Success stories of the Economic Adjustment Programme

Restoring fiscal and financial stability

The Economic Adjustment Programme for Greece was designed (first in 2010, and then updated in 2012), in a context of extreme macro-economic imbalances, very large fiscal deficits and debt, a serious gap in competitiveness and productivity, rigid markets, and a contracting economy. The immediate objectives of the programme have been restoring fiscal and financial stability, and important progress has been made on these two fronts. After marginally over-performing in 2012, Greece is expected to over-perform the primary balance target for 2013 by a significant margin, and the authorities remain committed to achieve the fiscal targets for 2014 and beyond. Reforms of the pension and health systems have been adopted, putting the system on a more sustainable path. The projected pension expenditure over the next 50 years is limited now to 1.1% of GDP by 2060. In healthcare, pharmaceutical reforms reduced public spending on pharmaceuticals from 3.9 bn in 2010 to about 2.5 bn in 2013. Public employment has been reduced significantly since 2010 and, along with the adjustment in wages, a major reduction in the wage bill has been achieved.

Greece has also restructured, consolidated and stabilised its financial system, which is undergoing a further recapitalisation exercise involving private investors to ensure it is well prepared to face the impact of expected losses from the high-level of non-performing loans. The recapitalisation framework has been redesigned in light of the improved banking sector capitalisation and market circumstances. The authorities are also committed to significantly strengthening the private sector debt resolution framework and facilitating the orderly and swift workout of impaired bank assets. The buffers in the Hellenic Financial Stability Fund will be retained to meet potential future adverse contingencies.

Growth-enhancing structural reforms at the core of the programme

The reform plan under the Economic Adjustment Programme for Greece constitutes a comprehensive short- to long-term agenda for growth and employment. While strong attention to the stabilisation of public finances and of the financial system is still necessary, the programme puts great emphasis on the implementation of a wide range of structural reforms to create new opportunities for investment, innovation and employment. Some of these reforms are already starting to bear fruit, although many challenges remain to be addressed and vigorous action to fully implement the policy conditionality of the Economic Adjustment Programme will still be needed.

The ambitious labour market reforms already implemented, such as wider use of decentralised wage bargaining, a lower minimum wage, and reductions in other non-wage labour costs, have allowed Greece to realign wages and to recover almost all of the competitiveness it lost over the last decade, in terms of unit labour costs: by 2014, Greece is projected to have broadly regained its 1995 labour cost competitiveness position relative to the Euro area. Compensation per employee fell by 4.2% in 2012 and is forecast to decline by 7.0% in 2013 and by a further 1.5% in 2014. Overall, the ULC-based real effective exchange rate of Greece is forecast to fall by 21.6% between 2009 and 2014. Looking forward, reforms in the labour market will have to focus not so much on wage reduction but on increasing flexibility and abolishing employment obstacles, where there is still significant scope for improvements.

Efforts to modernise product markets and improve the business environment are starting to bear fruit. The 2013 update of the OECD indicators of Product Market Regulation show that Greece made the largest improvement over the last five years, although it continues to be among the OECD countries with relatively strict product market regulations. Greece has also improved substantially its overall rank in the World Bank's 2014 Doing Business Report jumping 111 ranks from 147th to 36th in the starting a business field, which has made Greece the world's fastest reformer in this area. However, Greece's ranking remains low compared to other EU Member States, highlighting the need for the country to remain strongly committed to the agreed structural reform agenda.

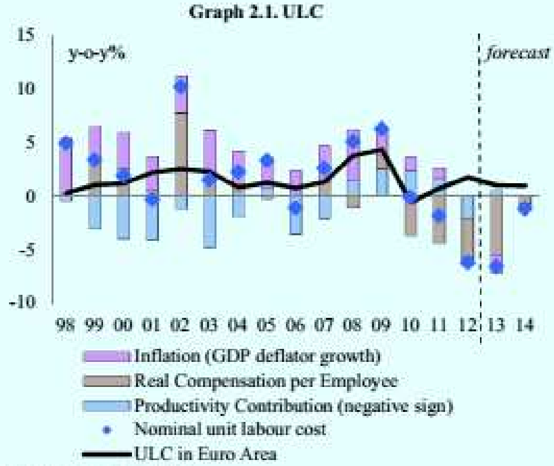
The adjustment programme is also a major driving force behind the crucial reform of the Greek public administration. The Government is on track to deliver the decrease in general government employment by 150,000, likely ahead of the deadline of 2015. The transfer of 25,000 employees to the mobility ("availability") scheme has been completed, although with delay, and staffing plans have been almost completed across the administration, which will imply a reduction in organisational structures and management posts by about a third. It is however extremely important that reform effort in the field of public administration continues unabated to reach the goal of a flexible and modern service targeted at the needs of the general population.

Box 3. Competitiveness and Greek export performance

Greece is quickly regaining its cost competitiveness after the significant losses of the past decade. In the run-up to the crisis, a spiral of increasing domestic wages and prices drove up Greek nominal unit labour costs (ULCs). In the period from 1995 to 2010, Greek ULCs and the HICP index increased by 21.1% and 17.0% respectively relative to Euro area trading partners. To promote a stronger domestic export base that can compete on global markets, to reduce dependence on imports and to narrow the current account deficit, reversing these previous wage and price excesses has been a key objective of the Greek adjustment programme from the outset.

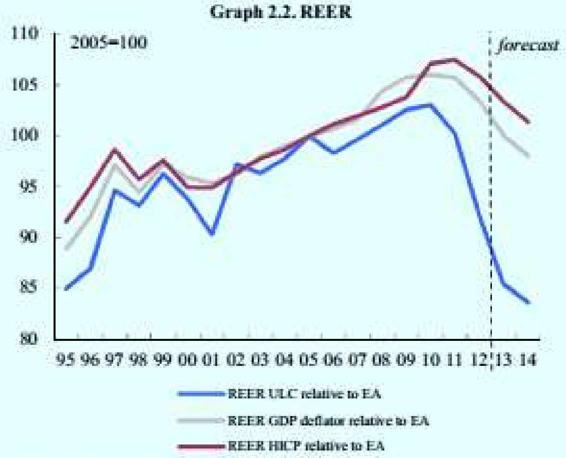
By 2014, Greece is projected to have broadly regained its 1995 labour cost competitiveness position relative to the Euro area. Supported by wide-ranging structural labour market reforms, such as wider use of decentralized wage bargaining, a lower minimum wage, and reductions in other non-wage labour costs, compensation per employee fell by 3.7% in 2012 and is forecast to decline by 7.8% in 2013 and by a further 1.5% in 2014. Overall, the ULC-based real effective exchange rate of Greece is forecast to fall by 21.6% between 2009 and 2014. Consumer prices are expected to fall in both 2013 and 2014. Over the period 2009-2014, the HICP-based real effective exchange rate is forecast to fall by 10.6%.

Graph 2.1. ULC



Source: European Commission

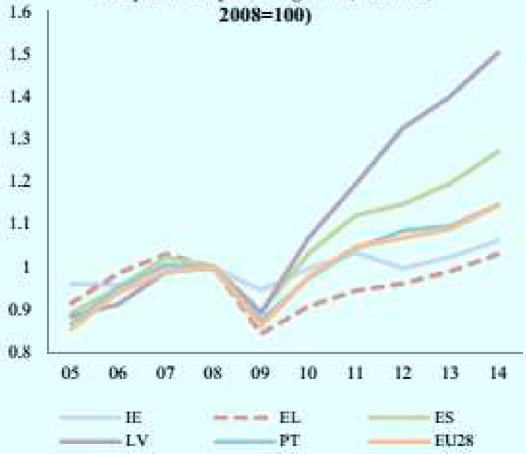
Graph 2.2. REER



Source: European Commission

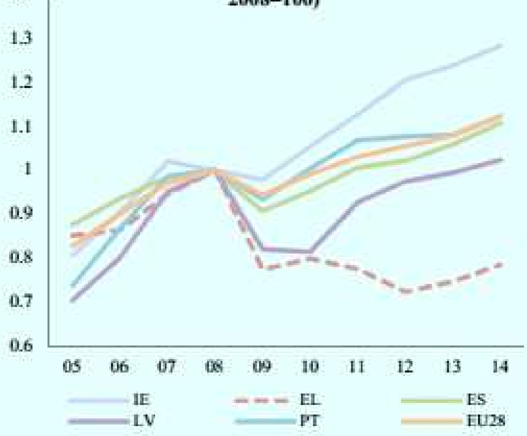
Despite the recovery in competitiveness, Greece's export performance has lagged behind that of other programme countries (see graphs 2.3 and 2.4). This relative under-performance cannot be explained purely by a slowdown of the world economy, and the Eurozone in particular. Several Greek-specific factors are responsible. In particular, the export sector has been hampered by a severe lack of trade credit due to political and economic uncertainty in the first years of the programme implementation as well as a weakened domestic banking system. At that time, exports of travel services declined sharply as political upheaval and strikes put a severe break on tourism. International shipping, on which Greek exports of services are especially reliant, faced a severed oversupply due to the global economic slowdown following the financial crisis of 2008. All these headwinds have progressively faded since 2012. In addition, tourism also experiencing a significant boost last summer due to the political crisis in competitor destinations, namely Turkey and Egypt. This has contributed to a nascent recovery of export growth.

