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Greece: Update on the Structural Reforms' Implementation Progress

- The Greek government reached an agreement with the institutions (European Commission, European Central Bank, European Stability Mechanism and the International Monetary Fund) on December 11th, on the implementation of the 13 actions-milestones (see Table 1), a prerequisite for the disbursement of the last tranche of €1.0 bn from the first disbursement of the Third Economic Adjustment Programme (August 2015) (TEAP) by December 18th.
- In turn, the Greek government submitted to Parliament a multi-bill which includes a portion of the 13 milestones-actions. The finalization of the still pending actions is expected by December 16th. Provided that the multi-bill is voted by the Greek Parliament and that the remaining open actions are addressed too, the Euro Working Group is expected to convene on the same day to assess progress.
- According to the most recent information, only 7 from the 13 actions have been addressed on the multi-bill or independently (ministerial decisions, etc.). With regard to NPLs, the multi-bill includes the new regulatory framework, effective from January 1st 2016, which will allow for both the management and the repurchase of large corporate NPLs and housing loans, as long as the latter do not pertain to first residence. These types of NPLs reportedly amount to €56.0 bn (€40.0 bn corporate loans and €16.0 bn housing loans). For the remaining NPLs, i.e. corporate loans to SMEs and freelancers, first residence housing loans, consumer loans and loans with Greek State Guarantees, a separate treatment, but on the same general lines, is expected by February 15th 2016. Note that the NPLs issue was initially part of the first set of (49) milestones (see Table 2), but its implementation was postponed so as to give more time for compromise.
- The multi-bill also includes provisions for the public sector's unified wage grid, the introduction of the clawback on hospitals and the downward revision of the prices of diagnostics from private providers to align the spending to clawback ceiling.
- The issue of the electricity transmission company (ADMIE) is not included in the multi-bill, but a preliminary agreement has been achieved already. Still there is no information on the establishment of an independent secretariat for public revenues, the issuance of the necessary legislation for household insolvency, the spatial planning and the forestry law, the plan for the new privatizations fund. The government plans to complete the full list on time.

Key takeaway

Even though the implementation of the 13 actions-milestones, is a necessary condition, it is not a sufficient one for the successful conclusion of the 1st Review of the TEAP. For the successful conclusion of the review the Greek government needs, in addition, to implement:

1. The pension's reform.
2. The income tax reform (including the abolishment of the special tax treatment of farmers).
3. The labor reform.
4. The Medium Term Fiscal Strategy for 2017-19.

According to the most recent information, the conclusion of the 1st Review is expected no earlier than the end-of-January 2016. Caution is needed for the timely conclusion, not only because this will permit a) the initiation of the debt relief negotiations and b) the reintroduction of the ECB waiver for the GGBs, but mainly because further delays might endanger:

- The achievement of the real growth target which currently stands at -0.7% of GDP according to the 2016 Budget (while the respective European Commission target is at -1.3% of GDP).
- The structural reforms implementation process under the TEAP that is already behind schedule. Under the initial TEAP timeline, almost half of the reforms (ca. 110 out of 220 reforms) included for 2015-18 had to be completed by the end-of-January 2016.

