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Compliance Report
The Third Economic Adjustment Programme for Greece

First Review

June 2016

1. Introduction

In July 2015, after the expiry of the previous programme supported by EFSF financing, Greece requested the European Stability Mechanism (ESM) financial assistance, to restore fiscal sustainability, address the risks to its own financial stability and to that of the euro area, promote sustainable growth, create jobs and reduce inequalities, and modernise the State and public administration. In August 2015, the Hellenic Republic concluded an agreement for stability support in the form of a loan from the ESM for an availability period of three years. In accordance with the ESM Treaty, a Memorandum of Understanding (MoU) was signed by the European Commission, on behalf of the ESM, which details the conditionality attached to the financial assistance facility covering the period 2015-18. Fulfilment of the conditionality is assessed at regular reviews, taking account of the progress in reforms.

The policies in the MoU are built around four pillars:

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

This report on compliance with the MoU upon conclusion of the first review of the ESM programme has been prepared by the Commission staff, in liaison with the ECB staff, based on the findings of the missions to Greece carried out by the Commission every month between October 2015 and April 2016, together with ECB, ESM and IMF staff. In addition, Greece completed two sets of milestones in November 2015 and December 2015, which contained important reforms relevant for the completion of the 1st review of the ESM programme.

The policy package described in the supplemental MoU is final. Ahead and subsequent to the Eurogroup meetings of 9 and 24 May 2016, the Greek parliament has adopted legislative acts to deliver the actions agreed in the supplemental MoU prior to the disbursement of the second tranche of the ESM programme. Notably, a large number of provisions were adopted through law 4387 of 12 May 2016 (FEK A85) and the omnibus law 4389 of 27 May 2016 (FEK A 94) as amended on 3 June 2016 [law not yet published in the OJ]. The government also adopted a host of secondary legislation in May and June 2016, through Ministerial decisions and other acts, as agreed with the institutions.

On the basis of this analysis of compliance with the MoU, the ESM programme is broadly on track paving the way for the next disbursement to Greece of an amount necessary to cover the outstanding debt service until the expected completion of the next review, and an amount to help clear the sizeable stock of arrears in line with an agreed clearance plan.

Supported by the launch of the ESM programme in August 2015, the Greek economy demonstrated resilience in 2015 which is forecast to result in a recovery in the second half of 2016. Real GDP in 2015 turned out to be only slightly negative, falling by 0.2%, but that is over one percentage point better than expected after the imposition of capital controls (see Table 1). Economic activity was backed by the resilience of private consumption, positive net exports and by an acceleration of public investment at the end of the year. Mostly due to negative carry-over from 2015, Greece's real GDP is forecast to contract by 0.3% in 2016. While fiscal consolidation should continue to weigh on household disposable income, the fall in public and private consumption is expected to be partly offset by a positive contribution of net exports backed by another good year for tourism and positive trends in the export of goods. The economy is expected to start growing again in the second half of 2016 and should gather strength in 2017 as domestic demand accelerates with the help of EU structural funds, and of liquidity injected via the clearance of government arrears. Greece's current account deficit has been improving since 2011 and it is expected to turn positive in 2016, as past and ongoing structural reforms improve external competitiveness. Unemployment fell in 2015 and is projected to continue declining over the forecast horizon, while prices should fall marginally in 2016 and increase moderately in 2017 with the strengthening of domestic demand.

Table 1. The macroeconomic forecast (2015-18) made in August 2015 and May 2016

y-o-y % change	August 2015				May 2016				Difference			
	2015	**2016**	**2017**	**2018**	**2015**	**2016**	**2017**	**2018**	**2015**	**2016**	**2017**	**2018**
	Proj.	Proj.	Proj.	Proj.	Act.	Proj.	Proj.	Proj.	Act.	Proj.	Proj.	Proj.
Nominal GDP	-3.2	-0.7	3.4	4.1	-0.9	-0.5	3.5	4.0	2.3	0.2	0.1	-0.1
Real GDP	-2.3	-1.3	2.7	3.1	-0.2	-0.3	2.7	3.1	2.1	1.0	0.0	0.0
Nominal private consumption	-2.7	-0.5	2.7	2.6	-1.0	-0.7	2.4	2.8	1.7	-0.2	-0.3	0.2
Compensation of employees	-3.2	-0.8	3.4	4.1	1.5	-0.4	3.5	4.4	4.7	0.4	0.1	0.3
Gross operating surplus	-3.2	-0.7	3.5	4.1	-1.9	-0.7	3.5	4.5	1.3	0.0	0.0	0.4

Source: European Commission

Significant implementation risks to the programme remain. Uncertainties around the macroeconomic forecast remain large. Potential upside risks could come from a faster-than-expected pick-up in business and consumer confidence, whereas downside risks are related to a failure to fully deliver on the reform programme, a higher-than-expected negative impact of the refugee crisis on trade and tourism, as well as the slowdown in global trade and the effects of protracted capital controls. A lack of progress by authorities and banks in working out NPLs, cleaning and strengthening bank balance sheets with the help of private investors and management, and in improving the payment culture, could severely undermine the ability of banks to supply more credit and support strong, sustainable economic and employment growth. Sustained and determined reforms in the areas of product (goods and services) market, public administration, justice and anti-corruption could clearly reduce costs for businesses and households and underpin a recovery in investment. Progress on the privatisation programme may be more significant if heightened investor interest results in stronger participation and higher proceeds, and if the governance of the new Privatisation and Investment Fund protects the Boards of the companies from undue interference

2. Programme Implementation

2.1. PILLAR I. RESTORING FISCAL SUSTAINABILITY

As part of the new ESM programme agreed in August 2015, Greece committed to a revised fiscal path with a primary balance target of -0.25% of GDP in 2015 rising to a primary surplus of 3.5% of GDP by 2018. To demonstrate their commitment to this path, the Authorities legislated in July and August 2015 fiscal measures worth 1.7% of GDP in annual terms comprising primarily of a reform of the VAT system and pensioners' health contribution rate increases and stronger disincentives for early retirement. The resilience of the economy, the fiscal consolidation in the second half of 2015 and certain positive one-off factors helped Greece achieve - according to the programme definition - a primary surplus of 0.7% of GDP in 2015, overachieving the primary balance target of -0.25% of GDP by about 1p.p. of GDP.

Notwithstanding the over-performance relative to targets in 2015, additional parametric measures, which are expected to yield 3% of GDP by 2018, were adopted by the government to credibly reach the programme's primary surplus targets of 0.5% of GDP in 2016, 1.75% of GDP in 2017 and 3.5% of GDP in 2018. The size and composition of the agreed fiscal package is in line with the MoU adopted in summer 2015 and fully closes the fiscal gap to reach the agreed targets. This package of parametric measures was adopted through legislative acts as a **prior action**. As shown in Table 2, the fiscal adjustment by 2018 consists of 1% of GDP from a major pension reform; 1% of GDP from a structural personal income tax reform; over 0.2% of GDP from an increase in the standard VAT rate, up to 0.2% of GDP from savings on the public sector wage bill, and the remaining 0.6% of GDP from other parametric measures mainly in the areas of motor vehicle taxation, excise and consumption taxes (primarily on energy products, alcoholic beverages, and tobacco) that raise rates and close existing exemptions and loopholes. In addition to the package of parametric measures, there are a large number of administrative and structural fiscal reforms in the MoU, especially to improve tax collection and to fight evasion, and to find savings through spending reviews. These are being supported by technical assistance through the Structural Reform Support Service (SRSS) of the Commission: properly implemented, they could generate a substantial yield of up to ¾% of GDP and provide a buffer against slippages.

Table 2. Overview of the parametric fiscal measures to reach the ESM primary surplus targets in 2016-2018 (net savings)

		% of GDP			bn EUR	
	2016	2017	2018	2016	2017	2018
Primary balance target 1/	0.5	1.75	3.5	0.9	3.2	6.6
Primary balance under baseline scenario 2/	-0.2	-0.5	0.5	-0.4	-1.0	1.0
Fiscal gap under baseline scenario	**0.7**	**2.3**	**3.0**	**1.3**	**4.1**	**5.7**
I. Pension reform	**0.4**	**0.8**	**1.1**	**0.7**	**1.4**	**2.0**
II. Income tax reform	**0.1**	**0.8**	**1.0**	**0.2**	**1.4**	**1.9**
III. Other parametric meaures	**0.2**	**0.8**	**0.9**	**0.4**	**1.5**	**1.7**
VAT reform	0.1	0.2	0.2	0.3	0.4	0.4
Wage bill reform	0.0	0.1	0.2	0.0	0.1	0.3
Other tax measures	0.1	0.5	0.5	0.1	0.9	1.0
Total parametric policy package (I+II+III)	**0.7**	**2.3**	**3.0**	**1.3**	**4.3**	**5.6**
Fiscal gap after total permanent parametric policy package 3/	**0.0**	**-0.1**	**0.0**	**0.0**	**-0.1**	**0.0**
Memo items: GDP - bn EUR				175.1	181.3	189.3

1/ Primary balance as defined under the Economic Adjustment Programme, 2/ Includes measures legislated in July-August 2015

3/ (-) signals over-performance vis-à-vis target; (+) signals fiscal gap vis-à-vis target

Source: European Commission

Moreover, the Authorities legislated as a prior action a contingent fiscal mechanism that ensures that additional measures are automatically implemented to address any divergence from targets. The Eurogroup on 22 April 2016 concluded that to safeguard the achievement of the fiscal targets of the programme, a contingency mechanism would need to be adopted by the Greek authorities that would be credible, legislated upfront, automatic and triggered based on objective factors as soon as there is objective evidence of a failure to meet the annual primary surplus target in the programme (3.5% of GDP in the medium term). The contingent fiscal mechanism will be triggered automatically in year (t) in the event of a negative difference between the target of the ESM programme for the year (t-1) and the actual outcome, as objectively assessed by ELSTAT in April and validated by Eurostat in the context of the standard procedure of fiscal notification. Exceptions to the activation of the mechanism will be limited to exceptional events with a major economic impact outside government control. On this basis, an adjustment will be undertaken equal to the negative deviation from the target, up to the size of 2 percent of GDP on an annual basis. Structural measures, including revenue measures, may be taken to replace the measures enacted under the mechanism, and incorporated in the budget of the following year in consultation with the institutions. The contingent mechanism, in any case, does not prejudice the standard ex-ante assessment of fiscal gaps and the adoption of adjustment policies aimed at preventing the emergence of targets' shortfalls.