Graph 2.3 Exports of goods (volumes; 2008=100)



Source: European Commission

Graph 2.4 Exports of services (volumes; 2008=100)

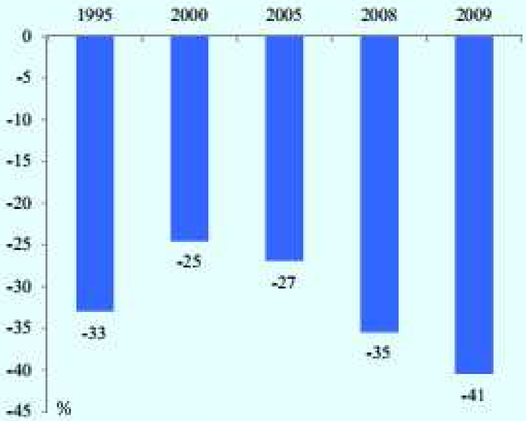


Source: European Commission

Analysis using an econometric gravity model for external trade suggests that deep-rooted factors must be tackled to address the persistent competitiveness gap. The standard gravity model predicts bilateral trade flows based on the economic sizes (GDP) and the distance between two units (countries). The regression is estimated using data on value-added exports from a joint OECD-WTO project based on 39 exporter countries that are either EU or OECD members and 56 partner countries including emerging market economies for the years 1995, 2000, 2005 and 2009. Results show that for a trading partner of given size and given geographical distance, Greek overall exports underperform relative to what a standard gravity model would predict, giving an average competitiveness gap of -32.6 percent. Graph 2.5 shows that the negative competitiveness gap has been a persistent phenomenon since at least the mid-1990s. However, this gap has exacerbated during the crisis, as Greece was hit by substantial policy uncertainty and the evaporation of trade credit.

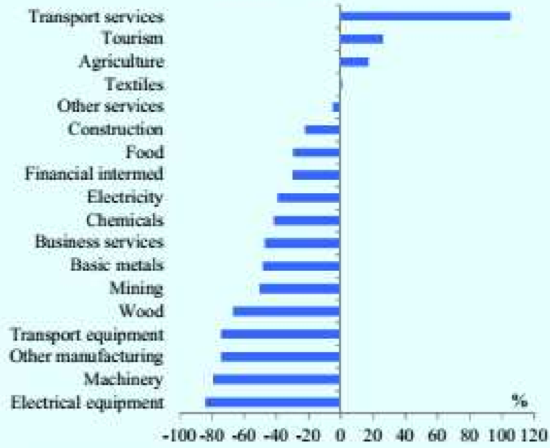
Sectoral competitiveness varies greatly and may be amenable to structural reforms. With domestic demand still weak, enterprises look increasingly to find customers abroad both within and outside of Europe to sell products ranging from agro-food products, construction materials, chemical products, to pharmaceuticals. However, the gravity model exercise applied on individual export sectors in the OECD-WTO dataset suggests that many sectors face a competitiveness gap. Transport, tourism and agriculture are the most competitive sectors, while all others experience a competitiveness gap, which is most pronounced in labour intensive sectors (see graph 2.6).

Graph 2.5 Estimate of the Greek competitiveness gap by year (%)



Source: European Commission

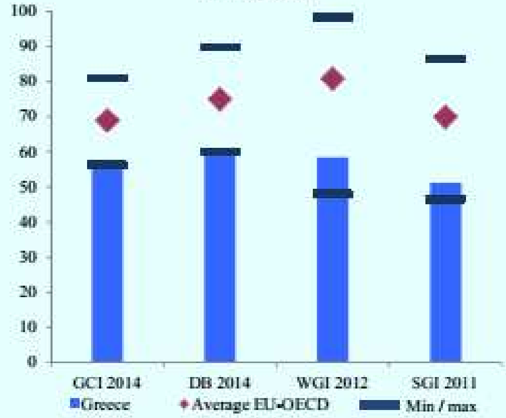
Graph 2.6 Estimate of the Greek sector competitiveness



Source: European Commission

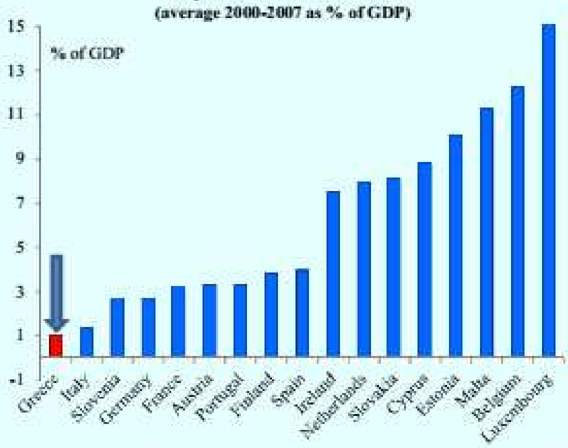
Institutional quality indicators reveal significant need for further structural reforms in Greece. Augmenting the gravity model with various measures of institutional quality[5] we find that weak institutions can explain much of Greek competitiveness gap. Graph 2.7 shows the position of Greece for each institutional indicator used in the gravity model (latest year available) relative to the average EU-OECD country, as well as the minimum and maximum in the dataset[6]. Greece's institutional deficit is rated as extremely poor by all four indicators, clearly below the sample averages and partly at the very bottom of the distribution. The augmented gravity model shows that by improving the Greek institutional framework to the EU-OECD average level, the Greek export gap would close by between 54 and 78 percent. Improvements of the business environment could support exports by attracting Foreign Direct Investment (FDI), where Greece continues to lag far behind the EU average (see Graph 2.8).

Graph 2.7 Institutional quality indicators for Greece and EU-OECD



Source: World Economic Forum, World Bank, OECD, own calculations

Graph 2.8. FDI in EA countries (average 2000-2007 as % of GDP)



The graph is truncated at 15% of GDP, while the actual value for Luxembourg is 339.5% | Source: European Commission

Mindful of the drag on exports coming from poor institutions, the government has made improving export performance a key policy priority. Based on the April 2012 National Export Strategy, reforms are proceeding in three areas supported by significant technical assistance, from the Task Force for Technical Assistance to Greece (TFGR) and several other institutions and Member States:

- Trade facilitation: the government adopted a reform road-map in November 2012 aiming at reducing time and costs for Greek traders. The set of 25 actions includes simplifying issuing of licences and certificates, optimizing customs operations and introducing digitized procedures.
- Customs operations: the reforms focus on reducing and simplifying export procedures, implementing electronic customs procedures and introducing a streamlined risk-based customs system. These reforms of pilot customs offices are in line with advice of the World Customs Organization. Customs operations have shifted to 24/7 or double-shifts for exports in the pilot offices of Athens airport and Piraeus Port. The Government simplified pre-customs for fresh fruits and feta cheese, and intends to streamline procedures for an additional five products in 2014. Key next steps are to enable fully fledged e-customs, align risk assessment systems in line with EU best practices, implement automatic clearance for low risk declarations in all customs offices and to fully roll-out optimized procedures to all customs offices by end-2014.
- Export promotion: The Greek authorities [have merged] HEPO (Hellenic Foreign Trade Board, responsible for implementing the export policy of Greece) and Invest in Greece (Agency responsible for seeking, promoting and supporting foreign direct investment into Greece) in order to support more effectively Greek companies in accessing foreign markets and to attract foreign investments.

On Fiscal:

MTFS and Fiscal Outlook for 2015-2017

The authorities remain committed to achieve the fiscal targets for 2015 and beyond, including as needed by extending expiring fiscal measures. While still challenging, the fiscal outlook for 2015 has improved compared with the previous review. As a result, the projected fiscal gap to achieve the 2015 primary surplus target of 3% of GDP has declined to about 1.1% of GDP from the 1.8% of GDP foreseen at the end of the previous review in July 2013. The improvement is largely explained by the following factors: (i) the small permanent component of the 2013 over-performance; (ii) higher than expected yields of the income tax reforms; (iii) the effect of newly adopted measures during this review; and (iv) faster absorption of EU structural funds.

