HELLENIC REPUBLIC
MINISTRY OF FINANCE
THE MINISTER

Dear President of the Eurogroup, dear Jeroen,

Following,

- the 20th February 2015 Eurogroup's statement which requested of the Greek government to present to the institutions a "first list of reform measures",
- the Greek government's timely submission of the said 'first list'
- the Eurogroup's subsequent statement of 24th February 2015 (agreed to by teleconference), which confirmed that the institutions approved the submitted 'first list' as "sufficiently comprehensive to be a valid starting point for a successful conclusion of the review", and to be "further specified and then agreed with the institutions by the end of April",

I am now writing to you, in advance of next Monday's Eurogroup, to convey the Greek government's view that it is necessary to commence immediately the discussions between our technical team and that of the institutions.

Please find attached a document regarding seven of the reforms included in our 'first list', outlined here in some detail, over which our government has been working and over which we would like the technical discussions to begin in our initial meetings, with the intention of making these reforms the first of a batch of reforms to be agreed to in the context of the agreement the Eurogroup has foreshadowed as due for completion by April 2015. We envisage that, in this manner, the majority of the items on our 'first list' can be further specified as soon as possible so that the resulting agreement can be ratified by the Eurogroup, and Greece's Parliament, and become the basis of the review. We also feel that, in their first meeting, the two technical teams should also make firm recommendations regarding the evaluation process and timetable. As for the location of the technical meetings and fact-finding and fact-exchange sessions, the Greek government's view is that they ought to take place in Brussels.

In parallel with these technical discussions concerning the April deadline, and so as successfully to complete the Master Financial Assistance Facility Agreement between the ESM-EFSF and the Greek government (as extended on the 28th of February 2015), the Greek government believes that, very soon, the two sides ought to begin higher-level discussions regarding a "possible follow-up arrangement" (as mentioned in the 20th February Eurogroup statement). Please

5-7 Nikis str., CP 101 80, Athens - Greece, T +30 210 3221511, +30 210 3244924 F +30 210 3332608, E minister@minfin.gr

HELLENIC REPUBLIC
MINISTRY OF FINANCE
THE MINISTER

also note that the Greek government would like any "follow-up arrangement" to take the form of a 'Contract for Recovery and Growth of the Greek Economy'.

Looking forward to seeing you on Monday,

Regards

PS. In the attachment listing seven reforms the Greek authorities have been working on, please note that (for consistency purposes) the order in which they are presented corresponds to the order of the 'first list' of reforms presented by us on 23rd February.

5-7 Nikis str., CP 101 80, Athens - Greece, T +30 210 3221511, +30 210 3244924 F +30 210 3332608, E minister@minfin.gr

I. Fiscal structural policies

Public Finance Management

- 1st Reform - FISCAL COUNCIL: Activating the Fiscal Council, achieving economies, and expanding its remit

The purpose of a Fiscal Council, or an Office for Fiscal Responsibility, is to act as an independent watchdog whose aim is to monitor the government's fiscal policy, assess whether it is in line with the adopted fiscal rule, and contribute to the elimination of a possible deficit bias. To this end, the fiscal council should have the capacity to prepare macroeconomic forecasts for the budget, it should monitor impartially the implementation of budgetary plans and the respect of budgetary objectives and processes, and it should also intervene and shape the public dialogue on fiscal policy.

The previous Greek government legislated the establishment of a Fiscal Council in June 2014. Law 4270/2014 envisages that the Greek Fiscal Council will evaluate the macroeconomic forecasts used for the Medium Term Fiscal Strategy and the State Budget. Moreover, it should monitor compliance with the fiscal rules related to the achievement of the medium-term objective. Nevertheless, the Fiscal Council was never activated in practice and, to this date, remains inoperative, lacking management or staff.

The Greek authorities plan to activate the Fiscal Council but also achieve economies by merging it with the existing Office of the State Budget that currently functions within the Hellenic Parliament[1] as well as connecting it (though not merging it with) with KEPE (the government's Centre for Economic Research).