The new personal income tax reform completes the process of reform and modernisation of the income tax system, while generating further revenues of 1% of GDP. The previous reform adopted in 2012 introduced modern rules for the calculation of business profits, reinforced by the new Accounting Code; eliminated a host of arbitrary tax allowances and credits, providing a single tax credit, restricted to employment and pension income; and provided a fully consistent codified framework for the income tax by introducing an Income Tax Code. The new reform adopted as a **prior action** for the first review addresses issues which had emerged with the implementation of the 2012 reform and raises 1% of GDP by making further fundamental changes, as it: (i) reduces the opportunities for tax avoidance by pooling business and employment income and taxing it on a single tax schedule; (ii) attenuates the preferential tax regime for farmers by taxing farming income, including direct subsidies, on the same tax scale as other forms of income while providing a standard tax credit, and by tightening the definition of professional farmer able to claim the tax credit; (iii) integrates the Solidarity Surcharge fully into the Income tax system changing from average to marginal tax rates and partly harmonising the bands with those for personal income tax; (iv) reduces marginal tax rates in particular tackling the problem of high marginal tax rates for tax payers on middle incomes; (v) broadens the tax base and gives additional incentives for labour participation and work by reducing tax credit thresholds, which now take account of family composition.

The semi-autonomous public revenue administration is being transformed into a fully autonomous agency, while a host of measures are being taken to improve compliance, fight fraud and evasion, and increase revenue collection. The legislation establishing the new Agency for tax and customs was adopted as a **prior action** with its independent Board of Governors, CEO and budget, while reporting to the Government and Parliament. By June the authorities will operationalize the transfer of IT related functions by signing a Service level agreement. The Agency is expected to be fully operational by 1st of January 2017.

A series of other strategic plans and measures are to be implemented to increase tax compliance and tax collection. This will occur inter alia through the promotion and facilitation of the use of electronic payments; fully-fledged plans on compliance and on collection including a series of measures such strengthening enforcement, publishing an update of the list of large tax debtors, and ensuring triage of the large debtors, while the potential of a voluntary disclosure initiative will be explored. The fight against smuggling and custom services efficiency will be enhanced. Cooperation between Justice and tax administration will be improved and unnecessary litigations will be reduced. The authorities are reinforcing the tools for social security debt collection by providing access to indirect bank account registry and to tax administration data and are taking steps to integrate all social security collection functions - as part of the integration of funds within the pension reform - with the view to transfer them to the tax administration by end 2017. The results of the reforms of both the taxation and the revenue administration now being put in place are expected to become more visible in terms of stronger revenues over the next quarters as implementation progresses.

Greece has made further progress in Public Financial Management reforms including by upgrading the legislation on public procurement. This includes measures to upgrade the Organic Budget Law (OBL) and finalise the work to transpose the EU directives on public procurement and concessions. These reforms allow provision of timely and accurate budgetary information, assure strict compliance with the ceilings of the entity's budget, ensure the management and optimal utilisation of each entity's resources, and create the conditions for budgetary savings from an efficient procurement system. A key requirement of the Organic Budget Law adopted in October 2015 is the transfer of financial management functions from the Fiscal Audit Offices (FAOs) to the General Directorates of Financial Services (GDFS) embedded in each line ministry, which is expected to be completed by January 2017. The authorities will complete the entire OBL reform by end-December 2016, including termination of the ex-ante audit of payments by the Hellenic Court of Audit in a phased manner. The members of the Board of the Fiscal Council were appointed, and the Council will be fully staffed by July 2016 and is expected to issue its first opinion by September 2016. The Government has initiated work to design a new government Budget Classification structure and Chart of Accounts due by December 2016 so that it can be used for the 2018 Budget. The authorities have taken action in the area of public procurement to increase efficiency and transparency of the Greek public procurement system, prevent misconduct, and ensure more accountability and control. Based on the Action Plan on Public Procurement agreed with the European Commission in October 2015, they will adopt in June 2016 a consolidated, comprehensive and simplified legislative framework (primary and secondary legislation) agreed with the European Commission on public procurement and concessions, including the transposition of the new EU Directives and the establishment of a Remedies Review Body which will start operating by 31 December 2016.

The authorities are updating the plan to complete the clearance of arrears by June 2017, also using designated programme financing. It is expected that clearance of arrears can resume and proceed at an accelerated pace in 2016 as soon as the ESM disbursement takes place, which would have a positive impact on the economy and in turn on public revenues. A stronger monitoring mechanism, consisting in monthly reports from the authorities signed by the finance minister and validated by the Commission, for clearance of net arrears[1] will be established as part of the arrangement related to the disbursement of the sub-tranches of the release. The Government is also working on a medium-term action plan with the aim to ensure that payments will be made in compliance with the Late Payment Directive, and on improving the fragmented cash management system.

The authorities have finalised in close cooperation with the institutions the details of a very comprehensive and ambitious reform of the pension system. Significant pension measures, which include the curtailment of early retirement rights, were adopted with the launch of the ESM programme in summer 2015 and are expected to already generate savings of 0.5% of GDP. The reform adopted as a **prior action** will produces significant further fiscal savings by 2018. The reform involves a move to a unified system where the new rules would immediately apply to all pensions without pro-rating. Existing pensions would be recalibrated according to the new parameters: current retirees with positive differences continue to be paid the same main pensions in nominal terms, but these are frozen until any gap between the current and recalibrated pension (known as a 'personal difference') is eliminated through the effects of inflation. This reform also addresses the 2015 Council of State ruling that cancels the pension cuts of 2012 (with a potential impact of 2 pps. of GDP). In gross terms, the overall fiscal savings from the new reform and that of August 2015 are estimated to be 0.9% of GDP in 2016, rising to 1.7% in 2018, 2.2% and 3.0% of GDP by 2020 and 2025 respectively, or over 5% of GDP if one includes the offsetting of the Council of State ruling. The part of savings coming from the expenditure side is large, reaching 1.0% of GDP by 2018 and growing over time to 2.4% of GDP by 2025. Some elements of the prior action have been delayed to September 2016, when the harmonisation of social security contributions will be finalised by: (i) eliminating the lower minimum contribution base for owners of tourist accommodation; (ii) repealing all exemptions allowing for lower health contributions; (iii) revising downwards the discount for lump sum payment of notional insurance periods.

[1] The clearance of net rather than gross arrears would ensure that the authorities use the funding to clear already existing arrears rather than new arrears that would accumulate going forward.

Table 3. Fiscal impact of proposed pension reform (% of GDP)

	2016	2017	2018	2019	2020	2025	2030
				% of GDP (gross savings)			
Measures legislated in 2015	0.5	0.5	0.5	0.6	0.6	0.6	0.6
Measures legislated in the 1st review	0.5	0.9	1.2	1.4	1.6	2.5	2.5
of which: on expenditure	*0.4*	*0.7*	*1.0*	*1.2*	*1.5*	*2.4*	*2.5*
Total gross savings	**1.0**	**1.4**	**1.7**	**2.0**	**2.2**	**3.0**	**3.1**
				% of GDP (net savings) 1/			
Measures legislated in 2015	0.4	0.4	0.5	0.5	0.5	0.5	0.5
Measures legislated in the 1st review	0.4	0.8	1.1	1.2	1.4	2.1	2.2
of which: on expenditure	*0.3*	*0.6*	*0.9*	*1.1*	*1.3*	*2.1*	*2.2*
Total net savings	**0.8**	**1.2**	**1.5**	**1.7**	**1.9**	**2.7**	**2.7**
Memo items:							
Offset of the Council of State ruling	2.0	2.0	2.0	2.0	2.0	2.0	2.0
Total gross savings including offset of Council of State	**3.0**	**3.4**	**3.7**	**4.0**	**4.2**	**5.0**	**5.1**

1/ Taking account of impact on income taxes and social security contributions

Source: European Commission

After backtracking in early 2015, prospects of modernisation for the health care system have improved although progress is uneven across areas. The Greek authorities have established universal access to health care, building on legislation introduced under the previous programmes, providing that right for all uninsured and financially vulnerable Greek citizens, as well as for other vulnerable categories. A number of key deliverables of the MoU have been achieved, with the clawback on hospital pharmaceutical spending, the extension of the clawbacks on diagnostics and private clinics to 2018, the cuts in prices of diagnostics and the gradual elimination of exemptions to price reductions in pharmaceuticals. The authorities have adopted or planned measures to support cost containment and the use of generic medicines, including the planned re-introduction of centralised public procurement. These are all important steps to preserve both access for citizens and affordability under a constrained budget and are a key enabler of affordable universal access. Despite progress, the adoption of structural measures, key to cost-efficient public spending, is lagging behind, often hindered by vested interests. As a result, expenditure is still above the targets in all the regulated areas. In addition, there have been episodes of interference which hampers reform efforts, causing delays in policy implementation and backtracking. This includes the replacement on unclear grounds of the large majority of hospital administrators that had been previously selected based on meritocratic and transparent criteria, despite the repeal of a law granting the Minister of Health the faculty to unilaterally appoint hospital CEOs without any selection process. While this law has been abolished, such episodes raise doubts about the prospects of the health system to become managed on a professional basis. Regarding health insurance, the issue of persistent arrears in payments from Social Security Funds to National Organisation for the Provision of Health Services (EOPYY) continues to be problematic. This is exacerbated by the liquidity crisis in the overall economy.

The programme has a strong focus on social welfare and reducing unemployment. In order to get people back to work, the authorities, working closely with European partners, have taken measures to boost employment by providing short-term work opportunities to 52,000 people targeting the long-term unemployed. In addition, the Government will issue the required Joint Ministerial Decisions and will roll out by September 2016 further active labour market integration schemes which will combine public work and activation (personalized services, upskilling, re-skilling) measures covering some 43,000 persons**.**

The Government with the assistance of the World Bank has launched the Social Welfare Review. This aims at reforming benefits including cash and in-kind benefits, tax expenditures, social security (excluding pensions) and other social benefits across the general government. The review is planned to be completed by September 2016. A key part of the Review will be to propose improvements to the system of benefits addressing specific care needs such as for children and disabilities to reduce fragmentation of welfare and social insurance benefits and move towards a modern system comparable to that of other EU Member states. The review will serve as the basis for the rationalization of a redesigned and targeted welfare system, aimed at identifying savings of ½ percent of GDP annually to allow for the introduction of a new guaranteed minimum income scheme (GMI). After extensive work and pilot tests in the course of the last year, with the assistance of the World Bank, the authorities have completed preparation and will launch the gradual roll-out of GMI in 30 municipalities by June 2016, with a view to completing it nationwide by end 2016. It will be a key component of the country's strategy for social welfare, based on consolidation and better targeting of all existing benefits to ensure a fiscally sustainable, more efficient and effective allocation reaching those most in need.