The mission urged the authorities to timely deliver all programme commitments and to start working towards identifying areas, where further improvement can take place, thereby supporting the fiscal adjustment. Given that the expected gains from the re-organisation of the revenue administration are assumed to contribute to the fiscal consolidation a timely delivery of the reforms on this front is crucial. Moreover, despite the significant improvements having been made since the start of the programme, there are still areas where significant efficiency gains can be made, through further streamlining of the public sector and reviewing spending envelopes. The authorities are starting work toward a comprehensive VAT reform to be introduced in 2015 and will in the coming months review the existing VAT policy and administration (see section 3.2.2. Tax policy reform and Box 6). Furthermore, a review of social security policies is being initiated to improve targeting, fairness, and efficiency. The authorities are also starting work on consolidating pension fund administration with a view to ensuring that the consolidated system is actuarially balanced in the next decades. The discussions of the concrete proposals will take place in the context of the 2015 budget preparation in the autumn.

The projections for 2016-17 are inherently uncertain. A key issue is the impact of structural reforms and economic recovery on tax and spending aggregates. Tax revenues could rebound significantly more than assumed in the baseline projections once the economy recovers and the liquidity situation improves. This will be contingent on continued resolute implementation of the on-going reforms of the tax and social security revenue administrations. On the other hand, any severe delays in programme implementation may result in a widening of the fiscal gap, thereby leading to higher needs for savings in other areas.

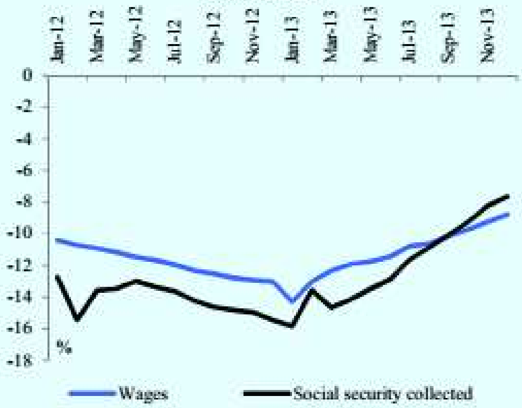
Box 4. Measures to increase compliance in social security collection

A significant shortfall was experienced in social security contributions (SSC) in the first half of 2013. While the adjustment programme has focused primarily on improving tax administration, much less attention has been devoted until recently to reforms in the social security administration. Collection of social security debt in the past has mainly been done through generous settlement schemes, which however weakened incentives for taxpayers to remain compliant on their current contributions. Limited use of normal administrative and enforcement measures has compounded the inefficiencies of the system.

Since August 2013, the authorities have implemented a series of measures to improve social security administration and boost collection of social security contributions. These included increasing sanctions and fees for the use of undeclared workers, cross-checking of administrative data, introducing mandatory declaration of contributions for some supplementary and lump-sum pensions and expanding the automatic reminders to all employers who have not paid their SSC obligations.

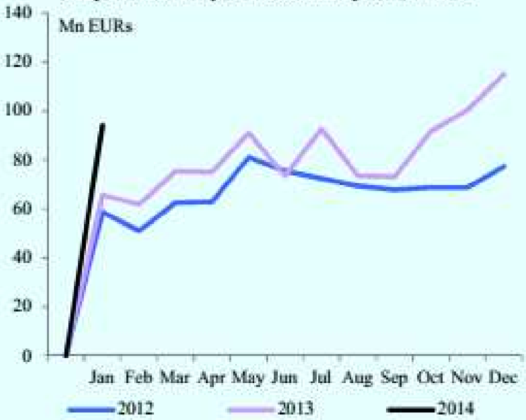
The results of the efforts are already visible and tangible. The collection of social contribution is now growing faster than wages, reversing the trend from past years (see figure 1 below). In addition, monthly debt collection has increased by 50% compared with previous years (see figure 2). Enrolment of debt into the new instalment schemes is also increasing rapidly.

Graph 4.1: Annual change in wages and contributions paid (2012-13)



Source: IKA

Graph 4.2: Monthly debt collection by IKA, 2012-14



Source: IKA

Despite the improvement, there are still a series of reforms to be undertaken. One area of immediate concern is the single collection centre for social security debt, KEAO. While this has been set up in the second semester of 2013, it has not been fully staffed at end-2013 as planned, and the additional staff may only arrive during Q2 2014, which may delay social security debt collection this year. Further reforms are needed to address weaknesses in SSC collection and in enforcement.

Privatisations:

More progress is however needed in the area of real estate privatisation. Preparatory work is advanced to secure the pipeline for the transfer of full and direct ownership of 1,000 commercially viable real estate assets to the HRADF. The authorities are in the process of identifying and transferring to the privatisation fund the remaining 250 real estate assets of the fourth quarterly batch of transfers. Additional steps will be taken to improve the real estate preparatory process, through reviewing the mission, objectives, and staffing of ETAD and to strengthen its effectiveness in professionally managing and preparing real estate assets ahead of transferring them to HRADF. Given the progress and completion of a certain number of corporate assets privatisations, the sale of the real estate assets will have a crucial importance for the overall attainment of the revenue targets from a medium and long term perspective. A specific roadmap for the implementation of these measures has been agreed with the authorities. More broadly, it is important that all elements for successful privatisation of real estate assets are in place now that market sentiment is expected to gradually improve.

The authorities have defined a roadmap for alternative sale methods of real estate assets, such as asset securitisation and monetisation in order to raise additional revenues beyond what is currently foreseen in the privatisation plan. Such efforts will be targeted at the private sector, in particular international investors and will complement the direct sale of assets currently on-going. This project, combined with improving investor interest in Greece, can help raise additional proceeds in the medium terms. The Authorities will assess the progress in this field in the coming months and will, if needed, revise upwards the proceeds estimates from privatisation. The authorities will submit the first progress report by end-June 2014 and should complete the first transaction by end-November 2014.

The expected cumulative privatisation proceeds have been revised downward somewhat to EUR 22.6 billion by 2020 (from EUR 24.2 bn in the July 2013 review). The cumulated amount of expected proceeds has been updated based on current transaction trends and based on policy measures and commitments. These targets remain under review, mindful of both upside (from heightened investor interest) and downside (from continuing significant hurdles to privatization) risks. Improved governance and transparency of the privatisation process are essential to build confidence among the general public that the privatisation process will maximise value for the tax payer. Additional steps are needed to expedite approvals from the Court of Auditors, Council of State, and the Competition Committee to reduce the overall time for the sale of assets. The final sale of assets is of crucial importance for financing purposes but also for ensuring additional investment, greater managerial expertise, increased efficiency and better governance for the enterprises involved. The timing of some corporate sales has been revised in order to allow the strengthening of the regulatory environment prior to privatisation.

Table 4. Expected Privatisation Receipts

By the end of:	Yearly proceeds	Cumulative receipts since 2011 (EUR billion)	
2011	1.6		
2012	0	1.6	Outcome
2013	1.0	2.6	
2014	1.5	4.1	Forecast
2015	2.2	6.3	
2016	3.4	9.7	
2017	2.9	12.6	
2018	3.0	15.6	
2019	3.4	19	
2020	3.6	22.6	

Source: European Commission services.
Note: Cumulative receipts are considered within the 2012-2020 period, including the EUR 1.6 billion generated since June 2011.

Tax policy reform:

The legislation for a new Unified Property Tax (ENFIA/ΕΝΦΙΑ) was adopted in December 2013 and entered in forced from January 2014. The new tax replaces both the existing real estate tax collected by the electricity company PPC (PPC levy) and the wealth tax on property (FAP/ΦΑΠ) and has allowed for a major reduction in Transactions Tax from 9.6% to 3%. The new tax has two parts: a main real estate tax on individual properties and a relatively small progressive tax that is levied on real estate holdings as a whole. The tax covers both properties and land, broadening the tax base to include urban and non-urban land as well as residential, commercial, and industrial buildings. Previously, land was lightly taxed in urban areas and untaxed in non-urban zones. The broadening of the tax base to include land should increase fairness and economic efficiency of land use. Base-broadening also allows for lower average tax rates on buildings, thus encouraging real estate investment. Moreover, the new property tax will be levied on both individuals and legal entities such as companies. In the medium term, the property tax could replace the existing financing of local government, along with an appropriate equalization system. Financing local governments through a real estate tax would have the advantage of strengthening incentives for municipalities to facilitate and attract new real estate and commercial development.