Table 1: Second Set of Actions-Milestones for the 1st Review of the TEAP

Second Set of Actions-Milestones for the 1 st Review of the TEAP			
#	Structural Reforms	Initially Planned	Status
1	<u>Revenue administration</u> : Preparation of a plan for the establishment of a new independent secretariat of public revenues so the relevant legislation can be adopted during the first programme review.	Sep-15	Pending (*)
2	<u>Product markets and business environment & Tax policy</u> : Adoption of measures for combating fuel smuggling and VAT carousel fraud	Oct-15	Pending but with expected finalization until Dec. 16 2015
3	<u>Health sector</u> : Issuance a ministerial decree for the application of clawback on hospitals and limit the prices of private diagnostic tests.	Sep-15	Addressed via the Law expected to pass in Parliament on Dec 15 2015.
4	<u>Financial Stability</u> : Operationalization of the HFSF selection panel for the appointments of all members and chairman including (i) reaching agreement on a binding Terms of Reference for the selection process, (ii) having the HFSF submit to the EWG a proposal on the remuneration of Selection Panel members which has been agreed with the European institutions, and (iii) agreeing a timetable for the next steps with the aim of completing appointments by end-December 2015	Feb-15	Pending (*)
5	<u>Financial Stability</u> : (i) Adoption of secondary legislation on the financial assistance scheme for vulnerable households to facilitate the required payments required under the household insolvency law. (ii) Issuance by the Bank of Greece of a decision on the procedure and criteria to be used for determining the maximum of borrower repayment capacity, the amount that creditors would have received in case of emergency enforcement and the potential prejudice to the creditors; (iii) Preparation – presentations of a detailed implementation plan for the establishment of a Credit and Wealth Bureau by end-June 2016 as an independent authority that will identify borrowers' payment capabilities for the facilitation of banking institutions.	Prior Actions – Aug-15	Pending (*)
6	<u>Financial Stability</u> : Settlement of non-performing loans (NPLs) including the legal framework for the licencing of non-banking institutions that will manage NPLs. The sale of NPLs related to primary homes and SMEs will be specified in the context of the first programme review.	Oct-15	Addressed for the Large Corporate NPLs via the Law expected to pass in Parliament on Dec 15 2015. Agreement for the remaining NPLs to be achieved by Feb 15 2015.
7	<u>Product markets and business environment</u> : Adoption of 10 additional OECD toolkit recommendations including those for beverages and petroleum products.	Oct-15	Pending (*)
8	<u>Product markets and business environment</u> : Issuance of a ministerial decree for the reestablishment of the inter-ministerial committee for restricted professions.	Prior Actions – Aug-15	Pending but with finalization until Dec. 16 2015.
9	<u>Interventions in the projects that are co-financed by EU structural funds</u> : Establishment of an inter-ministerial committee for motorways, metro and waste management projects in particular, aiming to supervise the timetable of works and safeguard the timely decision making for their implementation.	Oct-15	Pending but with finalization until Dec. 16 2015.
10	<u>Land use</u> : (1) Preparation of proposals for potential improvements of the law 4269	Oct-15	Pending (*)

	on spatial planning. (ii) agreement with the institutions on the content of the Presidential Decree on forestry definitions and submission of the Decree.		
11	<u>Regulated Network Industries (Energy)</u> : Irreversible steps for the privatization of the electricity transmission company (ADMIE) unless an alternative scheme is provided with equivalent results in terms of competition and prospects for investment	Oct-15	Pending but with finalization until Dec. 16 2015.
12	<u>Privatizations</u> : (i) Appointment of an independent task force to identify options and prepare recommendations on the operational goals, structure and governance of the new Privatisation Fund that will be created, following the Euro Summit statement of July. (ii) complete the Government Pending Actions identified by the institutions for 2015Q4	Oct-15	Pending but the process of the implementation of the pending actions will start with the finalization of the regional airports contract in the following days.
13	<u>Public administration</u> : Reform of the unified wage grid with the MoU noting that key parameters should be set in a fiscally neutral manner and consistent with the agreed wage bill targets. In addition, a comprehensive application across the public sector should be implemented including decompressing the wage distribution in connection with the skill, performance and position of staff.	Oct-15	Addressed via the Law expected to pass in Parliament on Dec 15 2015

Source: European Commission, Eurobank Research

Note: (*) All pending actions need to be finalized by December 15 2015 so as the ESM to permit the next disbursement of €1.0 bn.

Table 2: First Set of Actions-Milestones for the 1st Review of the TEAP

First Set of Actions-Milestones for the 1st Review of the Third Economic Adjustment Programme for Greece completed at the end-of-November 2015			
#	Structural Reforms	Initially Planned	Status
1	<u>Financial Stability</u> : Finalization of comprehensive strategy for the financial system	Aug-15	Completed
2	<u>Financial Stability</u> : Issuance by the Bank of Greece of all the provisions for the implementation of the Code of Conduct	Aug-15	Completed
3	<u>Outlook and strategy</u> : Finalization of a medium-term technical assistance plan with the European Commission	Sep-15	Completed
4	<u>Tax policy</u> : Criminal law on tax evasion and fraud and abolition of Code of Books and Records fines including those of law 2523/1997	Sep-15	Completed
5	<u>Tax policy</u> : Issuance of Circular on fines and legislation on fines for breach of accounting code and retail receipts	Sep-15	Completed
6	<u>Revenue administration</u> : Issuance of ministerial decision to extend indirect bank account register	Sep-15	Completed
7	<u>Revenue administration</u> : Issuance of ministerial decision to specify details of transfer of SDOE staff to General Secretary of Public Revenue	Sep-15	Completed
8	<u>Revenue administration</u> : Development of a cost plan for the promotion of and facilitation of electronic payments with the Bank of Greece and the private sector	Oct-15	Completed
9	<u>Public financial management</u> : Secondary legislation for the Fiscal Council	Sep-15	Completed
10	<u>Public financial management</u> : Legislation to upgrade the Organic Budget Law	Oct-15	Completed
11	<u>Public financial management</u> : Presentation of a plan for the complete clearance of public sector arrears	Sep-15	Completed
12	<u>Public procurement</u> : Agreement with EC on details of action plan on public procurement	Sep-15	Completed
13	<u>Health sector</u> : Extension of the claw back ceilings for diagnostics, private clinics and pharmaceuticals to the next three years	Sep-15	Completed

