges, longer term of duty in the relevant sections of courts and training). To increase the court-processing capacity of the Greek judicial system, the authorities proceeded in autumn 2016 to the appointment of 680 reserve list candidates to secretarial and clerical jobs with courts across Greece, with particular emphasis to the more highly burdened courts. Moreover, in March 2017 the Greek authorities launched a new public competition for the hiring of 404 judicial employees, holders of a University degree. This competition is currently under way. In support of their assertion that the overall number of magistrates currently appointed in the relevant department of district courts (whose commercial sections deal, *inter alia*, with insolvency cases) is sufficient and that a rapid redeployment of judges to the insolvency formations of the commercial sections is feasible on short notice, the authorities agreed to develop a strategy to expeditiously address possible capacity shortcomings. In this context, they have elaborated and presented to the institutions a contingency plan in order to ensure that specialised chambers can be rapidly and effectively staffed for corporate insolvency cases in the main district courts of the country, dealing with the vast majority of all corporate insolvency cases, namely the district courts of Athens, Thessaloniki and Piraeus, so that they may promptly and adequately address expected additional workload.

1.7.4. REFORMING THE HEALTH-CARE SECTOR IN GREECE TO ENHANCE COST-EFFECTIVENESS

384. **A reform of the healthcare sector was urgently needed in 2010.** Public per capita expenditure grew at a real average rate of growth of 5.4 percent in 2004-08. This trend growth rate was clearly unsustainable. Particularly problematic was the trend in pharmaceutical spending. In 2009, public spending on pharmaceuticals in Greece reached EUR 5 bn or 2% of GDP, having more than doubled in only a few years and being twice as much as EU average. No other Member State had a comparable share of GDP allocated to pharmaceuticals. In addition, there was a strong indication of an excessive consumption pattern, largely driven by supply-induced demand, pushing expenditure on diagnostics and privately provided services. While being country-specific, the adjustments to contain costs by enhancing efficiency that were implemented, such as rationalising governance, fighting corruption and assessing and improving the use of resources, are common in financial assistance programmes. They aim at obtaining an objective picture of the underlying fiscal situation while providing the right incentives to the authorities to implement the agreed policies. The specific adjustments agreed by the Greek authorities in the context of the

([73]) Articles 72 et. seq. of Law 4389/2016 (OJ A 94/27.5.2016).

ESM stability support programme for Greece are described in detail in the Technical Memorandum of Understanding.

385. **Social protection was intrinsically weak.** The system to provide social assistance, health care and pensions was highly fragmented, based on many funds with little monitoring or coordination. Inequitable funding and unequal benefit coverage across population groups completed the picture. The economic crisis revealed several weaknesses in the design of the health care system and it became clear that loss of employment was in fact associated with the loss of health insurance and coverage and a deepening deficit in the financing of the system.

386. **Lack of monitoring, fraud and waste were widespread in the healthcare system.** This meant that funding was not used efficiently and several studies pointed at a large potential for improvement in the use of resources allocated to the sector. A large set of measures were needed to stabilise or even reduce the public health spending-to-GDP ratio, while improving the quality of care provision trough substantial gains in productivity and significant cuts in waste and corruption. The health care reforms that took place tried to address the following challenges.

1.7.4.1. Rationalising expenditure in pharmaceuticals, diagnostics and other publicly reimbursed healthcare services

387. **Pharmaceutical expenditure before the crisis was the highest in the EU. This high expenditure was due to lack of control and monitoring, resulting in over-prescription and fraud, lack of evaluation of new medicines for pricing and reimbursement, no list of medicines to be reimbursed, no reference price system to set reimbursement levels and no prescription guidelines**. Another important issue was the limited use of generics. Since its onset, the programme has aimed to rectify this and has managed to bring pharmaceutical spending in line with other EU countries to the benefit of Greek consumers.

388. **More generally, lack of monitoring and rules for reimbursement affected all health care services subject to public reimbursement, such as private diagnostics, private clinics and consumables**. This resulted in uncontrolled and ever-increasing expenditure patterns linked to supply-driven overconsumption of diagnostic services, excess spending on services delivered by contracted private providers, as well as to uncontrolled spending on items and services directly reimbursed to patients.

389. **Under the programmes, the Greek government has undertaken measures yielding substantial savings:**

- an electronic system of prescription incorporating therapeutic guidelines, to enable control and monitoring of prescription behaviour;
- pricing of drugs based on the three lowest prices among EU Member States to reduce costs for patients and the public payer;
- an evidence-based positive list of reimbursed drugs, with revised criteria for introduction of innovative drugs reflecting incorporating best performance in the EU;
- reduction of over-prescription and fraud by INN (International Non-proprietary Name, i.e. active substance) prescribing, automatic auditing for doctors and pharmacists;
- stronger providers' incentives to dispense cost-effective generics;

- expenditure ceilings and clawback system to enable full access to medicines to meet citizens' needs, while controlling pharmaceutical expenditure;

- pharmaceutical co-payments from 25% to 10% with a list of exemptions for chronic diseases to ensure access;

- implementation of measures to monitor, control and sanction the irregular behaviour of providers in the prescription of diagnostic services;

- reduction of previously inflated diagnostic prices towards the average of EU Member States;

- implementation of a new reimbursement strategy for items previously directly reimbursed to patients, including improved contracting of providers and regulation of reimbursed prices.