2.2. PILLAR II. SAFEGUARDING FINANCIAL STABILITY

The recapitalisation of systemic banks was completed before the end of 2015, and is being followed with measures to strengthen the governance of banks and the Hellenic Financial Stability Fund (HFSF). The four systemic banks made a significant capital increase in November/December 2015, and the less systemic banks also managed to increase their capital. The recapitalisation was necessary following an ECB/SSM comprehensive assessment of the four systemic banks that revealed a significant capital shortfall . The recapitalisation through private and public sources brought the average capital adequacy ratio of the four core banks to approximately 16.2% as of end-2015. They received state aid in the form of a financial backstop (underwriting) of their capital increase by the HFSF, thereby triggering additional cost cutting requirements as part of their revised restructuring plans agreed with the Commission. Eventually, only two of them received capital injections (in the form of common shares and contingent convertible capital) from the HFSF as part of precautionary recapitalisations, while the other two managed to raise their required capital needs fully on the market. The two banks that received state aid in the form of a precautionary recapitalization also had to accept additional divestment commitments as part of their revised restructuring plans.

The governance of the HFSF is being strengthened. To this end, a new procedure for the selection and appointment of members in the Executive Board and General Council has been adopted and the Selection Panel - composed of six independent expert members, of which three appointed by the EU institutions - has been created to proceed to these appointments and to review annually their performance. This process is now underway and is expected to be completed at the beginning of the summer. The HFSF has launched the procedure for the review of the banks' boards, supported by the EBRD in this task, to be finalised by end-June 2016. The HFSF will become a fully independent sub-entity of the new Privatisation and Investment Fund from the establishment of the latter, while preserving its current governance arrangements.

Further measures have been put in place to help resolve the high amount of non-performing loans (NPLs). As part of the milestones package in December 2015, the authorities partially liberalised the market for the servicing of NPLs by non-bank financial companies and created the possibility for banks to sell certain categories of NPLs to non-banks. As **prior action** for the 1st review, the legislation dealing with NPLs was modified to remove tax and other impediments to the efficient functioning of these markets. The authorities liberalised the sale of all performing and non-performing loans with the only temporary exception for the sale of loans secured by primary residences with an objective value of the property up to EUR140,000, for which the liberalisation will enter into force on 1 January 2018.

Agreement has been reached on other important measures to tackle the NPLs and these will be key deliverables for subsequent reviews of the ESM programme. The authorities have set up the consultative committee to fully operationalise the licensing framework of credit servicing firms; and have enacted tax provisions in order to facilitate debt write-offs and incentivise the borrowers to timely engage in out-of-court settlements. To optimize the costs and maximize efficiency in collections of the NPL portfolios from banks that have been put under resolution, the Bank of Greece (BoG) has appointed a single special liquidator to coordinate the liquidating entities and introduced a performance-based remuneration scheme for liquidators. Banks are expected to agree with the BoG in cooperation with the SSM on concrete financial and operational targets and report an extended set of key performance indicators (KPIs) with the objectives to significantly reduce non-performing exposure and reach sustainable restructuring solutions for borrowers. KPIs will be used to monitor resolution activities and if needed to further adjust the operational and legal environment to facilitate NPL resolution. The authorities have committed to amend the legislation on the out-of-court workout framework by June 2016 to improve its effectiveness, to significantly strengthen by September 2016 the capacity of courts dealing with household insolvency cases, to reform the corporate insolvency law by end-October 2016, and to fully operationalise the profession of insolvency administrators by end-2016.

2.3. PILLAR III. GROWTH, COMPETITIVENESS AND INVESTMENT

A consultation process has been launched to review existing labour market frameworks, with the aim of achieving a stable setting that is supportive of job creation, competitiveness and social cohesion. Labour market reforms implemented during the 1st and 2nd programmes were motivated by the need to support adjustment in the economy, increasing flexibility to better cushion the burden on employment, favouring gains in cost competitiveness to correct the large external imbalances, and addressing bottlenecks to attracting investment, creating jobs and increasing potential growth. The current programme aims to safeguard the progress already made, while improving the balance between flexibility and fairness, taking into account the still very high unemployment and the need to pursue sustainable and inclusive growth and social justice. To this aim and as a **prior action**, a comprehensive review of the frameworks for collective bargaining, industrial action and collective dismissals has been launched in April 2016. In line with the terms of reference agreed with the institutions, the review is led by a group of eight independent experts who are renowned international professors of labour law, labour economics and industrial relations. The group of independent experts will conduct a consultation process to gather the views of social partners and key stakeholders (including international organisation such as the ILO) and produce recommendations for further reforms in these areas. A preliminary report with recommendations is due by July 2016, and a final report will form the basis upon which the authorities will align labour market frameworks with best practice in the EU. Any change to labour market frameworks will be done only after the completion of the review process, in consultation and agreement with the institutions.

As concerns education and research, efforts to rationalise the Greek education system have been undertaken in the past years, but some reversal of previous reforms has taken place in the past year and further measures are needed to improve its quality and efficiency. This will be done in line with the best EU and OECD practices and will feed the planned wider Growth Strategy. An assessment of the Greek education system and the reforms of the last years has been launched with the assistance of the OECD. This assessment covers all levels of education, including linkages between research and education and the collaboration between universities, research institutions and businesses to enhance innovation and entrepreneurship. A first report will be produced by June 2016 and together with the results of a national dialogue on education will lead to the adoption of a three year action plan by September 2016. A series of measures are expected for adoption already for the academic year 2016-17. Efforts are also undertaken to promote closer linkages between R&D and businesses to boost the productivity and competitiveness of the economy. A comprehensive national research and innovation strategy for smart specialisation has been completed and a digital growth strategy is in the process of being finalised.

An important part of the structural policy package is the reform of product markets. Despite the substantial progress that has been recorded in key areas such as business environment and competition, there is still scope for further reforms. According to the OECD, Greece has lowered its general level of product market regulation in the recent years; however it still ranks among the highest compared to other OECD countries. Since August 2015, the authorities have adopted a significant package of reforms as part of the new ESM programme. In August 2015, the authorities adopted OECD recommendations in sectors such as retail trade, food processing (so-called Toolkit I) and beverages and petroleum products (Toolkit II). The majority of the eighty eight OECD recommendations under Toolkit II have been already addressed by the end of 2015, while most of the remaining ones, were addressed as **prior action**: the remaining five recommendations are to be addressed by September 2016. The ownership of pharmacies was opened to non-pharmacists in compliance with the spirit of the OECD's 2013 recommendation, while the primary legislation on the liberalization of the over-the-counter (OTC) pharmaceutical products was adopted as a **prior action**. A new round of an OECD competition assessment (Toolkit III) in five sectors of the economy (wholesale trade, construction, e-commerce, media and the rest of manufacturing) was initiated in early 2016 and the first recommendations are due to be addressed by June 2016.

With the support of the World Bank, the reform and simplification of the investment licensing procedures was initiated in late 2015. In addition, the government adopted the simplification of financial statements and audits for small companies in August 2015 according to OECD recommendations on administrative burden reductions for business. Moreover, the further liberalisation of key professions took place in August 2015, while roadmaps for the continuation of such efforts were prepared and submitted as a **prior action**. A first round of impact assessments of selected reforms on competition, investment licencing and administrative burden was launched in October 2015 and the relevant recommendations are due to be addressed by June 2016. Going forward, the authorities intend to take further steps to open regulated professions, to effectively liberalize the OTC pharmaceutical products, to simplify the investment licensing procedure and to ensure the effective implementation of reforms through impact assessments and technical assistance. Strong ownership and swift implementation of the agreed reform agenda is crucial to further improve the functioning of the product market, ease doing business and narrow the gap to OECD countries.

Work has continued regarding the policies concerning land use which remain a major impediment to business activity and investment. The authorities have adopted the Presidential Decree on forest definition, and as a **prior action**, the Government finalised provisions for selected improvements of the spatial planning law and adopted the law on forest maps in agreement with the institutions. The authorities will fully implement the forestry law by July 2016. On cadastre, the authorities will adopt by September 2016 the new legal framework for nationwide cadastral offices on the basis of the experience of the two pilot offices and recent technical assistance advice, in accordance with the roadmap in the agreement between the World Bank and the European Commission.

On structural funds, an inter-ministerial committee on major projects will continue its work proposing solutions to blockages on projects. As a **prior action** the authorities adopted the law establishing the Information and Communication Technology Secretariat.

Important progress is being made in the reform of the energy sector, with the focus of this review being on the electricity sector. Agreement on the access – through auctions - by alternative suppliers to the lower-cost electricity production base of PPC, the incumbent, has been found, and will lead to a reduction of the retail market share of the quasi-monopolist by 8% in 2016, 20% cumulated by 2017, and 50% cumulated by 2020. In addition, after this transition phase (by 2020) no undertaking will be able to produce or import, directly or indirectly, more than 50 percent of total electricity produced and imported in Greece. As a **prior action**, this agreement was published and transposed in legislation.

Ownership of the transmission network will be fully separated from supply, on the basis of an agreed action plan. Thus, PPC will no longer own any share of ADMIE, the electricity transmission system operator, removing any conflict of interest in the construction and operation of important internal and external interconnections. To operationalize this, a plan for ownership unbundling was agreed between the institutions and the Greek authorities and it was endorsed by the KYSOIP (a ministerial body competent on economic issues) as a **prior action**; it will lead to the sale by end-2016 of at least 20% of the company to a strategic investor, having joint control of the company with the State, which will own 51% of it. Legislation to facilitate the implementation of the plan was also approved by the Parliament. Other important reforms in the electricity market are ongoing, including the implementation of the EU target model and, as a **prior action,** the capacity payments system was reformed, to bring it in line with EU State Aid Guidelines (EEAG) and reduce its cost. The revision of PPC's tariffs for industrial (high-voltage) users, to base them on actual costs and consumers' profiles was not completed and discussions between PPC and its customers are still ongoing. Completing this action requires a new mandate to PPC and will be done as part of the milestones due by mid-September.

The liberalisation of the gas market is progressing, with distribution being separated from supply and the industrial customer segment fully liberalised since August 2015 with complete liberalisation of all customers by 1 January 2018. To this end, the network operator (DESFA) as a **prior action** submitted a tariff proposal to the energy regulator (RAE).