Efforts are also taking place to provide the data for the eventual updating of property values. The new Unified Property Tax will be based on the real estate objective values dating from 2007. The work to enable the updating the objective values of real estates in Greece has already started and it is carried out by a team chaired by the Secretary General for Public Properties. The process will require some months, but is expected to be completed before the end of the year. Starting from 5,500 price areas of 2007, the Working Group has already collected information from Local Committees in a central database which now contains 11,000 price areas all over Greece. However the work delivered so far produced an indexation to update the 2007 prices. The second part of the project foresees a fully fledged database which will be fed with information from transaction tax payments and rent contracts.

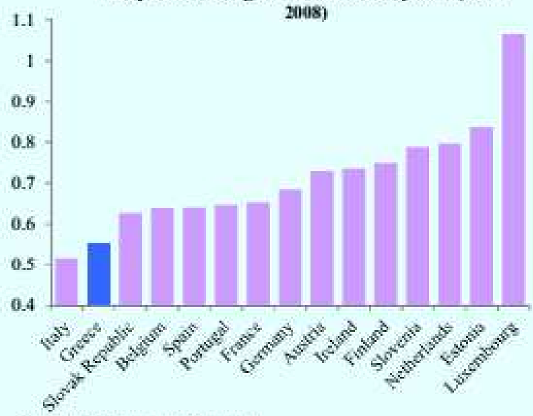
Additionally, the aim is to align all property assessment values with market prices by January 2017. To this end, by July 2014, the authorities will develop a medium-term reform plan that outlines actions, including setting up a project team which will steer the process.

Box 6. Closing the VAT Gap: the need for VAT reform in Greece

Historically, the performance of the VAT system in Greece has been weak. According to a recent European Commission study*, the overall VAT tax-efficiency ratio, the ratio between VAT tax revenue collected against what would be collected if all consumption was taxed at the standard VAT rate, is among the lowest in the EU (see graph 6.1). This reflects in part a multitude of VAT reduced rates and exemptions for certain product categories and regions. However, it also reflects wide-spread non-compliance with the current system (both under-declaration and under-collection). The VAT collection ratio is some 40% of total potential revenues, worth up to some €10 billion a year in non-collected revenues.

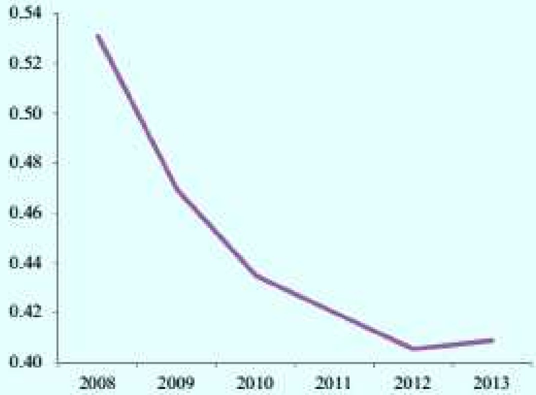
The problem of non-compliance has become especially acute during the crisis. Tax efficiency has dropped visibly until 2012 (see graph 6.2), likely reflecting the tight liquidity situation which has forced many companies and households to circumvent the taxation system. Whilst some improvement in VAT compliance is expected as the macroeconomic situation recovers, the experience in other recent crisis countries suggests that this is far from automatic and may take time.

Graph 6.1: Average VAT tax efficiency ratio (2000-2008)



Source: OECD, European Commission

Graph 6.2: Evolution of VAT tax efficiency ratio



Source: OECD, European Commission

Urgently improving the VAT system is necessary for several reasons:

- **The VAT administration is burdened by the volume of registered companies.** The VAT registry system needs to be cleaned up of inactive companies. The introduction of a VAT threshold would also simplify tax administration and reduce administrative burdens for small firms that would have the option to operate outside of the VAT system.
- **Fraud detection systems must be strengthened.** A dedicated unit for VAT fraud should be set up to combat VAT fraud.
- **Tax refund procedures should be accelerated:** a risk-based audit system should allow companies with a fully compliant filing and payment history to receive refunds immediately without prior audit. This would substantially speed up the processing of VAT refund claims by the Authorities.
- **The current policy system of the VAT needs to be examined.** Appropriate reforms need to be undertaken to make it more effective and consistent with broader policy objectives.

The Authorities have committed to review the VAT system by June 2014 in order to make comprehensive reforms that can be implemented by January 2015.

* *Reference:* European Commission (TAXUD) "Study to quantify and analyse the VAT Gap in the EU-27 Member States", July 2013.

Box 7. The new ENFIA Property Tax

Property taxes have been notoriously unstable in Greece. A succession of central government property-based taxes have been introduced and subsequently modified or re-modified. Up to 2013, there were three central government property-based taxes:

- A transactions tax levied at 9.6% of the objective value of a transferred property;
- The FAP wealth tax introduced in 2010 and levied on the total value of all real estate assets of individual tax payers with a progressive tax rate. The 2010 tax however was not actually billed until 2012. The 2011, 2012 and 2013 taxes were billed and collected sequentially in 2013.
- The PPC tax introduced on an emergency basis in 2010 and levied on properties connected to the electricity grid. Initially collected through the electricity bill. Following legal challenges, from 2013 onwards, enforcement on the tax had to be done separately through the tax service.

Each of the taxes had different bases and quite different collection rates. The collection rate on the transactions tax was around 100%, that for the PPC tax was between 80-85%, whilst the initial collection rate for FAP 2010 was only around 67%. Subsequent enforcement efforts in the summer of 2013 raised the average collection rate for the FAP taxes to around 75%.

The objective of the ENFIA unified property tax was originally to replace all three of the existing taxes with a single real estate tax on both properties and land. The new tax applies equally to real estate owned by individuals or by legal entities. This represents a major widening of the tax base and removed the incentive to hold real estate through a company in order to avoid taxation. The inclusion of land in the tax base also represented an important widening of the tax base. Land was previously only lightly taxed in urban areas and was entirely untaxed in non-urban areas. The broadening of the base to include land is both fairer and should improve the efficiency of land-use. The new tax will be applied to the surface areas of buildings and land according to a set of official zonal values with limited differentiation on the basis of size, location and age. The simplified tax will be collected directly by the tax administration. At a late stage, political pressures led to the introduction of a supplementary tax based on overall holdings of real estate and to some reductions in the tax rates applied to land. This tax however was based on a simplified formula and was also applied to legal entities. Owing to revenue concerns, the Transactions tax was also retained on a temporary basis at the lower rate of 3%.

The new tax is expected to raise €2.4 billion in revenues in 2014 (see table below). This is based on conservative assumptions about collection rates: the assumed collection rate for persons was taken as 72%; that for legal entities at 90%. The distribution of the estimated revenues raised by the tax gives an indication of the widening of the tax base. Out of the total revenues, some 20% (€450 million) will be raised from legal entities. The revenues from land are expected to make up some 15% of overall revenues (€340 million). The widening of the base is therefore some 30% of overall revenues, once account is taken of the overlap between the two categories.

Table: Expected revenues for the ENFIA Property Tax

	Persons	Legal entities	Total
Buildings	**1.449**	**159**	**1.607**
Residences	1.250	22	1.272
Commercial uses	178	63	241
Special uses	20	74	94
Land	**255**	**88**	**343**
Urban plan	155	88	243
Non-urban	100	-	100
Total direct tax	**1.704**	**247**	**1.951**
Additional tax	**273**	**200**	**473**
Total	**1.977**	**447**	**2.424**

Considerable efforts have been made to prepare for a timely and smooth introduction of the new tax. A Task Force was set up in the tax administration to deliver the tax. The legislation was drafted early, but only adopted on 21 December 2013. In parallel, the IT specifications for the new tax were prepared. The required property filing started in February 2014 and was accompanied by a publicity campaign. Preparations have now been made for the billing of the property tax in June 2014, allowing tax payers six monthly instalments.

Public Administration Reform:

The transfer of 25,000 employees to the mandatory mobility ("availability") scheme [has been completed], even if with three months of delay compared to the initial deadline. The Greek authorities proceeded with a well-defined strategy, adopting relevant legal instruments to abolish redundant positions and to provide for the transfer, immediate or after assessment, of personnel to the scheme. The employees placed in the mobility scheme will be assessed within a centrally-defined evaluation framework and have the opportunity to find another job, in line with their competences and the needs of the administration, within eight months. Those who are not reallocated before this date will exit, [as it has been the case at the end of March 2014 for [xx] staff who entered the scheme in July 2013]. A total of around 15,000 employees is expected to find a new job, after transiting through the scheme, in departments suffering from understaffing.

Staffing plans have been almost completed across the administration. The Government Council of Reform has approved staffing plans for over 401,000 employees, and is expected to approve already submitted plans for further 198,000, leaving to be completed the assessment of 36.000 employees, i.e. about 5% of the permanent workforce. Presidential Decrees and other legal instruments to implement the new organisational structures for the line Ministries [have been submitted] to the State Council and are expected to be adopted within June.

