

## GREECE - POLICY COMMITMENTS

**1. Fiscal challenges.** Greece is facing a primary deficit of about -2/3 percent of GDP in 2015, absent additional measures. In view of the fragility of the Greek economy and in line with the Eurogroup statement of 20 February 2015, the Greek authorities commit to achieve a new fiscal path with a primary surplus target of 1, 2, 3 and 3.5 percent of GDP in 2015, 2017 and 2018 and beyond. To achieve the fiscal targets in a sustainable manner, the Greek authorities will undertake structural fiscal reforms, including in key areas of VAT policy reforms and to improve the sustainability of the pension system, as described below. Other concrete measures to raise revenues and streamline expenditures and subsidies are also needed to secure the fiscal targets. The Greek authorities will adopt a supplementary budget for 2015 to deliver the new primary surplus targets for 2015 and 2016 through concrete and high quality measures and the MTFS 2016-19 targeting the revised fiscal path. They will monitor fiscal risks including possible court decisions, and stand ready to take offsetting measures as needed.

**2. Tackling the social crisis and strengthening fairness across society.** The authorities will take measures to alleviate the impact of the economic crisis on the most vulnerable and will improve the social safety net. They commit to launch a comprehensive Social Welfare Review, including family and disability benefits, with the assistance of the World Bank, to be completed by October 2015, targeted to generate savings of 1/2 percent of GDP annually which will serve as the basis for the redesign of a targeted welfare system including the gradual roll-out of a Guaranteed Minimum Income (GMI) scheme in January 2016. They will take measures to boost employment through a 50,000 person social works scheme and active labour market measures with particular attention to youths, women, the elderly and the long-term unemployed.

**3. VAT reforms.** Greece has a fragmented VAT system. With a view to improving VAT collections by 1 percent of GDP on a full year basis, the authorities will adopt legislation changing parameters to significantly broaden the tax base at a standard rate of 23 percent, and a reduced 11 percent rate for food, medicines, and hotels, eliminate discounts including on islands, and streamline exemptions. These legislative changes of parameters are being supported with administrative measures, with an emphasis to combat fraud and increase compliance.

**4. Pension reform.** The 2010 and 2012 pension reforms can improve the sustainability of the pension system over the long term, and the authorities are committed to implement these reforms fully. But the pension system requires significant annual transfers from the State budget. The authorities will implement in full the 2010 pension reform law (3863/2010) and the 2012 reform, and take further immediate steps to improve the pension system, that are expected to yield around 1 percent of GDP in savings annually by 2016-17, including significantly tightening early retirement rules, increasing health contributions for pensioners and phasing out the non-pension solidarity grant. To complete the package, the authorities will by September 2015 legislate further to establish a closer link between contribution and benefits and integrate funds.

**5. Tax administration reforms.** The ability to collect taxes 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 and improve the tax payment culture, the authorities will adopt legislation to establish an independent tax and customs agency, which will be fully functional by end-June 2016. The authorities will take measures to fight evasion and fraud and to strengthen enforcement by enhancing collection tools such as garnishments of bank deposits. They will amend legislation on installments to among others exclude those who fail to pay current obligations and introduce a requirement to shorten the duration for those with the capacity to pay earlier, and market-based interest rates. The large debtor unit and KEAO will assess by September 2015 the large debtors with tax and social security debt above 1 million EUR to verify their capacity to pay and take corrective actions. The authorities firmly commit to not introduce new installment or other amnesty or settlement schemes nor amend existing schemes, such as by extending deadlines. The authorities commit to rapidly reinforce on a permanent basis the capacity of the tax administration especially on issues of liquidation and tax collection from large debtors.

**6. Public Financial Management.** The authorities commit to continue reforms that aim at improving the budget process and expenditure controls, clearing arrears, and strengthening budget reporting and cash management. The second-phase of amendments to the Organic Budget Law (OBL) will be adopted immediately ensuring among others that the Court of Auditors only carries out ex-post audits, and that GDFSs will have exclusive financial service capacity. They will make the Fiscal Council fully operational. The authorities will present a plan and will proceed with the clearance of arrears, tax refund and pension claims by end 2016. The Government will ensure that the budgeted social security contributions are transferred fully and on time from social security funds to the health funds and hospitals, to clear the stock of health-related arrears.

**7. Safeguarding financial stability.** All necessary policy actions will be taken to safeguard overall financial stability and the authorities remain committed to preserve sufficient banking system liquidity in line with Eurosystem rules, including by the quarterly submission of funding plans to the Bank of Greece to allow for continuous monitoring and assessment of efforts. The private management of the Greek banks will be respected, and Government will not intervene in any way in the day-to day decision making and management of the banks which will continue operating under market principles. The Board members and higher management officers of the banks will be appointed according to the existing framework and in line with EU legislation and best international practices, taking into account the specific rules in the HFSF law as regards the rights of the private shareholders who participated in the banks' capital increases under this framework. The independence of the HFSF will be respected and its governance structure unchanged. No fiscal policy actions will be taken that would undermine the solvency of banks. The Greek authorities will legislate reforms of the insolvency framework both corporate and household bringing them in line with international good practice, introduce a profession of insolvency practitioners, amend the out-of-court workout law, and develop a comprehensive strategy for the financial system. This strategy will aim to return the banks to private ownership by attracting international strategic investors and to achieve a sustainable funding model over the medium term. The authorities will further develop and swiftly implement a comprehensive strategy for dealing with the NPL problem, drawing on external expertise for both strategy development and implementation; it will also include the establishment of a social safety net including support measures for the most vulnerable debtors.