Key steps for the reform of the transport and logistics sector are planned and the creation of a stable regulatory regime in the water sector is progressing. In the Transport and Logistics sector, the Greek government, in consultation with the European Institutions and in particular with the SRSS, has secured the required funding and the technical expertise to develop a general transport plan for Greece and thus establish a clear short-term and long-term strategy for the sector. Other important reforms on logistics are the ongoing implementation of the logistics law, the adoption of the logistics strategy and the related action plan. Further, the Greek government committed to prepare a comprehensive review of subsidies of the transport sector. Concerning the water sector, the Special Secretariat for Water (SSW), in consultation with the EC, is working towards the adoption of pricing principles for water utilities. The Greek government committed to strengthen the capacity of the SSW with the support of technical assistance.

The privatisation process has made significant advances since the signature of the MOU. The signing of the agreement to buy 14 regional airports by a consortium, and more recently the signature for the Port of Pireaus, which constitutes the first major privatisation concluded by the current government, are two important deals expected to lead to investment and job creation in the country. A similar tender for the port of Thessaloniki has also been launched; other key tenders are also in final stages including for the train companies. There is investor interest in these companies and these tenders are expected to be concluded by September 2016. An agreement was reached to begin discussions about the extension of the terms of the concession agreement for Athens International Airport. This reaffirms the aim of the government to allow private operators to run the airport and provide the same, and gradually even better, level of services to domestic and foreign travellers. Overall proceeds of some EUR 2.5 billion are expected in 2016 compared to some EUR 0.4 billion in 2015. An agreement was reached with the Greek authorities regarding the core assets to be privatised by TAIPED and an ambitious but realistic monetary target underpins this list. The Government as a **prior action** endorsed the Asset Development Plan approved by TAIPED in April 2016, and carried out a large number of government pending actions agreed with the institutions to facilitate its implementation and secure the completion of this plan, including on major projects such as the Hellinkon airport. The GPAs that couldn't be completed as part of the related Prior Action will be converted into a milestone for mid-September.

The Greek authorities adopted as prior action legislation to establish a new privatisation and investment fund (Hellenic Corporation of Assets and Participations S.A., HelCAP). HelCAP would in effect consist of a holding company with four subsidiaries under its management, namely (i) the privatisation agency (HRADF, or in Greek: TAIPED), (ii) the Hellenic Financial Stability Fund (HFSF) which holds capital instruments in systemic banks, (iii) a sub-entity that will monetise the considerable real estate assets of the Greek State (State Owned Real Estate Corporation S.A, ETAD), and (iv) a sub-entity to manage/monetise State Owned Enterprises (SOEs) and other shareholdings of the Greek State (State Owned Participations S.A., EDHS). The Fund will become operational as of day one. Both TAIPED and HFSF are existing operational entities which will be brought under the new Fund upon its creation, while maintaining their operational independence.

HelCAP has a governance structure ensuring that assets are professionally managed at arm's length from the Government and undue business interests, in line with the commitments of the Euro summit of July 2015. The Supervisory Board, which will be appointed jointly by the Greek authorities (3 members) and the European institutions (2 members) by June 2016, will take decisions on the basis of a 4/5 majority and the chairman will be one of the members appointed by the European institutions. Its role would be to oversee the proper functioning of the Fund based on its founding law and other key internal documents, to appoint the Board of Directors (by September 2016) and approve dismissals of senior management of the Fund and the sub-funds. The Board of Directors will have responsibility for executive tasks including the design and implementation of the strategic plan for HelCAP. It will be exclusively responsible for its subsidiaries, including appointing their Boards and management. The Boards of the subsidiaries will be similarly in charge for the companies under their portfolio ensuring control of these entities and their management, and thus ending the long-standing practise of direct government control of these companies.

HelCAP will own and manage immediately from its establishment a significant portfolio of assets which was defined as a prior action in the legislation. The portfolio of assets will gradually expand with the addition of new assets, a process that will be completed within 2016 for both the real estate and SOEs assets. The portfolio of assets in HFSF is fixed and the law specified that bank shares should be returned to the private sector within five years. There is an agreed list of 'core assets' included in the Asset Development Plan of TAIPED. Regarding real estate assets, the Authorities have agreed to bring immediately under HelCAP the real estate management entity (ETAD) and to transfer the legal ownership of all the Hellenic-State owned assets under its management to the new fund (around 70,000) with few exceptions, notably archeological sites, followed by further transfers of assets held by Ministries. For SOEs and other shareholdings, the transfer will follow a three-stage process, starting with the immediate transfer of six important companies. The proceeds of HelCAP from the sale or redemption of bank capital instruments and of the TAIPED assets will be used for debt repayment. The rest will be earmarked half for decreasing the debt to GDP ratio through debt repayment and the other half will be used for investments (both for growth-enhancing purposes in Greece and for preparing other assets of the Fund for monetization). Technical assistance is being provided by the SRSS and the French authorities.

2.4. PILLAR IV. A MODERN STATE AND PUBLIC ADMINISTRATION

Following a substantial scaling down of the public administration, Greece is now implementing key reforms to improve its quality. A very strong reduction in the number of employees in the core public sector between 2009 and 2015 (-25.9%) contributed to the stronger reduction in the level of the wage bill (-31.4%), which is now brought in line with the euro area average in terms of GDP (9% against 9.1%). The third programme focuses on qualitative reforms and depoliticisation of the administration.

Greece already approved and implemented important reforms, under the milestones package in December 2015, concerning the HR policies of the public sector. Legislation was adopted to streamline the structure of the unified wage grid of public servants, to modernise performance assessment, and to establish a transparent and objective process for the recruitment of managers in the civil service and top civil servants. The wage grid reform simplifies and rationalises the pay system for more than 400,000 civil servants, with a 20% decompression in the wage scale, a streamlining of allowances, and a new system of career-based incentives for the best performers. The performance assessment system itself has been completely overhauled and modernised, and will also be used in the new system for the recruitment of managers, which is based on merit and competence. Finally, the system of appointment of top servants in public and private entities has been depoliticised, and will now be performed through a non-political panel chaired by ASEP, the independent entity in charge of the recruitment of civil servants. A similar reform for Secretaries General, which are key figures at the top of all administrations, was completed as a **prior action** of the first review. Going ahead, key reforms will include the restructuring of special wage grids, covering around one third of the administration not covered by the standard wage grid, including uniformed personnel, and the introduction of a modern and transparent mobility system across the administration to effectively accompany the attrition rule concerning hiring which the government has extended until 2018.

Key measures have been agreed to enhance the efficiency of the judicial system and improve the effectiveness of judicial procedures. The implementation of the reform of the Code of Civil Procedure, in line with international best practice and effective since January 1st 2016 as a key deliverable of the MOU, is expected to bring very significant improvements to the functioning of the judicial system, by enhancing the efficiency, credibility and predictability of the civil procedure: this is key to support market activity, thereby benefiting the economy and the society at large, and contributing to the competitiveness of the Greek economy. The authorities plan to take two additional steps on auctions, which are essential also to reduce the high levels of NPLs: i) the value of immovable properties used as first-offer price for auctions will be market-based and not anymore tax-based, and ii) work has been launched to make the conduct of electronic auctions in civil procedures possible. However, the judicial system is still affected by significant backlogs and the implementation of the new Code needs to be accelerated. The three year strategic plan targeted at addressing the key weaknesses of the Greek judicial system, namely at enhancing efficiency, speeding up proceedings and addressing shortcomings in the functioning of courts, was submitted as a **prior action**. Other key actions that will be pursued in the area of justice are related to collecting information on the situation of the courts, computerization, developing alternative means for dispute resolution, rationalizing the cost of litigation and improving in court functioning and court management.

The implementation of the National Strategic Plan against Corruption is continuing. Following the adoption of the framework law for anticorruption and the code of conduct for members of Government in 2014, the amendment of the legislation on the declaration of assets adopted as a **prior action** of the first review is expected to significantly strengthen the framework for the monitoring and controlling of asset declarations of politically exposed persons in a timely, effective and independent manner, bringing Greece in line with best practices. Other key reforms in the MoU are the improvement of the law on the financing of the political parties, the insulation from political intervention of financial crime and corruption investigations, and the adoption of a code of conduct for Members of Parliament.

Greece has committed to strengthen the institutional and operational independence and effectiveness of key institutions and agencies. Following the commitments at the Eurosummit in July 2015, the authorities have agreed to publish a report on overall progress towards the modernisation of the public administration and its depoliticisation. They have also agreed to a process leading to the adoption of a general set of common fundamental rules applicable to all independent agencies, including the Hellenic Competition Commission and other regulatory agencies. Reforms will include the relationship between the entities and the Government, as well as the stakeholders; their organisational and operational autonomy in areas such finances, IT and HR; and accountability and conflicts of interest. As a **prior action**, the authorities amended legislation to ensure the independence and effectiveness of the Hellenic Competition Commission (HCC). The authorities have reaffirmed their commitment to honour the Commitment on Confidence in Statistics and to support the independence of ELSTAT. As a **prior action**, ELSTAT was provided access to administrative data sources and all the parties have agreed to provide these data on a regular basis, based on an agreed MOU.

3. Debt Sustainability Analysis and programme financing

3.1. DEBT SUSTAINABILITY ANALYSIS

There was a substantial improvement in the DSA compared to August 2015 because of better than expected growth and fiscal outcomes and less than expected bank recapitalisation needs. The economy and the financial sector were more resilient than expected to last year's policy uncertainty and imposition of bank holidays, leading to a milder contraction in growth and a lower use of bank recapitalisation funds. Moreover, the 2015 primary surplus (programme definition) of 0.7% of GDP was considerably better than the programme target of a primary deficit of 0.25%. At the same time, the delay in completing the first programme review led the authorities to replace external programme funding with internal sources from other general government entities which are consolidated and reduce the general government debt stock accordingly. The authorities were also unable to clear arrears (except for EUR 400 mn cleared in August 2015 with the first programme disbursement) due to lack of funding. As a result of these factors, Greece's debt-to-GDP reached 176.9% in 2015 compared to a projection of 196.3% estimated in August for the baseline scenario.