A two-year administrative reform action plan, also encompassing a comprehensive human resources strategy, [has been adopted]. The plan deals with mobility and deployment, performance of management, disciplinary cases, training, selection of top management, roles and assessment of management and HR managers' network. Legislation to improve the current evaluation system is expected to be adopted in April, and a comprehensive reform of the system will be introduced from 2015. A new system for the recruitment of managers, [currently being legislated], should bring a complete renewal of the management staff by June 2015. A more careful assessment of new entrants needs to be made, through a stronger screening of the staff under probation period.

The authorities intend to introduce a new “mobility” scheme as a permanent mechanism for voluntary and mandatory transfers. This scheme aims at better allocating personnel within the public administration without being connected to exits nor requiring placing employees under the availability scheme and reducing their remuneration. The authorities also intend to establish by March 2015 an internal job market within the public administration, while implementing mandatory rotation within the public sector beyond the ongoing restructuring exercise to facilitate continuous renewal of skills. They will amend the legislation of mandatory mobility, so that in case of refusal to take up the new position, the employee would be moved to the availability scheme.

A comprehensive review of employment levels and of the remuneration structure is needed and will be completed in parallel with the preparation of the 2014 budget, with a view to replace the existing wage grid in 2015. It should ensure they are consistent with high-quality provision of public services and are fiscally sustainable. The authorities plan to address implementation issues related to the wage grid reform and introduce a rationalization of the public sector wage structure in a fiscally neutral way, including the comprehensive application of the wage grid reform across the public sector and decompressing the wage distribution in both directions in connection with the skills, performance and responsibility of staff. Non-wage benefits will also be reviewed and aligned with EU best practices.

Health Care Reform:

Box 10. Rationalising the social health insurance system and ensuring the financial stability of EOPYY

Prior to 2010, individual social health insurance funds provided health care coverage with each fund providing its own health benefits package with different contribution rules. The health branches of the four main social security funds (IKA, OGA, OAEE and OPAD) covered 95% of the country's population. Under the economic adjustment programme, Laws 3863/2010 and 3918/2011 separated the social health insurance function from pension administration and merged the four largest social health insurance branches into a single healthcare insurance fund, EOPYY - the National Organisation for the Provision of Health Services. Subsequent legislation brought the remaining social health insurance branches (the House of Sailor, ETAA, ET AP – MME and TAYTEKO) into the organisation.

EOPYY formally began operation in June 2011 as a single buyer of health care for the insured. The goal was to simplify the fragmented system, reduce administrative costs, increase bargaining power over providers and increase the equity of access to healthcare by pooling risks and income levels and harmonising rules and benefit packages. More recent legislation converted EOPYY in a single purchaser of health services and transferred the remaining primary health care units to the National Health Service (ESY) under the responsibility of Regional Health Authorities. The population covered by EOPYY are direct insurees and their family members. However, insurees still acquire insurance rights (and the health insurance booklet) from their respective social security fund. Despite progress, insurance status still depends on occupation and the contribution rules have not yet been fully harmonised.

EOPYY has worked hard to build administrative capacity and improve its financial situation through the implementation of a number of reforms and by close monitoring of spending and revenues but challenges remain. On the spending side, the full application of the two clawback systems – setting an expenditure ceiling and a payback from suppliers of all excess expenditure – for pharmaceuticals and for diagnostic tests, physiotherapy and the use of private clinics and hospitals is crucial to bring the financial situation of EOPYY closer to a balanced budget. On the revenue side, the direct transfer of health-related contributions to EOPYY from the individual social security collection funds remains imperfect. Social security contributions for 2013 were some EUR 450 million lower than originally expected and budgeted. While the situation has improved significantly, the effective cash transfer may still takes time to materialise and currently about EUR 100-200 million in contributions remain to be transferred to EOPYY.

EOPYY initially inherited a large stock of arrears from the previous system and delays in payment to suppliers, notably public hospitals, remain. The stock of unpaid arrears remains large though a significant stock of old arrears has been settled. Following a significant clearance process in 2013 (a total of EUR 1.9 billion in arrears in 2012), there are still some EUR 737 million of arrears generated prior to 2012 to be paid. EOPYY continues to pay ESY (NHS) hospitals with a very long delay, although the amount budgeted for paying ESY hospitals in 2013 was more realistic than that budgeted in 2012. For 2013, only about 7% of the accrued spending with public hospitals has been actually paid. This delay affects the ability of ESY hospitals to pay suppliers, potentially leading to further arrears accumulation by hospitals. As a consequence, government transfers are made to ESY hospitals as a compensatory mechanism. On the other hand, ESY hospitals also continue to submit invoices with a significant delay of 3 to 5 months.

A substantial increase in the consumption of private interventions and diagnostics was observed in 2013. For example, the consumption of diagnostics doubled compared to 2012, despite the price reductions enacted in November 2012. Providers seem to have increased volumes to attempt to compensate their overall reduction in turnover. A substantial reduction occurred in public sector diagnostics with the public sector now representing only a very small 3-6% share of overall diagnostic work. Such increase in demand for private services, coupled with the inability to conduct proper auditing of claims, led to potential budget overruns in some categories of EOPYY spending including diagnostic tests, physiotherapy and the use of private clinics and hospitals. Spending on such categories appeared out of control: if spending with private hospitals in the first half of 2013 had been continued at the same rate for the rest of the year, EOPYY would have spent almost twice as much as the initial budget of EUR 540 million by the end of 2013. On a similar basis, EOPYY would have spent, about EUR 600 million in diagnostic tests by the end of 2013, greatly above the budgeted EUR 370 million.

Following a review of the developments in the first half of 2013, the authorities have taken action to address the lack of control over consumption and spending of specific budget categories. In July 2013, the authorities adopted closer monitoring with both price and quantity control measures for diagnostic tests, physiotherapy and the use of private clinics and hospitals. For example, e-prescription-type monitoring mechanisms have been extended to diagnostics and will subsequently be extended to consultations and interventions by private facilities. Another measure refers to changes to the use of diagnostic prescriptions (KENs) to pay private providers, with only one KEN per patient now being eligible.

Authorities also plan to introduce guidelines for prescription of diagnostic tests, pre-authorisation of interventions and changes in the way EOPYY contracts with private clinics and hospitals (e.g. considering closed/prospective budgets).

The authorities have introduced a rebate on the spending with private clinics and hospitals coupled with a legal spending ceiling and a clawback mechanism on private providers for spending on three categories: diagnostic tests, physiotherapy and the use of private clinics and hospitals. So far the authorities have calculated the amount of rebate and clawback on the basis of all the claims received for 2013 and have sent the letters for the collection of the rebate and clawback for the first half of 2013. In addition, the authorities had planned to conduct extensive and detailed audit of all the claims submitted since January 2013 with a view to identify and exclude unnecessary claims, eliminate fraud and recalculate spending. The process has faced substantial delays, and the checking of the claims has only recently started in March 2014. The aim is to finalise the auditing of all 2013 claims by June/July 2014. Lack of control, lack of guidelines and proper referrals may result in a non-negligible clawback amount. It is expected that the new measures and stricter control and auditing can help ensuring that spending stays within budget targets and reduce the effective clawback amount.

In this context a number of policy priorities lay ahead. These include:

- Paying off the remaining arrears not only to improve the financial position of health sector suppliers but also to improve the negotiation power of EOPYY. Therefore, authorities need to explore options for a swifter checking and clearance of existing commitments.
- Improving invoicing, auditing and payment mechanisms in the sector between providers, including public hospitals, and EOPYY.
- Implementing a comprehensive change to the current resource allocation, budgeting and costing procedures to improve and clarify financial flows across the system.
- Implementing the proposed stronger prescribing, monitoring and control mechanisms to help control consumption. More broadly, the existing business intelligence and monitoring unit at EOPYY needs to be further reinforced. This process should be intensified in coming months as part of the improvement in the organisational structure of EOPYY.

Pension Reform:

The reform of lump-sum pensions also needs to be completed. The implementation of this reform has started, effective since January 1, 2014, in order to eliminate the deficits in these funds. Nevertheless, a number of lump sum schemes have been left out of this reform process. All funds that fall under the ESA95 definition of general government should now also join the ongoing reform process, effective from January 1, 2015, when all lump-sum funds would only be financed by own contributions.