390. **Looking forward, while many of the issues have been addressed by the adopted measures, not all have been entirely solved.** The authorities committed to the medium-term implementation of a full-fledged HTA centre, in line with best-practice in other EU Member States. Given the persistent pressure to incur increased costs related to innovation and induced demand, which have proved to be difficult to tackle in all countries, to make sure that spending in pharmaceuticals does not invert its declining trend, it would be appropriate to prolong the current clawback system (as done by other EU Member States, where this is a permanent feature of the system). Further, given budgetary constraints, a closed budget mechanism such as the clawback, allows the public payer to guarantee that citizens' needs are fully met without jeopardising the financial sustainability of the system.

1.7.4.2. Improving hospital management and the efficiency of the hospital sector

391. **Before the programme, Greek public hospitals suffered from chronic underfunding, due to delays in payment by social security funds (SSFs) combined with low reimbursed statutory fees in comparison to actual high hospitalisation costs, as well as sub-standard IT, accounting and management practices.** Another important issue was that health care competences were initially spread across two Ministries, Health and Labour, and indeed across different SSFs, which posed efficiency challenges. Prior to the programme the financial management of hospitals was inefficient and there was no control on how public funds were spent, including the purchase of pharmaceuticals and medical goods, which was not centralised (due to the fragmentation in the system) and led to high prices and large variations in the prices paid by different hospitals. More generally, a proper incentive structure to deliver cost-effective services and stay within their budgets was absent. One of the drivers was the lack of a transparent and meritocratic recruitment of hospital managers, which reinforced and furthered malpractice and waste. As lack of monitoring and non-transparent procedures led to the proliferation of waste and corruption, an array of policies to promote good practice and accountability, deemed necessary to promote an efficient use of resources, were implemented. These include:

- SSFs/EOPYY inpatient and outpatient facilities included in the National Health System (ESY);

- improved IT and modern accounting systems including accruals and double entry accounts;

- hospitals' balance sheets regularly published online;

- setting up a system of centralised purchasing of health care goods and services;

- removing the legislative barriers to a more transparent system for recruitment for managerial posts in hospitals;
- introducing performance indicators in order to assess the performance of hospitals and identify specific challenges.

392. **Overall, through the programme, the issue of efficient costing of hospital activity has received impetus and led to the development of KENs (pre-Diagnosis Related Groups), a first attempt to define standard patient cases and calculate the respective hospital costs to set reimbursement.** Though discontinued, work on this area was recently resumed. The authorities committed to implementing a Diagnosis Related Group (DRG) system (though with a substantial delay with respect to the original timetable) by the end of the programme and work in this direction is ongoing. The reorganisation of the hospital system remains a big challenge on which there is no clear strategic view. The assessment of hospitals' performance and benchmarking is lagging behind and needs to be substantially strengthened. New transparent criteria for the recruitment of management have been legislated but the implementation of the new legislation has been controversial so far and thus more effort is needed to fully implement a meritocratic and transparent recruitment procedure.

1.7.4.3. Improving the equity, efficiency, effectiveness and governance of the health care system

393. **Before the creation of EOPYY, the governance of the health system was weak and fragmented.** This was both an issue in terms of efficient spending and governance and in terms of equity. Having dispersed competences across Ministry of Labour, Ministry of Development and Ministry of Health challenged and impeded effective oversight of the health care system, its monitoring and planning, its budgeting, communication flows and overall coherence. Secondly, a plurality of SSFs generated avoidable administrative and fixed costs, substantial inequity in access and inefficient risk-sharing. Lastly, fragmentation in several SSFs led to unequitable treatment of citizens, who faced differences in the contribution rates and in the benefits packages they were entitled to. Lack of strong governance also resulted in a structural imbalance between an oversized hospital sector and the absence of a primary care system. This shortcoming not only exposed citizens to issues concerning access, but also resulted in higher health care spending than otherwise possible with a more primary-care oriented system design, with a proper referral and gatekeeping system, as supported by robust international evidence. Under the programmes, several policies were implemented to address and correct system inefficiencies, such as:

- creating the link between health contributions and services by separating pension and health care function in SSFs;
- harmonised contributions and introducing homogeneous benefits packages for the population;
- merging previous SSFs into EOPYY, set to operate as a single purchaser;
- EOPYY set to have oversight on the distribution of care services in the country, including hospital care, which was a first step towards the development of the primary care network launched in 2014;
- centralisation of health care competences from different Ministries to the Ministry of Health.