Going forward, the debt-to-GDP ratio is expected to increase in 2016 as Greece starts receiving programme funding and clearing arrears, before gradually decreasing from 2017 onwards. The DSA projections in a baseline scenario (A) assume that Greece will jump-start its arrears clearance programme in the second part of 2016 such that it would have cleared EUR 4 bn of arrears by the end of the year. The acceleration of arrears clearance is necessary to return liquidity to the real economy and support growth going forward. The DSA projections also assume that Greece catches up with the original disbursement schedule by the end of the year, increasing the debt stock accordingly. The assumptions in the DSA baseline regarding the other main input parameters are the following:

- Short term GDP growth is assumed to register -0.3% in 2016, 2.7% in 2017 and 3.1% in 2018. Long-term GDP growth is expected to level off to 1.5% after 2021, when catching-up effects have become smaller and the output gap has closed, and decline to 1.25% after 2030 due to ageing effects.
- Total privatisation revenues from bank and non-bank assets are estimated at about EUR 18bn, of which EUR 13bn come from the privatisation of non-bank assets. These long-term projections for privatisation proceeds are based on already signed sales and concessions and are a conservative estimate of expected revenue going forward. No further bank recapitalisation is foreseen at this stage and it is assumed that more than ¾ of the funds used for bank recapitalisation in 2015 can be recovered from the privatisation of bank assets (EUR 4.5 bn).
- In terms of primary surplus, Greece is expected to reach a surplus of 0.5% of GDP in 2016, 1.75% in 2017 and 3.5% in 2018. Afterwards, Greece is expected to maintain the 3.5% primary surplus for a period of 10 years after which it starts to decrease gradually to 1.5% by 2040.
- Market rates, modelled as the expected risk-free rate plus a risk premium, are expected to reach 5.1% in 2019, increase to 5.6% in 2024 because of the increase in the risk free rate and then level off to 4.8% by 2050. The average market re-financing rate after the end of the programme averages 5% in the projections.

Based on these assumptions, Greece's debt-to-GDP ratio is expected to reach 182.9% in 2016, 181.8% in 2017, 157.3% in 2020, 145.5% in 2022 and 100.7% in 2060. The gross financing needs (GFN)-to-GDP are forecast to register 16.9% in 2016, 18.2% in 2017, before strongly decreasing to 7.4% in 2020 and 8.4% in 2022. GFN-to-GDP will then increase from the 2020s onwards reaching 23.3% by 2060, above the debt sustainability threshold of 15% to 20%. Given the high debt-to-GDP and GFN-to-GDP, serious concerns remain regarding Greece's debt sustainability.

Two downside scenarios were also simulated which capture a more unfavourable external economic environment and a faster decrease in the primary surplus (scenarios B and C). In these scenarios the assumed growth rate for real GDP is lowered by 0.25 pp per year compared to the baseline between 2019 and 2030. The primary balance is assumed to remain at programme targets until 2018 and start decreasing 5 years after the end of the programme in scenario B and immediately after the programe in scenario C, leading to an overall average primary fiscal surplus of 2% and 1.7% respectively in the post programme period. Additionally, in scenarios B and C lower privatization proceeds are assumed and a buffer for possible recapitalization needs is preserved throughout the horizon.

- Debt-to-GDP stabilizes at a high level in the short to medium term in scenario B and starts increasing strongly from 2035 onwards reaching nearly 191% in 2060. The debt dynamics in scenario C become explosive from the mid-2030s onwards and reach 268% of GDP in 2060.
- The picture is similar for GFN-to-GDP: they exceed the 15% sustainability threshold in 2029 and reach 45.2% by 2060 in scenario B; they exceed the 15% sustainability threshold in 2026 and reach over 60% by 2060 in scenario C.

One upside scenario (scenario D) was also simulated which assumes a more favourable long-term growth and catching up process and correspondingly better fiscal performance. Growth is assumed to be 0.25 pp higher compared to the baseline after 2019. Privatisation revenue would total EUR 20 bn over 2015-2022 as it would include revenue from the privatization of banks of EUR 5.7 bn, reflecting the potential proceeds that could be generated by the new privatisation and investment fund HelCAP. The fiscal primary balance is based on programme targets and remains at 3.5% of GDP over an extended period of time. The overall primary surplus is on average 2.4% of GDP during the post programme period. In this scenario debt-to-GDP is high at 155.8% in 2020, 142.2% in 2022 and 110% in 2030, before decreasing to 62.2% in 2060.

The high debt-to-GDP and gross financing needs resulting from this analysis point to serious concerns regarding the sustainability of Greece's public debt. The concerns shall be addressed through the implementation of the far-reaching and credible reform programme contained in the supplemental MoU, very strong ownership of the Greek authorities for this programme and debt-mitigating measures granted on full implementation of conditionality measures agreed in the context of the ESM programme. An appropriate and phased combination of debt management measures (including locking in of current low levels of interest rates), extension of maturities and grace periods for principals and interest, plus the use of SMP and ANFA equivalent profits would allow to bring Greek debt back to a sustainable level in gross financing needs terms without the need for a nominal haircut.

Table 4. Greece: main DSA results

		2016	2017	2018	2019	2020	2022	2030	2040	2050	2060
Debt-to-GDP	Scenario A	182.9	181.8	172.4	164.8	157.3	145.5	117.1	103.1	100.9	100.7
	Scenario B	182.9	181.8	174.3	168.0	161.2	150.9	132.3	134.7	151.7	190.5
	Scenario C	182.9	181.8	174.3	168.2	161.8	152.9	143.3	153.0	186.0	268.2
	Scenario D	182.4	181.3	171.9	164.2	155.8	142.2	110.0	85.5	74.5	62.2
GFN-to-GDP	Scenario A	16.9	18.2	11.3	12.3	7.4	8.4	12.9	19.1	22.0	23.3
	Scenario B	16.9	18.2	11.3	12.6	8.0	9.6	16.5	26.2	34.0	45.2
	Scenario C	16.9	18.2	11.3	12.8	8.4	10.6	19.2	30.6	42.5	65.4
	Scenario D	15.0	17.7	10.7	11.7	6.9	7.9	11.5	15.3	16.0	14.4

Source: European Commission

3.2. PROGRAMME FINANCING

A new ESM programme with an envelope up to EUR 86 bn was agreed with the Greek authorities in August 2015. As part of the new programme, a first disbursement of EUR 16 bn was approved for fiscal and debt service needs, split into three tranches. A first tranche of EUR 13 bn was disbursed in August following the implementation by the authorities of a series of prior actions. Of this amount, EUR 12 bn was disbursed directly to the segregated account to meet debt service needs, including the early repayment of the EFSM bridge loan that had been given to Greece in July, and the remaining EUR 1 bn was disbursed to the Treasury Single Account (TSA) to cover fiscal needs. A further tranche of EUR 2 bn was disbursed in November 2015 following the completion by the Greek authorities of a first set of milestones. From this second tranche, EUR 1.3 bn was disbursed directly to the segregated account for debt payments, EUR 400 mn was disbursed to the TSA for fiscal needs and EUR 300 mn was disbursed to the newly created ring-fenced account for EU structural funds to replenish what had been used by the authorities in the first part of 2015 to cover their liquidity needs. A final tranche of EUR 1 bn was disbursed to Greece in December following the completion by the authorities of a second set of milestones. This last tranche was split into EUR 500 mn for the segregated account, EUR 300 mn for the TSA and the remaining EUR 200 mn for the ring-fenced account for EU structural funds.

In parallel to the disbursement covering fiscal and debt payment needs, a further EUR 10 bn was approved to cover bank recapitalisation needs. This amount was released on a specific account held at the ESM to be gradually drawn by the authorities once the ECB/SSM comprehensive assessment was completed and the actual bank recapitalisation needs became known following efforts to raise capital from private sources. The ECB/SSM comprehensive assessment identified a capital shortfall of EUR 14.4 bn of the four systemic banks in the adverse scenario. After the successful completion of book-building processes and liability management exercises of the four banks, considerably less public funds were needed for bank recapitalisation than envisaged in the financial sector envelope of the Programme. Eventually, EUR 5.4 bn out of the EUR 10 bn were disbursed in the form of ESM notes to Greece in December 2015 to meet recapitalisation needs of two banks. The unused EUR 4.6 bn of this disbursement remain available as part of the programme envelope.

Current projected gross financing needs over the course of the full ESM programme are lower by EUR 19.6 bn compared to the EUR 86 bn in the August 2015 assessment. This is mainly due to substantially lower public bank recapitalisation needs than originally foreseen (only EUR 5.4 bn out of an estimated total of EUR 25 bn were used in the end), as well as due to lower fiscal needs given a better than expected fiscal outcome in 2015 and slightly lower interest payments. At the same time, the authorities were obliged to increase their use of cash from other general government entities through repo operations to meet their liquidity needs in the absence of further disbursements as a result of the delay in completing the first review. In the projected financing needs until the end of the programme, it is assumed that the authorities will need to unwind an additional EUR 1.6 bn in repo operations on top of the EUR 3.5 bn that was catered for in August 2015 to get to the same amount of permanent use of internal cash reserves as in the August 2015 assessment. All of the other gross financing needs categories remain largely unchanged compared to the assessment made last year. More specifically, compared to August 2015, the following changes were made in the gross financing needs items:

- a reduction in the bank recapitalization needs by 19.6 bn following the comprehensive assessment and the significant private capital raising of banks in the recapitalization exercise undertaken last year

- an improvement in the primary fiscal surplus of EUR 1.4 bn throughout the programme period following a better fiscal performace last year

- a slight reduction in interest payments by EUR 200 mn

- an increase in the unwinding of repo operations by EUR 1.6 bn following the increase in repo use in recent months

Overall, up to EUR 64.6 bn currently remains to be disbursed including the EUR 4.6 bn unused bank recapitalisation funds. For the remainder of the programme Greece would need to cover EUR 31.5 bn in amortisation and interest payments, whereas the attainment of cash primary surplus as a result of attaining ESM programme targets would reduce financing needs by EUR 2.5 bn. The authorities also need to clear arrears of up to EUR 7 bn. The programme should allow the building of State deposits by EUR 5 bn at end-2016 and to reach EUR 8 bn by August 2018. The build-up in deposits should also take into account the replenishment of Greece's SDR holdings to the IMF by around EUR 1 bn. Privatisation receipts are expected to lower financing needs by around 6 bn over the remainder of the programme. As a result of the above, within the financing envelope there would be a remaining buffer of EUR 23 bn at the end of the programme.

The long delay in completing the 1st review of the ESM programme exacerbated Greece's tight liquidity situation. Greece had originally been forecast to receive an additional EUR 11.2 bn between November 2015 and June 2016. In the absence of programme disbursements, Greece met its financing needs over the previous months partly through the use of internal resources from other general government entities, but also through further delays in payments and accumulation of arrears.

The absence of funds did not allow the authorities to clear arrears last year on a substantial scale. According to the disbursement schedule agreed in August 2015, the authorities were supposed to clear EUR 4.9 bn in arrears between August 2015 and June 2016. However, they only cleared EUR 400 nm in arrears last August, due to lack of funds. The increase in arrears can not only negatively influence growth, but also future tax collection as private suppliers are not able to make tax payments because their bills are not paid by the State. This can result in serious financial blockages in the economy.