**8. Enhancing competitiveness.** Structural reforms that open up the economy to investment and competition and remove red tape are essential to boosting productivity and ensuring sustained increases in wages and employment.

- *Labor markets.* Important reforms under the program helping make the labor market more flexible and effective will not be reversed. The authorities will launch a consultation process similar to that foreseen for the determination of the level of the minimum wage (Art. 103 of Law 4172/2013) to review the existing frameworks of collective dismissals, industrial action, and collective bargaining, taking into account best practices elsewhere in Europe. Further input to the review described above will be provided by international organizations. The organization and timelines shall be drawn up in consultation with the institutions. No changes to the current collective bargaining framework will be made prior to end-2015 and any changes to the legislative frameworks will only be adopted in agreement with the EC/ECB/IMF. Following the conclusion of the review process, the authorities will bring the collective dismissals and industrial action frameworks in line with best practice in the EU. The authorities will take action to fight undeclared work in order to strengthen the competitiveness of legal companies and protect workers as well as tax and social security revenues.

- *Product markets.* More open markets are essential to improve social fairness by curtailing rent-seeking and monopolistic behavior that translates into higher prices and lower living standards. The authorities will intensify their efforts to bring key initiatives and reform proposals to fruition, drawing on technical expertise of the OECD and World Bank. The authorities will legislate to: (i) implement all pending recommendations of the OECD competition toolkits I and II, (ii) open restricted professions and liberalize specific markets, (iii) eliminate reciprocal and non-reciprocal nuisance charges; (iv) reduce red tape, including on horizontal licensing requirements of investments, administrative burden of companies, and the interministerial preparation of legislation. Looking ahead, the authorities will implement secondary legislation for the licensing law in collaboration with the World Bank and forthcoming OECD recommendations in agreed key sectors.

- *Privatization.* The privatisation programme previously envisaged proceeds of EUR [22] bln by 2022. The annual targets (excluding bank shares) for 2015, 2016, and 2017 are EUR [XX] bln, EUR [XX] bln and EUR [XX] bln respectively. The authorities are committed to meet these targets by approving and proceeding with an ambitious privatisation programme involving all assets held at end 2014 by the privatization agency and by completing all government pending actions. Among other actions, the authorities will take immediate irreversible steps for the sale of the regional airports and Hellinikon, transfer the state's shares in OTE to the privatisation agency HRADF, finalize the terms for the sale of the Piraeus and Thessaloniki ports and of the train operator, and advance with the tender to sell the shares and extent the concession agreement in the Athens International Airport. For real estate projects, the HRADF will set annual proceeds targets consistent with the overall privatisation revenue target.

- *Energy.* The authorities will adopt and implement the reform of the gas market, reform capacity payments and other electricity market rules, review PPC tariffs based on costs, and notify NOME products to DG COMP. The authorities will also continue the implementation of the roadmap to the EU target model and take irreversible steps to privatize ADMIE. The

creation of a fully operational small PPC will be another key element in the reform of the electricity market. The authorities will prepare a framework for the support of renewable energies and review energy taxation. The authorities will clear the public sector's arrears to PPC and strengthen the electricity regulator's financial and operational independence, inter alia through the necessary arrangements in the forthcoming revision of the organic budget law.

## **9. Public sector, justice and anti-corruption reforms.**

The weakness and inefficiency of the public administration has been a key factor leading to the economic crisis and is holding back growth and recovery. There is a need to strengthen key institutions and to ensure that the public sector is efficient and aims for best practices.

- Public administration: the authorities will adopt legislation for a unified wage grid reform in line with the agreed wage bill targets, including decompressing the wage distribution in both directions in connection with the skill, performance and responsibility of staff. Secondary legislative acts needed to implement the new unified wage grid, and legislation to rationalize the specialized wage grids, will be adopted by end-November 2015. The authorities will set a ceiling for the wage bill within the new MTFS, and the level of public employment consistent with achieving the fiscal targets and ensuring a declining path of the wage bill relative to GDP until 2019. They will align non-wage benefits across the public administration with EU best practice. They will review and implement legislation for hiring managers and assessing performance of all employees, and complete the hiring of new managers by the end of the year. They will continue to identify past cases of illegal hires and temporary injunctions, and take appropriate enforcement action.

- Judicial. The authorities will legislate and implement the new Code of Civil Procedure, in line with previous agreements. They will propose further actions to reduce the backlog of cases in administrative courts and to introduce a selective increase of court fees.

- Anti-corruption: the authorities will update and publish the National Anti-corruption Plan. The authorities will amend and implement the legal framework for the declaration of assets and financing of the political parties and adopt legislation insulating financial crime and anti-corruption investigations from political intervention in individual cases, while ensuring proper coordination and sharing of information between investigation bodies.

- Statistics. The authorities will take action to strengthen the independence of ELSTAT and ensure its proper access to administrative data.

Any legislative or other action on the above policies will need to be done in agreement with the institutions. More generally any policy measures with a potential impact on the achievement of the programme objective, as assessed by the institutions, will only be made in agreement with the institutions.