Empirical evidence suggests that the effectiveness of Fiscal Councils has been stronger the wider is the scope of their competences. To this end, the government believes that the Fiscal Council should contribute to the forecasting of macroeconomic and fiscal values used for the budgeting procedure. The Fiscal Council will be helped in its duties by macroeconomic models prepared by the General Accounting Office and KEPE. The Council will review the efficiency of the Organic Budget Law and recommend to the Government changes in the latter's provisions. The scientific staff of the Council should be individuals with higher qualifications and work experience than currently envisaged who work closely with KEPE staff as well as with academic researchers and researchers at the Bank of Greece.[2]

Furthermore, the Fiscal Council should periodically carry out Spending Reviews and should quantify and assess independently the programmes of the competing

[1] The Parliament's Office of the State Budget has been functional for a few years but lacks the independence from the political process that is deemed necessary for an agency that, at an arm's length, passes judgment on the manner in which the state budget is implemented.

[2] The current framework envisages the appointment of nine researchers (out of twenty members of staff) holding at least a master's degree.

political parties at pre-election campaigns, thus contributing to public debate on fiscal policy and fiscal sustainability. The government is committed to making the Fiscal Council fully operational as soon as possible, shall prioritise the staffing of the Fiscal Council and stand ready to provide support to build up its capacity.

- 2nd Reform - BUDGET PREPARATION & ORGANIC BUDGET LAW

In the process of improving Public Financial Management, the Greek authorities will effect improvements in the area of budget preparation. These improvements will include ceilings for the various levels of government that will be taken into account in and strengthen the enforcement of the overall budgetary process over time. Improvements will include an overhaul of the Organic Budget Law that will streamline and clearly define responsibilities, including especially those at the pre-emptive level, between (1) the General Directorates of Financial Services (GDFS) that are currently embedded in each line ministry, (2) the Court of Audit and (3) the General Accounting Office (GSO).

Corrective mechanisms at a quarterly level for each entity will be in introduced. These budgetary processes will be extended to the extra budgetary funds, state-owned enterprises, local government and indeed, to any independent and/or regulatory entity. In the local government budget process the Greek government will enhance cooperation between the Observatory for Local Governments on the one hand and municipalities and Regional Authorities on the other. Budgetary processes will be harmonized across the board.

Furthermore, emphasis will be given in the training and in the building up of competences both in the GAO and in the GDFS. The Greek authorities will give serious consideration and make all possible efforts to establish multi-annual sliding budgets for different levels and entities.

Revenue Administration

- 3rd Reform - 'ONLOOKERS' VAT EVASION-FIGHTING SCHEME: Large numbers of causal 'onlookers' to assist in the fight against VAT evasion

The culture of tax avoidance runs deep within Greek society. Tax authorities are not only under-staffed but are also immersed in the logic of book-checking, when the real problem lies off the books. Experience shows that even when over-burdened, SDOE personnel leave their desks and raid establishments on-site, with a view to perform on-the-premises checks, such raids are not only rare (due to under-staffing) but also often anticipated. It is, additionally, virtually impossible for the tax authorities, especially in view of the limited budget available to them, and the slow process of recruiting tax inspectors, to make a serious dent in the VAT fraud problem that typifies, mainly, the services markets (e.g. nightclubs, medical services, etc.)

To this effect we propose the following: That large numbers of non-professional inspectors are hired on a strictly short-term, casual basis (no longer than two months, and without any prospect of being rehired) to pose, after some basic training, as customers, on behalf of the tax authorities, while 'wired' for sound and video. While they will have no authority to carry out checks, and will be disallowed from challenging offenders, the data that they will produce will bear legal weight and be actable upon by the full time tax authorities that will use the collected evidence immediately to issue penalties and sanctions.

We envisage that the recruits will come from all walks of life (e.g. students, housekeepers, even tourists in popular areas ripe with tax evasion) who will be paid hourly and who will be hard to detect by offending tax dodgers. The very 'news' that thousands of casual 'onlookers' are everywhere, bearing audio and video recording equipment on behalf of the tax authorities, has the capacity to shift attitudes very quickly, spreading a sense of justice across society and engendering a new tax compliance culture – especially if combined with the appropriate communication of the simple message that the time has come for everyone to share the burden of public services and goods.

To bring this action to fruition, the Greek government will need to call upon assistance from fellow member-states, as well as from the available technical assistance, especially in the realm of equipment and training.