14	<u>Guaranteed Minimum Income Scheme - Social Safety</u> : Presentation of detailed preparations for a gradual nationwide roll-out of a GMI, including plans to set up of benefits registry and for social inclusion strategy	Sep-15	Completed
15	<u>Product markets and business environment</u> : Adoption of a roadmap for the investment licensing reform.	Sep-15	Completed
16	<u>Product markets and business environment</u> : Establishment of three mobile enforcement teams on anti-smuggling	Sep-15	Completed
17	<u>Product markets and business environment</u> : Reconvening of the inter-ministerial spatial planning committee	Sep-15	Completed
18	<u>Product markets and business environment</u> : Issuance of ministerial decision for the determination of notaries fees	Oct-15	Completed
19	<u>Product markets and business environment</u> : Launch of impact assessment of selected reforms on competition, investment licenses and administrative burden.	Oct-15	Completed
20	<u>Regulated Network Industries (Energy)</u> : <ul style="list-style-type: none"> Initiation of the implementation of the gas market reform according to the agreed timeline, prioritization of distribution tariffs; Implementation of a scheme for the temporary and permanent capacity payment system (NB: Initiation of technical discussions with the Commission on the permanent scheme; Modification of electricity market rules to avoid that any plant is forced to operate below their variable cost; Regulation according to the final decision of the Council of State on the netting of the arrears between PPC and the market operator; Implementation of interruptible contracts as approved by the European Commission; Revision of PPC tariffs based on costs, including replacement of the 20% discount for energy-intensive users; Discussion with the European Commission the design of the NOME system of auctions 	Sep-15	Completed but follow up needed since various aspects of the reforms not fully complete yet due to external factors (decision of the Council of State, etc)
21	<u>Public administration</u> : Adoption through legislation of the restructuring plan for 'OASA - Transport for Athens' agreed with the institutions.	Sep-15	Completed but lack of clarity around the selection process of the new Board, and in particular against the commitment to follow international best practices
22	<u>Justice</u> : Production of a roadmap for the implementation of the revised Code of Civil Procedure	Sep-15	Completed
23	<u>Justice</u> : Issuance of a presidential decree which shall specify the terms for the establishment of the appropriate infrastructure of the auction announcement webpage, the required conditions and the other details for the respective publications	Sep-15	Completed but delays until April 2016 due to unexpected IT and related procurement issues.