Going forward, it will be important for the authorities to restore much needed liquidity to the real economy in order to support growth and thereby ease compliance with the MoU fiscal targets.

The size of the disbursement related to the 1st review should allow the authorities to jump-start their arrears clearance programme and cover financing needs sufficiently into the future so as to avoid further liquidity shortages. The size of the disbursement should cover financing needs until the next review, which realistically one could expect to be concluded by end-October – beginning of November, given the high number of key deliverables.

Based on the factors above, the ESM governing bodies are expected to approve the second tranche of the programme linked to the completion of the first review amounting to EUR 10.3 bn. This envelope will cover Greece's financing needs until end-October 2016. Of this disbursement, a total of EUR 3.5 bn will be used for arrears clearance, while EUR 6.8 bn will cover debt service needs. The EUR 10.3 bn disbursement will be released to Greece in several tranches. A first tranche of EUR 7.5 bn will be released following the completion of the prior actions by the Greek authorities. Of this first tranche, EUR 5.7 bn will cover debt service needs until end-August, while EUR 1.8 bn will be used for domestic arrears clearance. The remaining disbursements will be made after the summer. The further disbursement for arrears clearance totalling EUR 1.7 bn will be subject to a positive reporting by the European institutions on the clearance of net arrears. The additional disbursement for debt servicing needs of EUR 1.1 bn will be released once the Greek authorities complete a number of milestones related to pension, privatisation (including the operalisation of new privatization and investment fund HelCAP), bank governance, revenue agency and the energy sector.

Table 5. Greece Financing Needs 2016-August 2018 with EUR 10.3 bn disbursement following the completion of the first review

Financing requirements Greece	2016													2017					2018				
	Q1	**May**	**Jun**	**Q2**	**Jul**	**Aug**	**Sep**	**Q3**	**Oct**	**Nov**	**Dec**	**Q4**	**2016**	**Q1**	**Q2**	**Q3**	**Q4**	**2017**	**Q1**	**Q2**	**Jul**	**Aug**	**Jan-Aug 2018**
Amortisation and maturing debt	1.7	0.0	0.9	1.4	2.9	0.1	0.7	3.7	0.0	0.1	0.3	0.5	7.3	0.3	2.2	7.2	0.2	9.9	0.7	0.8	2.4	0.0	3.9
Interest payments	2.3	0.2	0.3	0.9	0.9	0.5	0.0	1.4	0.3	0.2	0.2	0.6	5.2	2.3	0.9	1.7	0.6	5.4	2.3	0.7	0.6	1.1	4.7
State cash primary balance (‘-‘= surplus)	-1.9	0.3	-1.1	-0.7	-1.1	-0.4	0.3	-1.2	0.2	0.4	3.4	4.0	0.2	-2.2	-1.8	-1.1	3.7	-1.4	-1.1	-1.1	-0.4	-0.4	-3.0
Unwinding of repos	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	3.5	3.5	0.0	0.0	1.6	0.0	1.6
Banking sector needs	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Arrears clearance	0.0	0.0	0.5	0.5	0.8	0.5	0.8	2.0	0.8	0.8	0.2	1.7	4.3	1.3	1.0	0.0	0.0	2.3	0.0	0.0	0.0	0.0	0.0
A. Financing needs	**2.1**	**0.4**	**0.6**	**2.1**	**3.4**	**0.7**	**1.7**	**5.9**	**1.2**	**1.4**	**4.1**	**6.8**	**16.9**	**1.6**	**2.3**	**7.7**	**8.0**	**19.7**	**1.8**	**0.3**	**4.2**	**0.7**	**7.1**
B. Financing sources	**0.4**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**1.2**	**1.2**	**1.6**	**1.1**	**0.8**	**0.8**	**0.8**	**3.5**	**1.1**	**0.8**	**0.0**	**0.0**	**1.9**
Privatisation revenues	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	1.2	1.2	1.3	0.8	0.8	0.8	0.8	3.2	0.8	0.8	0.0	0.0	1.6
SMP profits	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
ANFA profits	0.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.3	0.3	0.0	0.0	0.0	0.3	0.3	0.0	0.0	0.0	0.3
C. Net financing needs (A-B)	**1.7**	**0.4**	**0.6**	**2.1**	**3.4**	**0.7**	**1.7**	**5.9**	**1.2**	**1.4**	**2.9**	**5.6**	**15.3**	**0.5**	**1.5**	**6.9**	**7.2**	**16.2**	**0.7**	**-0.5**	**4.2**	**0.7**	**5.2**
Programme disbursement	0.0	0.0	7.5	7.5	0.0	0.0	2.8	2.8	0.0	6.1	0.0	6.1	16.4	1.5	9.6	2.0	5.1	18.2	3.0	3.4	0.0	3.5	9.9
IMF tranches	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
State deposit financing	0.7	0.4	-6.9	-6.0	3.4	0.7	-1.1	3.1	1.2	-4.7	2.9	-0.5	-2.8	-1.0	-8.1	4.9	2.1	-2.0	-2.3	-3.9	4.2	-2.8	-4.7
Use of subsector deposits through repo operations	1.0	0.0	0.0	0.6	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	1.6	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
D. Financing gap	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
Memo items																							
Total State Deposit Stock (end-of-month)	**2.7**	**1.8**	**8.7**	**8.7**	**5.3**	**4.5**	**5.6**	**5.6**	**4.3**	**9.0**	**6.1**	**6.1**	**6.1**	**7.2**	**15.2**	**10.3**	**8.2**	**8.2**	**10.4**	**14.3**	**10.1**	**12.9**	**12.9**

4. List of Prior Actions in the Supplemental MoU

	Action defined on draft MOU	Status as of 8 June 2016	
	Fiscal policy (MoU 2.1)		
1	**Fiscal targets**. Adopt supporting legislation generating savings equivalent to ¾, 2¼ and 3 percent of GDP in 2016, 2017 and 2018 respectively through parametric measures	Done	
1.1	**A series of parametric measures to generate savings of around 1 percent of GDP** (VAT, wage bill, car taxation, other)	Done	
1.1.1	**VAT**. Increase in VAT revenues (savings of around ¼ percent of GDP), by raising the standard VAT rate to 24 percent as of 1 June 2016	Done	
1.1.2	**Wage bill**. Control of the wage bill (savings of around 0.2 percent of GDP)	Done	
1.1.3	**Car taxation**. Reform of motor vehicles taxation	Done	
1.3.4	**Other changes in taxation** in the areas of energy, alcoholic beverages, tobacco, e-cigarettes, and coffee, gaming, broadband and cable TV, investment vehicles, ENFIA, and tourist accommodation	Done	
2	**Contingency mechanism**. Legislation will be adopted to ensure that a package of measures would be automatically implemented as soon as there is objective evidence of a failure to meet the annual primary surplus targets in the programme	Done	
	Tax policy reforms (MoU 2.1 and 2.2)		
3	**Major reform of the personal income tax yielding 1 percent of GDP** by fighting tax avoidance, broadening the tax base, integration of the solidarity surcharge into the income tax law and tightening the definition of professional farmer, providing tax neutrality for investment and rental income.		
3.1	**Tax avoidance**. Reduction in opportunities for tax avoidance, through the pooling of currently separately-taxed employment and business income into a single taxable aggregate with an employment tax credit. The top marginal effective tax rate, including both PIT and solidarity surcharge components, will be capped at 55 percent	Done	
3.2	**Tax base**. A widening of the tax base through a reform in the tax credit for employment and pension income generating additional revenues of around 0.2 percent of GDP, To improve transparency, the tax credit taper will be substantially reduced.	Done	
3.3	**Solidarity surcharge**. Permanent integration of the solidarity surcharge into the income tax code with schedular marginal rates closely linked with the income tax brackets.	Done	
3.4	**Professional farmers**. Tightening of the definition of professional farmer for taxable income purposes and the elimination of the preferential tax regime for tax income including basic payment schemes of the first pillar EU agricultural subsidies through taxation on the same tax schedule of employment and business income with the same tax credit provided to employees and pensioners.	Done	

	Action defined on draft MOU	Status as of 8 June 2016	
	Revenue Agency (MoU 2.3.1)		
4	**Revenue administration**. Establish an autonomous revenue agency. Operationalize the transfer of IT related functions by signing a Service level agreement.		
4.1	**Revenue Agency's set up**. Pass legislation to establish an autonomous revenue agency that specifies: a) the agency's legal form, organization, status, and scope; b) the powers and functions of the CEO and the independent Board of Governors; c) the relationship to the Minister of Finance and other governmental entities; d) the agency's human resource flexibility and relationship to the civil service; e) budget autonomy, with own GDFS and a new funding formula to align incentives with revenue collection and guarantee budget adequacy, predictability and flexibility and a budget procedure ensuring discussions with the General accounting office of the Ministry of finance allowing for the needs of the agency to be taken into consideration; f) reporting to the Government and Parliament; e) the deadline of June 2016 for the signature of the service level agreement to fully operationalise the transfer of all tax and customs administration IT-related functions within the Agency.	Done	
	Pensions (MoU 2.5.1)		
5	**Comprehensive reform of the pension system**: Adopt a comprehensive reform through primary legislation and ministerial decrees to strengthen long-term sustainability while targeting savings, and streamline the governance of social security.		
5.1	**Link between contributions and benefits**. establish a closer link between contributions and benefits, through specific design and parametric changes.	Done	
5.2	**Recalibrate pension benefits** on the basis of the new parameters of the uniform pension rule with the exception of OGA	Done	
5.3	**Pension freezing**. Freeze the current pensions in payment until their value become equivalent to the one calculated under the new uniform rule	Done	
5.4	**Eliminate EKAS**	Done	
5.5	**Harmonize contributions**	Partially Done	Milestones to be completed by September
5.6	**Harmonise benefits rules**	Done	
5.7	**Address the deficit in auxiliary and dividend funds**	Done	
5.8	**Council of State ruling.** Ensure the compliance of the reform with principles in line with the Council of State ruling**.**	Done	
5.9	**Governance of social security.** Adopt the following measures: legislate to fully harmonize contribution and benefit payment procedures across all funds; establish a single entity (EFKA) to be fully operational by the end of 2016, legislate that by end 2016 all insured individual will be transferred into the new single entity, all social security funds - with the exception of the welfare functions of OGA, the guarantee and credit functions of TSMEDE and the functions of NAT not related to pensions - will be eliminated and all existing governance and management arrangements of such funds will be abolished after filing the financial statements but no later than March 2017	Done	
	Resolution of Non-Performing Loans (NPLs) (MoU 3.2)		
6	**Non-Performing Loans.** Amend legislation to allow the sale of performing and non-performing loans; operationalise the licensing framework of credit servicing firms; exclude debt write-offs from taxable income of the borrower.	Done	