II. Financial stability

Installment schemes

- 4th Reform – TAX ARREARS: Improving existing legislation

The purpose of existing legislation, introduced by the previous government, was to tap into a vast sum of uncollected tax arrears. The new Greek government believes that that piece of legislation was problematic and needs to be improved forthwith.

The problem: Tax arrears come to €76 billion, of which €23.56 billion pre-dates 2009. The General Secretariat of Internal Revenue believes that the bulk of the pre-2009 arrears are uncollectable while, in view of the current economic circumstances, of the €76 billion sum only €8.9 are collectable. Today, €1.6 billon are owed by about 3.7 million individuals and SMEs who/that owe less €3000 each, with 200,000 physical entities up to €5000 each. Over the 'crisis' years, new arrears have emerged as follows:

2010-12 €23.5 billion (€7.8 per annum)
2013-14 €23.5 billion (€11.75 per annum)

As of...	Outstanding balance In billion EUR	Net increase over previous period In billion EUR
31/12/2009	29.39	
31/12/2010	34.95	5.56
31/12/2011	41.38	6.43
31/12/2012	52.10	10.72
31/12/2013	60.66	8.56

31/12/2014	74.93	14.20
1/2/2015	**76,01**	1.15

Appx breakdown of tax arrears per segment:

Segment	Amount due in EUR billion	% of total arrears as of 1/2/2015
Government entities and state enterprises	6.52	9%
Bankrupt private companies	12.98	17%
Unmatched or lost tax IDs from late 80s transition	0.6	0%
Rest	56.41	74%
Of which		
Accumulated before 31/12/2010	23.56	31%
Accumulated after 31/12/2010	32.85	43%
Of which collectible	8.9	12%

In this context, the intention is to implement an incentive scheme that front-loads the collection of the highest number of arrears while building a payment culture consistent with strict payment discipline.

Description of the proposed law:

- For the month of March 2015 (the remaining 15 days) those who pay their full principal amount of assessed debt will receive a discount in the surcharges.
- The law allows for debtors to pay in advance of the tax submission set date (end of May), that is in the month of April, their full or part of their assessed debt. Debtors are voluntarily called to pay their principal amount or part of it in advance with the incentive to have all or part of the surcharges discounted. (If the debtor pays the total amount of his/her assessed debt will receive a full discount of the surcharges; if however he/she can only pay part of the assessed debt, he/she will receive a prorated discount of the surcharges)
- For those submitting their taxes at the set date of end of May they have the option to apply for an installment payment scheme.
- The installment scheme has incentives that front load payments and reward those who pay the full amounts of their assessed debt (principal) upfront versus those who pay in installments.
- The installments are voluntary / in total 100 / one falls out of the installment scheme automatically, after having missed the payment of one installment in 2015 and two installments in 2016. Once a debtor has fallen out of the installment scheme falls back to the regular tax collection process.

Q&A

1. *When and how will the installment scheme commence?*

By May 26 2015 the debtor has to have submitted his/her application.

2. *What are his/her incentives to pay and how does the installment scheme help the promotion of the Tax Payment Culture in Greece?*

The government aims at recouping the maximum possible of Total Tax Arrears and reward upfront payment reducing future liabilities. Time works against the expectation of the GoG to collect many of these arrears, while by default it creates a culture of an expanding **informal** economy. The bonus of advance payment with a discount of the surcharges, if one pays by end March and end of April, increases the prospect of collection. On the other hand the ability collaboratively to engage in an installment payment contract with the State, and the fact that it is strictly kept is creating a **trust** mechanism between the debtor and the State, trust being a scarce commodity in the case of Greece's Tax Collection system. The introduction of a pre-agreed payment scheme with very clearly spelled out disciplinary actions aims at establishing a trustworthy payment culture.

3. *How does this law create incentives for the entrepreneur to restructure his or her highly indebted company, turn it around, and engage in the formal sector again?*

Most entrepreneurs in arrears to the state hold large quantities of cash (relative to their equity) fearing state seizures. In addition these owners have close to no access to formal bank credit so they are pushed to operate informally. This acts as an 'incubator' of further tax evasion, informality, and reduction of all sorts of State funds. The proposed law allows and rewards the reintroduction to the formal economy with a pay-as-you-go scheme that is highly disciplined as it promotes the culture of prompt payment of the installment scheme created in collaboration with the individual's promises to pay.