394. **During the ESM programme the authorities adopted legislation to establish and begin implementation of a fully integrated system of primary health care, to ensure that all Greek citizens have easy access to primary care services to improve quality of provision as well as rationalise expenditure by implementing the shift from a system which heavily relies on hospital care to one that is designed in a more balanced and efficient way according to robust international evidence.** Indeed, a strong primary health care network is correlated with better outcomes, as it promotes a closer relationship between patient and family doctor/general practitioner (GP), and a more efficient use of resources, by ensuring that, through gatekeeping, hospital care is only resorted to when necessary. Thus, primary care can lead to not only savings, but also to an improved service by decreasing the pressure on secondary services and reducing unnecessary diagnostics.

395. The planned adoption of the legislative framework and the commitment to implement compulsory registration with a family doctor and a network of local health units (TOMYs) over the territory constitute the first important steps towards the achievement of the medium-term goal of a comprehensive and fully integrated system of primary health care for all Greek citizens.

1.7.4.4. Ensuring universal coverage

396. **The economic crisis revealed several weaknesses in the health care system design. Contrary to the claim of a universal coverage, it became clear that loss of employment was in fact associated with the loss of health insurance.** Thus, ensuring universal coverage and universal access to health care services and goods was set as an explicit objective through the stability support programmes. In 2014, the institutions made it a prior action that a set of short- and medium-term policies would be implemented to ensure universal coverage of all residents and Greek citizens, extending coverage to the uninsured and low-income groups and ensuring their access to pharmaceuticals, diagnostics and hospital in-patient care. The completion of the implementation of universal coverage was achieved with the latest legislative act of 2016. In the meantime, several actions were taken to establish universal access to health such as vouchers for diagnostics and support measures for vulnerable groups, introduced in 2014. In 2016, the new law extended the coverage and universal access to care.

397. **In sum, universal coverage has been established; however, there is scope for improvement in the way services are delivered to citizens, such as by ensuring a proper primary health care, lowering waiting times and ensuring that hospital capacity is adequately used.** To this end, the authorities have committed to further the efforts in effective coverage and access by fully implementing the Primary Health Care reform, enhancing health promotion, lowering waiting times, transparent management of waiting lists, fighting against widespread informal payment and ensuring that public resources are adequately used to maximise patients' benefit.

2. ANNEXES

2.1. PRIOR DOCUMENTS OF THE ESM STABILITY AND SUPPORT PROGRAMME FOR GREECE

The following list of documents is presented in chronological order.

- Memorandum of Understanding of August 2015.
  https://ec.europa.eu/info/files/memorandum-understanding-greece-august-2015_en

- Report on Greece's compliance with the prior actions as requested under the MoU and adopted by the Greek parliament in July and August 2015.
  https://ec.europa.eu/info/sites/info/files/ecfin_report_on_compliance_with_prior_actions_en.pdf

- Report on Greece's compliance with the first set of milestones of October 2015 and with financial sector conditionality.
  https://ec.europa.eu/info/sites/info/files/ecfin_report_on_greece_compliance_november_2015_en.pdf

- Report on Greece's compliance with the second set of milestones of December 2015.
  https://ec.europa.eu/info/sites/info/files/ecfin_2nd_set_milestones_note_to_ewg_en.pdf

- Supplemental Memorandum of Understanding (June 2016).
  http://ec.europa.eu/info/sites/info/files/ecfin_smou_en.pdf

- Compliance note on mid-September milestones for the second disbursement for debt servicing needs of the second tranche under the Greek ESM programme.
  https://ec.europa.eu/info/sites/info/files/milestones_compliance_report_2016_10_en1.pdf

- Compliance report - First review of the ESM programme, June 2016.
  https://ec.europa.eu/info/sites/info/files/economy-finance/compliance_report_-_first_review_of_the_esm_programme.pdf

- Supplemental Memorandum of Understanding: Greece. 5 July 2017.
  https://ec.europa.eu/info/sites/info/files/smou_final_to_esm_2017_07_05.pdf

- Compliance Report - Second Review of the ESM programme, June 2017.
  https://ec.europa.eu/info/sites/info/files/compliance_report-to_ewg_2017_06_21.pdf

Additional documents can be found on the Commission's "Financial assistance to Greece" webpage. https://ec.europa.eu/info/business-economy-euro/economic-and-fiscal-policy-coordination/eu-financial-assistance/which-eu-countries-have-received-assistance/financial-assistance-greece_en

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Titles published before July 2015 can be accessed and downloaded free of charge from:

- http://ec.europa.eu/economy_finance/publications/european_economy/index_en.htm
(the main reports, e.g. Economic Forecasts)
- http://ec.europa.eu/economy_finance/publications/occasional_paper/index_en.htm
(the Occasional Papers)
- http://ec.europa.eu/economy_finance/publications/qr_euro_area/index_en.htm
(the Quarterly Reports on the Euro Area)

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