The authorities have committed to enhance the pension system to ensure its viability and support labour supply. To address remaining short- and long-term concerns, the authorities intend to consolidate pension fund administration and enhancing efficiency; ensure that the consolidated system (excluding budgetary transfers related to social assistance functions) is actuarially balanced through the next decades; contain pension spending to ensure short- to medium-term compatibility with the MTFS targets, by recalibrating pension system parameters and containing the state subsidy to the pension system; and establish close links between contributions and benefits in all pension funds to ensure actuarial fairness. A draft comprehensive proposal on the main elements of SSF consolidation harmonizing contribution and benefit payment procedures, is expected by June 2014, to be subsequently complemented by an actuarial study of the whole pension system, supporting specific design and parametric improvements to be legislated with a view to take effect from January 1st 2015.

Labor Market Reform:

Box 11. Measuring labour market reform intensity in Greece

Major labour market reforms have been passed in Greece in recent years. Faced with high unemployment and the need to correct large external imbalances, Greece had to take up the unprecedented challenge of quickly improving its labour market adjustment capacity along many dimensions. Reforms were also needed to address bottlenecks to potential economic growth coming from excessive labour regulations.

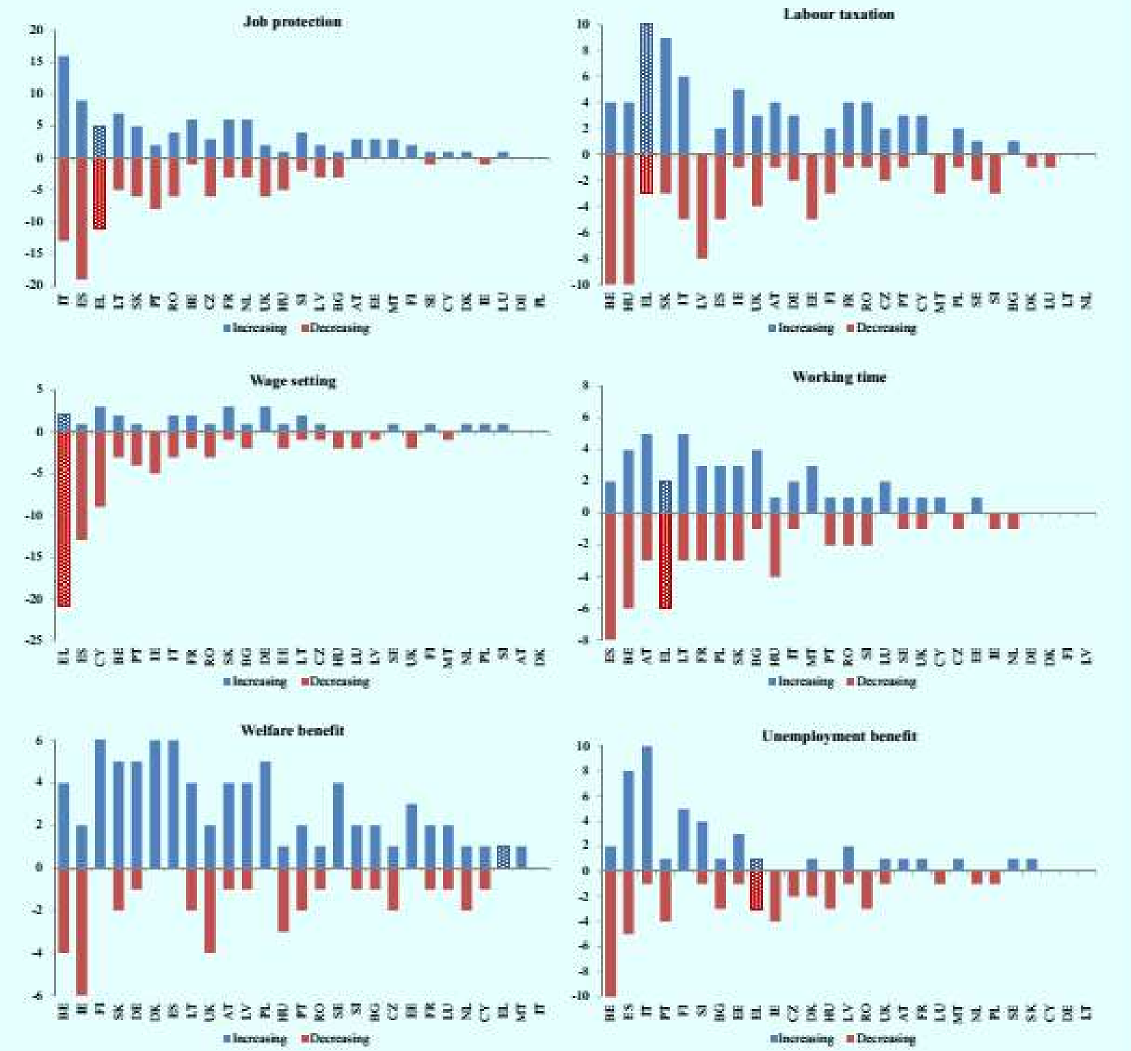
Four years after the beginning of the programme allows checking how Greece has done in terms of reform action. The focus here is on action taken and on the expected or intended impact, not on the actual effects, some of which will pay in full only over the medium term. That measurement of reform efforts is based on enacted legislation and other public policy actions as included in the LABREF database, a database managed by the services of the European Commission that records factual information on policy actions affecting the labour market institutions and thus likely to have an impact on labour market performance. This database records information on key aspects of individual measures per EU country, organised in nine policy areas. Such information allows cross-country comparisons on the strength of and priorities for reform in each one of them.

On the basis of that information, the graphs below indicate the number of reforms taken per EU country, split by policy domain and by whether its expected effect was to reduce or increase the stringency of labour market regulations in the concerned policy area: for instance, lower severance pay can decrease the stringency of job protection, whereas higher taxes can increase the stringency of labour income taxation. Figures are annual averages of the number of reforms over the period 2010-2013.

Whereas, as with any categorisation, details are lost, notably on the 'strength' of the reforms, a number of remarks are warranted:

- Greece was at the top of the countries in adopting reforms that decreased the stringency of labour market regulations.
- In the area of wage setting, Greece has been by and large the country most active in making wage formation more adaptable.
- In the areas of job protection (EPL) and working time, Greece has also been a very active reformer even if other countries have been changing their institutions too.
- When it comes to benefits, Greece has been less active than others, which may also reflect the relatively low levels of these benefits at the onset of the crisis.
- Labour income taxation was made more restrictive, which is a consequence of the very sizeable fiscal consolation needs of Greece.

Graph 11.1: Labour reform intensity and direction of reforms in EU countries since 2010



Note: Member States are sorted by total number of reforms (both increasing and decreasing stringency; most reforms on the left, least reforms on the right) |
Source: LABREF database, Commission services

Examples of major labour reform measures since 2010 include:

Wage setting

- Suspension of the extension of occupational and sector collective agreements (2011).
- Suspension of the favourability clause (2011).
- Allowing for workers' representatives other than trade unions to negotiate firm-level collective agreements, as far they represent at least three-fifths of the undertaking workforce (2011).
- Setting the maximum duration of collective agreements at 3 years (2012).
- Revising the regime of 'after effects' of expired collective agreements to a maximum period of 3 months after expiration (2012).
- Reducing and subsequently freezing minimum wages (2012).
- Creating sub-minima wages for the youth (2011 and 2012).
- Reforming the minimum wage framework to make it statutory and set by the government after consultation with social partners (2013).
- Allowing recourse to arbitration to set negotiation disputes only if by mutual agreement (2010 and 2012).

Job protection

- Extending the probation period for new hires to 12 months (2010).

- Reducing the period for dismissal notice (2010 and again in 2012).
- Reducing the levels of severance pay (2012).
- Relaxing the thresholds for collective dismissal (2010).
- Aligning labour conditions in former state-owned enterprises with those in the rest of the private sector (2012).
- Expanding the possibilities for the use of fixed-term contracts (2011).
- Raising the maximum work period under temporary working agencies to 3 years (2010).

Working time

- Reducing overtime premia (2010).
- Increasing opportunities for working time arrangements by increasing the possible maximum duration of their application within a reference period of 12 consecutive months; and, eliminating the wage top-up for work in excess of the reduced hours over the period of reduced hours (2010 and 2011).
- Allowing for workers' representatives other than trade unions to negotiate firm-level collective agreements, as far they represent at least three-fifths of the undertaking workforce (2011).
- Extending part-time shift work (or partial lay-off) to nine months (2010).

Product Market Reform:

Box 12. Product Market Reforms – A heatmap

This heatmap compares Greece's scores relative to other EU, OECD and emerging economies. Two findings stand out:

- Greece has made headway in product market reforms. Most indicators have improved since the crisis.
- However, in many dimensions, Greece's score remains below the average performance of the comparison group. Furthermore, the crisis has led to back-sliding in some areas, such as on resolving insolvencies.