	Action defined on draft MOU	Status as of 8 June 2016	
6.1	**Sale of loans.** Adopt amendments to Law 4354/2015 (Law on the Management of Non-Performing Loans, pay-setting arrangements and other emergency provisions in application of the agreement on budgetary targets and structural reforms) in order to allow without a licensing obligation the sale of all performing and non-performing loans to entities incorporated in any State member of the European economic area without exclusions or in any other State excluding non-cooperative States and States identified on 1 May 2016 as having a preferential tax regime(postponed for loans secured by primary residences with an objective value of property below €140,000)	Done	
6.2	**Licensing framework of credit servicing firms**. Adjust related secondary legislation to the amended Law 4354/2015.	Done	
6.3	**Licensing framework of credit servicing firms.** Set up the related consultative committee by the Government to fully operationalise the licensing framework of credit servicing firms	Done	
6.4	**Debt write-offs**. Amend the income tax law to ensure that for a specified period of time debt write-offs as result of restructuring agreements are not considered as taxable income of the borrower.	Done	
	Labour market and human capital (MoU 4.1)		
7	**Labour market review**. Launch a consultation process led by a group of independent experts to review a number of existing labour market frameworks, including collective dismissals, industrial action and collective bargaining, taking into account best practices internationally and in Europe	Done	
	Product markets and business environment (MoU 4.2)		
8	**Product markets liberalization.** Adopt primary legislation for liberalizing the OTC pharmaceutical market, take further liberalization measures in the beverages and petroleum products. Submit roadmaps to remove restrictions to specific regulated professions.	Done	
8.1	**OTC.** Adopt primary legislation that will provide for a General Sale List sub-category within the OTC pharmaceutical product list with effectiveness as of June 2016	Done	
8.2	**OECD Competition Toolkit II.** Adopt the remaining recommendations of the OECD Competition Toolkit II - with the exception of 5 recommendations - on beverages and petroleum products.	Done	
8.3	**Product markets liberalization.** Submit to the Institutions draft roadmaps to remove unjustified and disproportionate restrictions for the activities of engineers; address the external advisor's recommendations on regulated professions including prioritisation	Done	
9	**Land use.** Improve the spatial planning law; adopt the forest maps law.	Done	
9.1	**Spatial planning law**: improve	Done	
9.2	**Forest maps law:** adopt	Done	
10	**Structural funds**. Adopt the Digital Strategy General Secretariat law	Done	
	Regulated Network Industries (MoU 4.3)		
11	**Energy**. Full ownership unbundling of ADMIE from PPC; Design of the NOME system of auctions; temporary capacity payment scheme. Cost-based HV tariffs taking into account consumers' profiles.		

	Action defined on draft MOU	Status as of 8 June 2016	
11.1	**ADMIE**. Endorse in KYSOIP a detailed action plan, including a timeline, for implementing the full ownership unbundling of ADMIE from PPC, to be completed by end 2016 in accordance with an integrated procedure analysis produced by independent evaluators	Done	
11.2	**NOME.** Endorse in KYSOIP and publish the design of the NOME system of auctions, with the objective of lowering by 20 percentage points the retail and wholesale market shares of PPC by 2017, and to bring them below 50 percentage points by 2020	Done	
11.3	**NOME.** Adopt relevant legislation introducing the NOME mechanism in the Greek electricity market, including all relevant powers for LAGIE and RAE	Done	
11.4	**Capacity payment scheme**. Adopt the temporary capacity payment scheme, as approved by the European Commission in March 2016	Done	
11.5	**HV tariffs**. PPC will conclude the discussions on HV tariffs with all its customers by signing the respective contracts, and the adopted tariffs shall be cost-based and take into account consumption characteristics (profiles) of customers that affect costs and	Partially Done	Milestone to be completed by September
11.6	**DESFA**. DESFA will send a tariff proposal for the next tariff period to RAE.	Done	
	Privatisation (MoU 4.4)		
12	**Privatisation**. Endorse the Asset Development plan approved by HRADF. Take steps supportive of the privatisation process. Conclude the remaining Government Pending Actions identified by the Institutions and HRADF.		
12.1	**Asset Development Plan**. Endorse through KYSOIP the Asset Development Plan approved by HRADF on 26/04/2016 which includes 19 assets in line with the agreed December 2015 Action Plan.	Done	
12.2	**Hellinikon.** Sign an MoU with the investor at the end of negotiations on Hellinikon for any revisions in the agreement and to proceed to the final stage for concluding the deal	Done	
12.3	**Regional airports**. Ratify in Parliament the Concession Agreement for the 14 regional airports and, after signature of the aforementioned MoU, for Hellinikon the Share Purchase Agreement	Done	
12.4	**OLTH.** Approve through KYSOIP the concession agreement for OLTH in order to proceed with the uploading of the agreement for investors to place their binding bids	Done	
12.5	**OLP**. Constitute a working group that will formulate a timeline for finalisation of the regional airport and OLP transactions in 2016	Done	
12.6	**Egnatia Odos**. Approve the KYA on Pricing Policy for the Toll Station of Promachonas in Egnatia Odos; launch discussion between Egnatia Odos SA with Piraeus Bank on the restructuring of the outstanding debt of the Bond Loan	Done	
12.7	**Port Regulator**. Adopt a law strengthening the independence of the Port Regulator (RAL) as provided in Law 4150/2013 and clarifying the allocation of responsibilities between the port regulator and other port authorities, taking into account the final agreement for Piraeus Port and any other ports in the future	Done	
12.8	**Hellenic Civil Aviation Authority**. Prepare a report - and draft legislative proposals if needed - on the legal framework of the Hellenic Civil Aviation Authority's (HCAA); organize workshop to discuss report on HCAA with the EC's SRSS.	Partially Done	The implementation of the reforms is to be completed subsequently as part of the Milestones by September

	Action defined on draft MOU	Status as of 8 June 2016	
12.9	**Pending Actions of the HRADF/TAIPED**. Conclude the remaining Government Pending Actions identified by the Institutions and HRADF and which are due by [April 2016] and that are not listed in this section. This includes the transfer of OTE shares to TAIPED, which requires the renegotiation of a shareholder agreement.	Partially done	OTE: MoU signed between parties, transfer of share to take place in July following signature of new shareholder agreement. GPA related to railway infrastructure network maintenance will be completed in June. Completion to be verified as part of the milestones in September
13	**Privatisation and Investment Fund**. Adopt the law establishing the new Fund in accordance with the Action Plan agreed as part of the milestones in December 2015	Done	
	Public administration (MoU 5.1)		
14	**Depoliticisation of Secretaries General**. Approve legislation on depoliticisation of Secretaries General, abolishing Secretaries General of Ministries by December 2016 and replacing them with Administrative Secretaries.	Done	
	Justice (MoU 5.2)		
15	**Justice strategic plan**. Propose and subsequently implement a three years strategic plan for the improvement of the functioning of the judicial system	Done	
	Anti-corruption (MoU 5.3)		
16	**Declaration of assets legal framework**. Adopt legislation modifying the framework for the *declaration of assets*, to provide for an enhanced system of declaration, in particular by improving the independence of the committee in charge of controlling the declaration of assets of politically exposed persons, not only by increasing the number of its independent members but also by assigning the chair of the Committee to the most senior judge and by appointing plain members of Parliament ensuring at the same time the representation of the opposition in the Committee.	Done	
	Independent agencies and regulatory bodies (MoU 5.4)		
17	**ELSTAT**. Ensure that ELSTAT has access to administrative data sources in line with the Art. 17 of Law 4174/2013 amended by 4254/2014 and 4258/2014, and the Memorandum of Understanding signed between ELSTAT, the Ministry of Finance (GSIS), the Secretary General for Public Revenues and IKA signed on 17/04/2014.	Done	
18	**Hellenic Competition Commission (HCC).** Amend the provisions of the Article 282 of Law 4364/2016 in agreement with the Institutions relating to i) disciplinary offences; ii) the use of external lawyers so that the cap is not applied until the internal legal office is fully staffed; iii) the conflict of interest for external lawyers; and iv) the appointment and term of Directors.	Done	

5. List of Milestones for mid-September 2016

I. Pension reforms
By early September, finalise the harmonisation of social security contributions by: (i) eliminating the lower minimum contribution base for owners of tourist accommodation; (ii) repealing all exemptions allowing for lower health contributions; (iii) revising downwards the discount for lump sum payment of notional insurance periods.
II. Bank governance
By end-June 2016 (**key deliverable**), the HFSF with the help of an independent international consultant will finalise the review of the boards of the banks in which the RFAs apply. This review will be in line with prudent international practices by applying criteria that go beyond supervisory fit and proper requirements.
III. Energy
By June 2016, to continue the implementation of the gas market reform, (i) RAE (the energy regulator) will adopt gas distribution and transmission tariffs, (ii) legislation will be amended, further facilitating the unbundling process and (iii) the authorities will complete the review of the gas release program, improving conditions of access for alternative suppliers and substantially increasing the quantities available **(key deliverable).**
In the context of the implementation of the EU target model for the electricity market, pass the required legislation on the transposition of the high-level market design in June 2016 (**key deliverable**)
Amend the current legislation on ETMEAR and/or the structure of the RES account while respecting existing contracts in line with European Union rules, to ensure that the debt in the RES account is eliminated over a 12-months forward looking horizon (not later than June 2017); the account will be kept annually in balance onwards.
The General Assembly of PPC, of which the Hellenic Republic holds the majority of shares, will authorize the sale of at least 20 percent of ADMIE to a strategic investor in July 2016, with the respective tender procedure to start in July 2016 **(key deliverable).**
By June 2016, the Hellenic Republic will propose and vote in a General Assembly of PPC that its management is fully empowered to negotiate with full flexibility cost- and consumer profile-based tariffs. PPC will conclude the negotiations on HV tariffs with all its customers by signing the respective contracts, and the adopted tariffs shall be cost-based and take into account consumption characteristics.
IV. Privatisation
The Government will by June 2016 with the Institutions (a) agree nominations of the Supervisory Board which will be responsible for selecting the Board of Directors.
The Authorities will transfer to the new Fund a second group of SOEs to be mutually agreed with the institutions (list included in the TMU)
The Authorities will ratify in Parliament the Share Purchase Agreement for Hellinikon as soon as possible after signature of the aforementioned MoU and no later than June 2016
The Authorities take appropriate steps, and adopt legislation if needed by September 2016, on strengthening HCAA in line with the recommendations of the EC and of other stakeholders and experts involved in the May 2016 workshop and subsequent technical assistance provided.
HRADF will launch Expressions of interest for the long-term (35 years) concession of Egnatia Motorway S.A. and three Vertical Axes
The authorities will conclude the Government Pending Actions identified by HRADF and which are due by August 2016. OTE shares to be transferred to TAIPED by end July following new shareholder agreement that is in lie with EU law. Completion of the GPA related to the railway infrastructure network maintainance.
V. Revenue Agency
The authorities shall by July 2016 **(key deliverable)** […] adopt, in agreement with the Institutions and in conformity with the agency legislation, measures (i.e. MDs, budget appropriations) to provide for: a one-off injection of resources to address problems facing the agency with the initial stock in terms of both personnel and equipment and to ensure a sufficient level of resources to start to operate effectively; an immediate increase in budget for discretionary operational activities; the adequate appropriation to allow for the recruitments of sufficient staff in the agency in 2016 and 2017 to reduce the vacant positions to a normal level, consistent with the Attrition Rule.
The authorities shall by July 2016 (**key deliverable**): appoint the Board of Governors, which from the moment of appointment will assist the process of establishment of the agency and the work of the implementation committee. It will also assume responsibility for assisting the revenue administration in the transition period according to the principles of the new agency;