4. *How do you handle the issue of moral hazard?*

We have build in the system of installments a very stringent mechanism when one can fall out of the scheme automatically if she/he misses one payment in 2015 and 2 payments in 2016. Plus the rewards are all much higher with the upfront higher payment amounts.

5. *Will this scheme/law grant, surreptitiously, super-seniority to state tax arrears vis-à-vis other non-payments, such as NPLs to the financial sector?*

No! The Law will ensure that the monthly outlay toward this installment scheme, as a proportion of the taxpayer's income, will be capped to a level that varies depending on other payment obligations (e.g. a non-performing mortgage) as long as the taxpayer enters into a restructuring agreement with the institution (e.g. bank) to which it/she/he is also in arrears. It is in this sense that no superseniority is granted to tax arrears. (Nb. The observed correlation between tax arrears and NPLs is extremely high.)

III. Policies to promote growth

Privatisation and public asset management

- *5th Reform - Immediate Public Revenue accrual through Online Gaming Services*

The sector of online gaming (e-gambling) presents significant untapped public revenue opportunities. Public Revenue could increase both by selling licenses to Online Gaming Providers at a fair-market value, as well as by regulating Revenues and Fees related to Online Gaming, by harnessing the European experience for the strict online monitoring of the whole online betting process, reaching the level of the end-consumer and, lastly, by improving upon the existing Greek legislation (4002/2011).

The annual volume of online betting transactions through the currently temporary-licensed Online Gaming Providers exceeds €1.5 billion euros at modest estimates (excluding OPAP e-gambling revenue) as well as illegal online gambling revenues. On the basis of available market estimates, the overall market of online gambling in Greece exceeds €3 billion euros annually. On fairly plausible assumptions, additional public revenue through the taxation of licensed online gambling could well exceed €500 million per annum.

Fees from the Sale of Licenses to Online Gaming Operators

Currently, twenty-four Online Gaming Providers are operating under a temporary licensing status. At the absence of concrete data on actual market-based betting revenue and profits, the Greek government has been hitherto unable to define a specific fee value per License.

Suggested Public Intervention: Immediate, official licensing of existing Online Gaming Providers for a period of five years. Each license would correspond at a one-to-one basis to a specific online gaming Internet domain. Thus, each Online Gaming Internet domain would require a license while a 5-year official Online Gaming license would require an immediate payment of €3 million, to be paid by the existing Online Gaming Providers. The fee for extending a license after this 5-year period has lapsed would be based on actual market data, as described below. This licensing fee will apply to any additional Online Gaming Provider license granted.

Increasing taxable Online Gaming Revenue

Each officially licensed Online Gaming Provider would have to pre-pay a minimum tax of €1 million per year, irrespectively of the actual volume of transactions and with the possibility that other taxes are waived. This tax will be paid at the beginning of each fiscal quarter. The taxation system for Online Gaming remains at current levels. Fully to control and monitor online gaming transactions, the online gaming market must become cashless and based on Proof of Identity and with compulsory online gaming 'pay-ins' and 'pay-outs' either by a card (debit or prepaid) or an e-wallet, to be managed by an officially licensed Payment Service Provider by the Central Bank of Greece on the basis of Law 3862/2010 and the Payment Service Directive 2007/64/EC.

Implementation: Enforcement of regulation, for the obligatory management of all KYC/ AML, payment-related, e-wallet related and all relevant pay-in and pay-out procedures of Online Gaming Providers, through officially licensed Payment Service Providers (2 weeks). Effective immediately and with a deadline of 3 months. Sale of Online Gaming Licenses (2 months). Formulation and roll-out of the legal framework for the pre-payment of taxes of Online Gaming Providers (2 months). Establishment of technical parameters for interconnecting Online Gaming Providers and Payment Service Providers to designated Third Party Service providers. This will be provided on a Service-basis and will be implemented without the need for tendering new systems (1 month)
Full roll-out of the monitoring and control of Online Gaming Transactions, as described (3 months)

To carry out the above steps toward full implementation, the Greek government will require technical assistance (e.g. mechanisms for monitoring internet-based gambling) plus agreements that will limit cross-border illegal gambling.