	2008	Change	2013
OECD			
Reform Responsiveness	2	↑	1
Reform Responsiveness Adjusted for Reform Difficulty	1	↑	1
OECD FDI Restrictiveness	2	↑	2
Product Market Regulation	4	↑	3
State Control	4	↑	4
Barriers to Entrepreneurship	4	↑	3
Barriers to Trade and Investment	3	↑	3
Retail distribution	4	↑	3
Energy	4	↑	3
Transport	4	↑	3
Communication	2	↑	2
Accounting	1	→	1
Architecture	3	↑	3
Engineering	4	↑	3
Legal	4	↑	4
Doing Business			
Overall	4	↑	4
Starting a business	4	↑	2
Dealing with contruction permits	2	↑	2
Getting electricity	2	↓	3
Registering property	4	↓	4
Getting credit	4	↑	3
Protecting investors	4	↑	3
Paying taxes	2	↑	2
Trading across borders	3	↑	3
Enforcing contracts	4	↓	4
Resolving insolvency	3	↓	4

Source: OECD and World Bank. Notes: Lower values and lighter colour are better.

Colours and numbers are assigned as follows: red (4) refers to a value more than one standard deviation below the mean; orange (3) to a value between the mean and one standard deviation below the mean; dark blue (2) to a value between the mean and one standard deviation above the mean; and light blue (1) to a value above one standard deviation above the mean. An arrow pointing upwards (downwards) means that Greece's score improved (worsened) since the crisis. A horizontal arrow means no change. The number of countries varies depending on data availability between 28 and 46.

For the reform responsiveness indicators, 2008 refers to 2009-10, and 2013 to 2011-12. For FDI restrictiveness, 2008 refers to 2006. For getting electricity, 2008 refers to 2009.

Box 14. Reforms of Regulated Professions

In the late 2000s, closed professions in Greece were a major source of large rents and economic inefficiencies. The regulations on professional services were among the strictest among EU and OECD countries. This curbed competition, kept firm size small and held back innovation. Strict regulations also translated into high mark-ups and high prices of professional services for accountants, architects, customs brokers, dockworkers, engineers, lawyers, notaries and others. While professional services represented only around 2½ percent of output and 7 percent of employment (OECD 2011), they had important spill-over effects across the whole economy. This increased the transaction costs of firms and lowered the purchasing power of consumers.

The strict regulations provided vast scope for lifting requirements without jeopardising consumer protection. The Greek research institute IOBE calculated that the deregulation of a number of services in Greece could yield GDP gains of over 10 percent in the long-term (IOBE 2010). Such reforms could also help in burden sharing of the costs of adjustment by reducing rents of well-off vested interests and lowering prices.

The authorities phased the reforms of regulated professions. The initial step was the adoption of framework legislation (Law 3919/2011) in February 2011 to establish the principle of professional freedom. The legislative changes abolished in principle, among others, fixed prices or compulsory minimum fees and the requirement for an administrative license to practice a profession, substituting instead a simple notification accompanied by the necessary supporting credentials. In spite of these sweeping changes, the impact of the reform was delayed for a number of reasons.

Initially, the scope of the law was not specified, so it was unclear to which professions the provisions of the law would apply. This scope of the law was established in early 2013, and the Government published a list of the professions falling under the scope of the law in July 2013, covering over 150 professions.

In addition, while the law established a general principle of professional freedom, it did not directly abolish each of the unnecessary restrictions in force. As a result, the legal situation was uncertain until such restrictions were explicitly revoked on the basis of a thorough screening of the existing legislation.

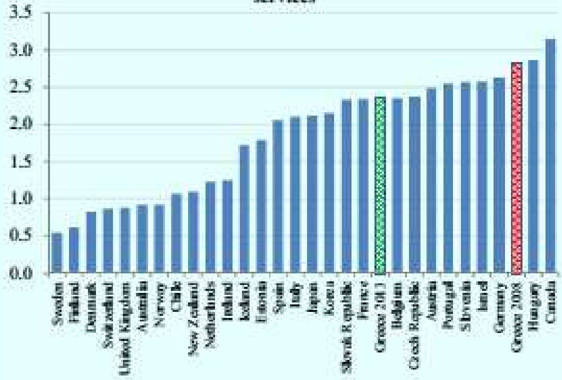
The 2011 law also provided for a 4-month period during which restrictions that are justified on public policy grounds, either by addressing market failures, or pursuing non-economic objectives, may be reinstated by decree. Professional associations responded with requests for derogations, although often with delays. The Government submitted these requests to the Hellenic Competition Commission for opinion in order to ensure that the reinstatement of restrictions was limited to public interest cases only, as envisaged by the legislation. Based on the opinion of the Hellenic Competition Commission, the Government then revised the relevant regulations. While this process ran its course as foreseen, the timeline proved to be too ambitious. The Hellenic Competition Commission provided opinions on requests of derogation throughout 2012, and by end 2013, some regulations still needed to be adjusted in line with these opinions.

In addition to the general part, the law also had a specific part. This part focused on high economic impact professions, namely notaries, lawyers and law firms, engineers and auditors. In addition, separate laws dealt with pharmacists, technical professions and trucks and transportation companies. The liberalisation of these professions in the 2011 laws was partial, and additional reforms were needed to open up these professions further, such as through the adoption of the code of lawyers in September 2013.

There are four main sources for tracking the progress of the reforms: the OECD regulation index for professional services; prices for professional services; an assessment of a Greek research institute; and monitoring indicators assembled by the Ministry of Finance.

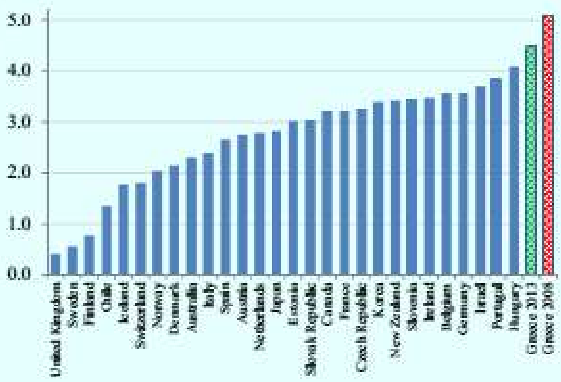
The professional services regulation index of the OECD provides quantitative evidence on the impact of reforms. It focuses on legal changes for four professions without evaluating the degree of implementation. According to OECD indicators, the regulations of professional services were significantly loosened from 2008 to 2013 (Graph 14.1), although legal professions remain highly regulated (Graph 14.2). In 2014, the Government has adopted legislation to open mediation to non-lawyers and intends to assess notaries' fees to align them with best practices in the EU.

Graph 14.1: Regulatory barriers in professional services



Source: OECD Product Market Regulation Indicators.

Graph 14.2: Regulatory barriers in legal professions



Source: OECD Product Market Regulation Indicators.

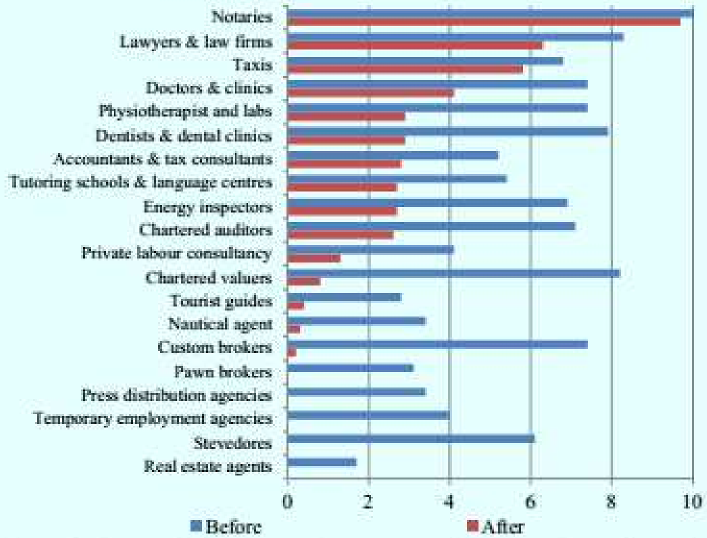
Building on work in 2012, the Centre of Planning and Economic Research (KEPE), a research institute linked to the Ministry of Development, provided in July 2013 an assessment of the liberalisation of 20 professions through the 2011 law (KEPE 2013). A key contribution of this report was to apply the OECD methodology in order to measure regulations for these 20 professions. The main finding was that the reforms liberalised professions substantially. The regulation index, which ranges from zero (no restriction) to 12 (maximum restrictions) declined on average from 5.8 before the reform to 2.3 after the reforms (Chart 14.3). As a result, 74 percent of the restrictions of the 20 professions were abolished. For non-scientific professions, the share went up to 83 percent. While regulations remained high for some professions, especially legal professions, the report argues that the remaining restrictions were broadly justified in view of the special nature of the services offered.