24	<u>Statistics</u> : Verification that ELSTAT has access to administrative data sources in line with the 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 and IKA signed on 17/04/2014.	Sep-15	Completed
25	<u>Pensions</u> : Integrate into ETEA by 1st September 2015 all supplementary pension funds and ensure that all supplementary pension funds will be only financed by own contributions from 1 January 2015	Sep-15	Pending
26	<u>Tax policy</u> : Technical amendment to ensure abolition of the refund of excise tax on diesel oil for farmers from October 2016	Prior Actions – Aug-15	Completed
27	<u>Revenue administration</u> : Rectification of technical mistake in the omnibus act concerning the 2014–15 tax and SSC debt instalment schemes	Prior Actions – Aug-15	Completed
28	<u>Pensions</u> : Secondary legislation for Early retirement law for public sector	Prior Actions – Aug-15	Completed
29	<u>Pensions</u> : Issuance of Circular for the implementation of Law 3865/ 2010 Law for the public sector, Repealing new date for pro- rata of Law 3865/2010 in public sector and reinstatement from 1.1.2015	Prior Actions – Aug-15	Completed
30	<u>Pensions</u> : Issuance of all Ministerial Decisions for the implementation of all pension provisions. These decisions should include an explanation that minimum pensions should also be subject to early retirement penalties (e.g. when provided at the age of 62 with 15 years of contributions).	Oct-15	Completed
31	<u>Pensions</u> : Other amendments on the August omnibus act and other laws on pensions: <ul style="list-style-type: none"> · The following addition for both the public sector and main laws: For those who can retire on a full pension before the age of 67 with less than 40 years of contributions, the contributory period will be progressively adapted to 40 years by 2022 · Review and repeal as appropriate exceptions to those subject to the provisions of sub-bullets aa), bb) and ee), of bullet b', paragraph 3 of the article 56 of PD 169/2007 and article 4 of Law 3660/2008 (A'78). · Amend paragraph 4 of public sector law, specifying 67 percent or higher disability grade. 	Prior Actions – Aug-15	Completed
32	<u>Financial Stability</u> : Finalization of credible strategy for addressing the issue of non-performing loans	Prior Actions – Aug-15	Completed
33	<u>Financial Stability</u> : Amendments to the household insolvency law: legislate primary and issue secondary legislation to tighten the eligibility criteria for protection of the primary residence while protecting the vulnerable debtor in line with the proposal made by the institutions.	Prior Actions – Aug-15	Completed
34	<u>Financial Stability</u> : Publication of PM decision of the activation of the Government Council of Private Debt	Prior Actions – Aug-15	Completed
35	<u>Product markets and business environment</u> : Adopt the OECD recommendation on pharmacy ownership to open to non-pharmacists.	Sep-15	Completed
36	<u>Product markets and business environment</u> : Implement at least an additional 35 OECD toolkit II recommendations including those on beverages and petroleum products.	Prior Actions – Aug-15	Completed
37	<u>Product markets and business environment</u> : Adoption of a cabinet act for the establishment of a committee for the inter-ministerial preparation of legislation.	Prior Actions – Aug-15	Completed
38	<u>Privatizations</u> : Irreversible steps for the sale of the regional airports at the current terms with the winning bidder already selected.	Prior Actions – Aug-15	Completed
39	<u>Privatizations</u> : Verification implementation of all Government Pending Actions identified by HRDAF.	Prior Actions – Aug-15	Completed

40	<u>Health sector</u> : Establishment of claw backs for 2015 for diagnostics and private clinics and delinkment of the 2014 claw back for private clinics from the 2013 one. <ul style="list-style-type: none"> On establishing the claw backs for 2015 for diagnostics and private clinics: the new MD must be published and the FEK number provided. On delinking the 2014 claw back for private clinics from the 2013 one: the new MD must be published and the FEK number provided. 	Prior Actions – Aug-15	Completed
41	<u>Health sector</u> : Amendment the legislation on grandfathering in light of highlighted issues on the period of price protection (data vs patent), and on the pricing mechanism. Insertion of a clause repealing conflicting provisions. All the following must be present in the final legislation: <ul style="list-style-type: none"> grandfathering must not apply; pricing mechanism must be satisfactory; protection period must be the shortest between data and patent; conflicting legislation must be repealed 	Prior Actions – Aug-15	Completed
42	<u>Health sector</u> : On INN prescriptions: Issuance of relevant Circular on “Diaygeia” and must be sent to IDIKA.	Prior Actions – Aug-15	Completed
43	<u>Health sector</u> : Issuance of ministerial decision freezing the 2015 level of clawback up to 2018 for private clinics.	Prior Actions – Aug-15	Completed
44	<u>Health sector</u> : Issuance of ministerial decision freezing the 2015 level of clawback up to 2018 for diagnostics (or reducing it, in view of forthcoming price cuts)	Prior Actions – Aug-15	Completed
45	<u>Health sector</u> : Repeal of ministerial decision FEK 1117/2015, in order to re-enforce sanctions and penalties as a follow-up to the assessment and reporting of misconduct and conflict of interest in prescription behavior and non-compliance with the EOF prescription guidelines.	Prior Actions – Aug-15	Completed
46	<u>Regulated Network Industries (Energy)</u> : Amendment of the gas reform law approved in August as part of the Omnibus bill to i) restore full eligibility for all customers outside the EPA areas (article 82) and ii) state RAE's competences on transmission tariffs (Art.88).		Completed
47	<u>Tax policy</u> : Repeal of article 2(3) of law 4328/2015 concerning the legal assignment of unpaid rents to the Revenue service and replacement as required.	Replacement of roll-backs on previous programme legislative commitments	Completed
48	<u>Tax policy</u> : Compensation, if the government changes the provisions related to VAT on private education.	Replacement of roll-backs on previous programme legislative commitments	Completed
49	<u>Tax policy</u> : Review and repeal as appropriate the amendments to the pension system introduced in Laws 4325/2015 and 4331/2015 (articles 21, 24, 28, 31, 37, 38, 39, 75, 76) in agreement with the institutions.	Oct-15	Completed

Source: European Commission, Eurobank Research