Product market reforms and a better business environment

- 6th Reform - ANTI-BUREAUCRACY, SELF-INFORMING PUBLIC SECTOR SCHEME

The government intends to introduce legislation that bans public sector units from requesting (from citizens and business) documents certifying information that the state already possesses (within the same or some other unit).

The standard argument against such legislation is that it can only be activated once the various public sector departments/offices are fully digitized. The Greek authorities disagree and, in fact, believe the opposite to be the case: First we need to legislate that public servants are banned from requesting from citizens and business information that some other department possesses and only then will there be a sufficient 'drive' within the public sector to digitize.

Put differently: If public sector employees are ***not*** obliged to trace documents on behalf of citizens and business, they will resist the introduction of IT networked services (as a result of inertia and/or a reluctance to bother with new skills). But if public servants are ***obliged*** to trace the necessary information or certificates on behalf of citizens and business, they will then demand from their superiors that IT networked services be introduced!

Interim provisions – How do certificates get collected within the public sector prior to digitization?

Before all information is made available digitally across different departments, the Greek government is planning a twofold, interim solution. Citizens will be issued, voluntarily, the Citizen's Smart Card – that takes the form of a standard charge-card like form, inclusive of a modern chip capable of storing information that is consistent with privacy laws. E.g. frequently requested documents relating to birth certificates, identity data (though ***not*** health records or educational attainment data) etc. These CSCs will be swiped at the relevant department thus avoiding any request for producing the stored data. As for information that is not stored on the citizen's CSC, the department to which the citizen has placed some application will be obliged to retrieve the information necessary using existing technologies – e.g. even a phone line could be used, with public servants requesting the information quoting secret PIN numbers, over the phone, from lists of such PINs shared across the state. When technology permits, dedicated email addresses can be used from which one public servant requests the required information/certificate from another. Additionally, regarding documents that have never been digitized, every request will give some public servant the opportunity/responsibility to scan the requested document, before forwarding it to the requesting department, thus building step-by-step a new electronic database.

Benefits of proposed action: A massive reduction in lost working hours by citizens and business who currently spend days on end collecting documents from various public sector departments in order to produce them to one or more... public sector departments – A new incentive for digitization - Substantial good will for the public sector – Links with the 7th Reform below.

IV. Humanitarian Crisis

- *7th Reform – Provisions for the adoption of immediate measures to face the humanitarian crisis*

The Greek government has drafted and tabled legislation contains measures to alleviate extreme poverty in the short run, provide food stamps, access to a minimal electricity supply, provide shelter. The innovative part of the government's intended policy concerns the means by which this drive toward addressing extreme poverty will also spearhead a major drive toward reforming the public administration and the fight against bureaucracy/corruption. Subsequent legislation will introduce the issuance of a Citizen Smart Card that can be used as an ID card, in the Health System, as well as for gaining access to the food stamp program etc. The idea here is twofold:

First, the government is eager to avoid the stigma attached to paying with food stamps at the supermarket - thus, eligible citizens will be using the Citizen Smart Card that all citizens (independently of their economic circumstances) carry (or can carry) in their wallets.

Secondly, the issue of the Citizen Smart Cards will become part and parcel of the anti-red tape reforms – see 6th Reform above

In terms of actual provisions, the Law provides for:

(a) food allowance of €100 per family per month for up to 300 thousand households – budgeted for the 9 calendar months of 2015 at €137.7 million

(b) reconnection of electrical power supply disconnected due to personal debt for households living without electricity and free supply of electricity up to 300Kw/h per month per household – budgeted for the 9 calendar months of 2015 for up to 150,000 households and the total cost for 2015 (9 calendar months) is estimated at €22.09 million
(c) rent allowance to households (priority will be given to single parent families, families with young children, households with no income and the long-term unemployed). Estimated beneficiaries will reach up to 30,000 households and the average amount of monthly installments is €150. Total budget for the 9 calendar months of 2015 is estimated at €40.5 million.

The overall budget of the above mentioned measures comes to €200.29 million. To render this expenditure fiscally neutral, the government has located savings from two quarters: (i) consumables and general expenditure reductions for each ministry (accounting for €60.9 million) and (ii) the introduction of a new system of public tenders in each ministry that will offer a saving of €140 million.