However, this assessment has to be qualified in three points. First, the report focused on changes in primary legislation. The report did not evaluate whether these laws were effectively implemented through secondary legislation. Strengthening competition in many professions often depends on very specific measures. For example, the elimination of minimum fees for chartered accountants is likely to have a limited effect on the price of their services until provisions imposing a minimum number of audit work hours are phased out. Second, the study focused on legal changes and did not assess whether the legal changes were effectively applied in practice. Third, with regard to the remaining restrictions identified, the study did not assess systematically whether they are justified and proportional for safeguarding the public interest.

The KEPE report also looked at prices for professional services. The evidence was inconclusive: there was no clear indication that more open professions performed better on price changes; or that these 20 professions performed better than other professions. Price changes for certain professional services confirm the mixed picture (Chart 14.4). While producer prices for warehousing or freight transport declined since 2010, they increased for cargo handling and architecture and engineering.

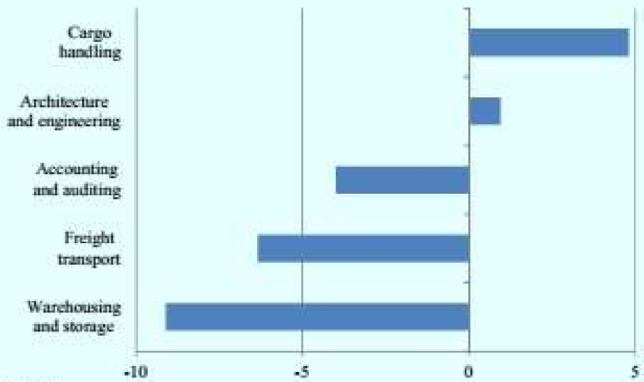
This could be due to various factors. The regulation index might not capture well changes in de facto liberalisation in view of the problems mentioned above, and the liberalisation efforts to date remain sometimes inadequate. The data on prices might also be inadequate – for example, price changes were measured by components of the consumer price index which might have been too aggregated to trace the change in prices for particular professional services. The impact of liberalisation could also be dominated by the severe contraction of the economy, or it might simply still be too early for the reforms to show results.

Graph 14.3: Regulation index before and after liberalisation (zero - full liberalisation; 12 - full regulation)



For pawn brokers, press distribution, agencies, temporary employment agencies, stevedores and real estate agents, the index value after the reforms is zero| Source: KEPE 2013

Graph 14.4: Changes in producer price index of selected business services (change from 2008 to Q3-2013)



Source: Eurostat

Finally, the Ministry of Finance has compiled a list of monitoring indicators for the liberalisation of some 20 professions, including changes in the number of professionals since 2011 (see table below). The number increased for most professions, such as accountants, tax consultants or travel agents, in spite of the economic crisis, indicating that reforms helped to open access for new professionals.

Greece has advanced in the liberalisation of profession in recent years, as confirmed by the improvement of professional services indicators and the increase in the number of professionals for some key professions. However, the liberalisation was uneven across professions. Further progress will depend on tackling remaining rigidities, ensuring a swift implementation of legislation and monitoring the effectiveness of reforms to identify needs for further adjustments.

Debt Sustainability

The debt sustainability analysis points to a slight deterioration in the debt-to-GDP ratio by the end of the decade in the current review compared to the previous one. After peaking at around 177% of GDP in 2014, Greece's debt-to-GDP is expected to gradually decline to around 125 % of GDP in 2020 and around 112 % of GDP in 2022 (graph 18). Using the same assumptions, this represents a deterioration compared to the December 2012 targets of a debt-to-GDP of 124% in 2020 and substantially below 110% in 2022. This deterioration is due to several factors: a lower forecast for nominal GDP, mainly reflecting a deeper adjustment in prices, a somewhat lower forecast for privatisation revenue following delays in privatising government assets and higher arrears clearance compared to the previous review, which may however support economic growth in the shorter term representing an upside risk to the projection. In addition to the clearance of EUR 8 bn in arrears originally foreseen in the programme, the current DSA assumes the clearance of an extra EUR 2.5 bn in newly discovered tax refund arrears in the course of 2015. In contrast, the debt-to-GDP ratio for 2013 at 175% is estimated to have been better than projected due to a better than anticipated fiscal outcome.

On top of EFSF-IMF disbursements associated to the 4th review, Greece will need some additional EUR 5 bn to cover its financing needs until end-August. If the 5th review will not be completed before August, the additional necessary funds could come from a number of measures to be taken by the authorities in the coming months. The programme is fully financed for the next 12 months, including by additional measures outlined below which taken together, are expected to yield at least a total of EUR 8.5 bn in extra resources (i.e. EUR 5 bn in extra financing needs until end-August and estimated additional needs of EUR 3.5 bn until May 2015). In addition, the Eurogroup's outstanding commitment to provide adequate support to Greece during the life of the programme and beyond until it has regained market access provides necessary reassurances that the programme remains sufficiently financed

- Intra-general government borrowing through repo operations. While the State cash reserves run relatively low, other general government entities dispose of sizable cash reserves. As part of the programme, mechanism will be put in place to enable the State to use idle resources available in other parts of general government to cover part of its financing needs. As a first step, the authorities are setting up a repo framework using state government assets as collateral to draw on excess liquidity in general government subsectors for up to EUR 3 billion. This framework will be implemented as part of a prior action and although the repos will be short-term, they can be rolled over as needed.

- Cancellation of state preference shares by Greek banks. In 2009 Greece issued the so-called pillar I bonds worth EUR 5.2 bn to capitalize Greek banks in kind. In exchange for these bonds, the Greek State was given preference shares in the banks that required the recapitalisation. These pillar I bonds are due to mature in May. In the course of the upcoming recapitalization, some banks have indicated their intention to raise higher amounts from the markets in order to buy back the state preference shares, thereby allowing for the cancellation of the corresponding pillar I bonds when they mature. This would reduce the government financing needs for May.

- Cancellation of part of the ETEAN bonds. ETEAN is an extra-budgetary fund whose main objective is to give guarantees to SMEs so that the latter can have access to financing. In 2009 bonds worth EUR 1.2 bn were issued as capital for ETEAN and are set to mature in August. When guarantees given to SMEs were called, ETEAN gave banks the equivalent in bonds. The authorities estimate that of the total bonds still held by ETEAN, part will not be needed and can be cancelled when they mature, thereby reducing financing needs for August.

- [Use of idle resources available in other parts of general government for liquidity purposes. The authorities have agreed to develop a plan for cash management reform to be implemented as of January 1 2015 aimed at reducing the currently high segmentation of the management of the various general government accounts. A first step in this reform will be to analyse the accounts held by State/central government entities in commercial banks and to close down all the unnecessary accounts, bringing the money back into the Treasury Single Account (TSA). The closure of the unnecessary accounts would take place by end-June and would bring added liquidity back to the TSA.]

- New debt issuance.Given the improved market sentiment and the significant fall in yields, prospects for Greece to receive some financing through commercial funding (either short-term or long-term) have increase

A) Milestones to be completed by **end-May 2014**

Milestone	Area	MoU Section
1. Adoption of outdoor trade law	Enhancing competition and promoting better regulation	
2. Adoption of investment licensing law and spatial planning law	Reducing procedural and other administrative burden	
3. Update the list of nuisance charges	Nuisance charges	
4. Adoption of the code of conduct for members of Government (due for April)	Anti-corruption	
5. Adoption of a joint ministerial MoF-MOJ decision with action plan for integration of debt collection to tax administration (May)	Social security collection	
6. Adoption of legislation (1) to ensure access to medicines and diagnostics for the non-insured and (2) to change the current mark-ups and profit margins of pharmacies into a regressive mark-up system and reducing the overall profit margin of pharmacies.	Health care	

A) Milestones to be completed by **<u>end-June 2014</u>**

Milestone	Area	MoU Section
1. Adoption of the necessary legislation (1) to merge into ETEA all the supplementary pension funds under the public sector and (2) to apply the NDC and sustainability factor formulas to all the funds not currently in ETEA from 1 January 2015.	Pensions	
2. Adoption of forestry law	Reducing procedural and other administrative burden	
3. Adoption of administrative burden omnibus bill	Reducing procedural and other administrative burden	
4. Abolish effective January 1, 2015 all charges that finance auxiliary pensions under the Ministry of Labour.	Nuisance charges	
5. Adoption of Small PPC law and Clearance of all general government arrears with PPC	Energy	
6. Adoption of legislation on funding of political parties and legislation on declaration and monitoring of assets	Anti-corruption	