6. List of Key Deliverables in the Supplemental MoU

Action	Key deliverable	MoU
	Q2 2016 – June	
I. Delivering sustainable public finances		
1	**Fiscal policy**. Legislate the medium term fiscal strategy 2017 – 2020 (end-May 2016)	2.1
2	**Improve collection of tax debt.** Publish an update of the list of large tax debtors (May 2016)	2.3.3
3	**Public financial management**. Present a medium term action plan to ensure compliance with the Late Payment Directive.	2.4.1
4	**Social security**. Launch the gradual nationwide roll-out of the GMI scheme.	2.5.3
II. Safeguarding financial stability		
5	**Resolution of Non-Performing Loans**. Amend the legal framework for the out-of-court workout with detailed provisions (end-June 2016).	3.2
6	**Bank governance**. HFSF finalise the review of the boards of the banks in which the RFAs apply (end-June 2016).	3.4
III. Structural policies to enhance competitiveness and growth		
7	**Vocational Education and Training.** Finalise the integrated implementation plan for VET with quantified targets for 2016/17 and 2017/18; launch two small-scale pilots projects of apprenticeships for 2016/17; develop, adopt the framework for a series of major VET partnerships to serve as intermediary structures in order to support employers to offer work-based learning vacancies and ensure a sustainable expansion of apprenticeships for the academic years 2016-17 and 2017-18	4.1
8	**Product markets.** OECD competition toolkit I recommendation on OTC pharmaceutical products will be made fully effective	4.2
9	**Business environment.** *Regulated professions*: agree with the Institutions a roadmap for the liberalisation of the reserved activities of engineers (May 2016)	4.2
10	**Business environment**. Adopt the foreseen legislation according to the investment licensing reform roadmap in three sectors.	4.2
11	**Business environment**. Adopt legislation for the one-stop shops for business.	4.2
12	**Business environment**. Adopt the remaining measures needed to fully implement the selected reforms on competition, investment licensing and administrative burden identified in the first round of the ex-post impact assessment.	4.2
13	**Energy**. Review the gas release program, improving conditions of access for alternative suppliers and substantially increasing the quantities available.	4.3
14	**Energy.** In the context of the implementation of the EU target model for the electricity market, transpose into national legislation the high-level market design of EU target model for the electricity market.	4.3
15	**Privatisation**. Agree on the Supervisory Board of the Privatisation and Investment Fund and finalise internal regulations in line with the December 2015's Action Plan.	4.4
16	**Privatisation.** Ratify in Parliament the Share Purchase Agreement for Hellinikon	4.4
IV. Modern State and Public Administration		
17	**Public Administration**. Issue secondary legislation to implement the reformed performance assessment scheme.	5.1
18	**Public Administration**. Complete the first phase of the rationalisation of the specialised wage grids.	5.1
19	**Public Administration**. Adopt legislation to introduce a new permanent mobility scheme.	5.1
20	**Justice**. On revised Code of Civil Procedure, adopt the key Presidential Decrees required by the transitional provisions in Law 4335/2015 on the determination of the value of the property seized on the basis of its market value and first offer price for the auction (May-June 2016).	5.2
21	**Anti-corruption**. Amend and implement the legal framework of the financing of political parties on key items.	5.3

Action	Key deliverable	MoU
	Q3 2016 –July	
I. Delivering sustainable public finances		
22	**Revenue Agency**. Adopt measures to provide for adequate resources so as to allow the Agency to operate effectively.	2.3.1
23	**Revenue Agency**. Appoint the Board of Governors.	2.3.1
III. Structural policies to enhance competitiveness and growth		
24	**Labour market**. Adopt an integrated action plan to fight undeclared and under-declared work.	4.1
25	**Energy**. PPC launch the tender for the sale of at least 20 per cent of ADMIE to a strategic investor.	4.3
	Q3 2016 – September	
I. Delivering sustainable public finances		
26	**Customs**. Complete the customs reorganization.	2.3.2
III. Structural policies to enhance competitiveness and growth		
27	**Labour market**. Bring collective dismissal and industrial action frameworks and collective bargaining in line with EU best practices.	4.1
28	**Education**. Prepare a three-year Education Action Plan.	4.1
29	**Vocational Education and Training.** Launch a series of major VET partnerships to serve as intermediary structures in order to support employers to offer work-based learning vacancies and ensure a sustainable expansion of apprenticeships for the academic years 2016-17 and 2017-18	4.1
30	**Cadastre**. Implement the new legal framework for nationwide cadastre offices.	4.2
31	**Energy**. Launch the first auction under the NOME mechanism in the Greek electricity market.	4.3
32	**Water utilities.** SSW will finalise, with the support of technical assistance, the charging rules for water services	4.3
33	**Transport and logistics**. Implement the logistics law	4.3
34	**Privatisation.** Transfer to the new Privatisation and Investment Fund a second group of SOEs to be mutually agreed with the institutions, and following the finalisation of an Fund-Government coordination mechanism	4.4
33	**Privatisation.** Agree with the Institutions on the processes for determining the remaining portfolios of real estate and SOEs that will be transferred to the Fund	4.4
35	**Privatisation.** TAIPED will assess its regional airport and port assets and will transfer to the new Fund those it does not plan to develop	4.4
36	**Privatisation.** Take appropriate steps and adopt legislation if needed on strengthening HCAA in line with the recommendations of the EC, stakeholders and experts.	4.4
37	**Privatisation.** The Port Regulatory Authority prepares its internal regulations and needed laws to ensure its full functionality.	4.4
38	**Privatisation**. Complete the selection of the Board of Directors of the Privatisation and Investment Fund, including the CEO	4.4
39	**Privatisation**. The Board of Directors of the Privatisation and Investment Fund to be constituted as a body	4.4
40	**Privatisation**. Agree on the process for determining the exclusions of remaining portfolios of real estate and SOEs not to be transferred to the Fund.	4.4

Action	Key deliverable	MoU	Deadline
Q4 2016			
I. Delivering sustainable public finances			
41	**Social security**. Legislate reforms to welfare benefits.	2.5.3	October 2016
II. Safeguarding financial stability			
42	**Resolution of Non-Performing Loans**. Amend the corporate insolvency law in line with an agreed proposal.	3.2	End-October 2016
III. Structural policies to enhance competitiveness and growth			
43	**Product markets.** Toolkit III recommendations: the Government will adopt legislation to address all identified issues for the remaining sectors	4.2	December 2016
44	**Transport and logistics.** Prepare a comprehensive review of subsidies for all transport modes	4.3	December 2016
45	**Privatisation**. The Board of Directors of the Privatisation and Investment Fund finalises outstanding issues of the internal regulation.	4.4	End-October 2016
46	**Privatisation**. The Board of Directors of the Privatisation and Investment Fund appoints the Boards of its subsidiaries.	4.4	November 2016
47	**Privatisation**. Complete asset transfers/allocation for specific classes of assets to be identified by the technical assistance	4.4	December 2016
IV. Modern State and Public Administration			
48	**Justice.** Adopt Presidential Decree defining the system of e-dockets for electronic auctions.	5.3	December 2016
49	**Independent Agencies**. Adopt legislation for strengthening the institutional, financial and functional independence of the Regulatory Authority for Energy.	5.4	December 2016
50	**Independent Agencies**. Amend any primary and secondary legislation so as to address issues relating to the conflicts of interest of the HCC's Board members and the staffing of the HCC's internal legal office	5.4	December 2016
Q1 2017			
I. Delivering sustainable public finances			
51	**Tax policy reform**. Simplify the income tax regime; revise the corporate tax law in ITC; develop collective investment vehicles; revise the tax legislation in conflict with TCP; revise TCP on cooperation on audits; review tax certificates extension; reform KEDE; modernise legislation addressing collection of tax on income generated from offshore portfolio.	2.2	January 2017
52	**Revenue administration**. Make the autonomous revenue administration fully operational.	2.3.1	January 2017
53	**Social security**. Full nationwide rollout of the GMI scheme	2.5.3	January 2017
III. Structural policies to enhance competitiveness and growth			
54	**Labour market**. Streamline the labour legislation through the codification into a Labour Law Code.	4.1	March 2017
Q2 2017			
I. Delivering sustainable public finances			
55	**Tax policy reform**. Align the property tax assessment values with market prices.	2.2	June 2017
Q3 2017			
I. Delivering sustainable public finances			
56	**Anti-smuggling**. Ensure the scanners in the three main international ports are fully operational.	2.3.2	September 2017

7. Programme implementation: summary tables

Pillar I. Delivering sustainable public finance					
Policy area	**Prior Actions July-August 2015**	**Milestones November 2015**	**Milestones December 2015**	**Prior Actions 1st review 2016**	**Key deliverables between June and December 2016**
Fiscal Policy and Tax Policy Reform	Reform of VAT system to broaden base and phased elimination of island discounts. Gradual abolition of excise duty on diesel oil for farmers. Increase in tonnage tax. Elimination of the cross-border withholding tax. Increase in contributions for health care from pensions	Amend the criminal law on tax evasion and fraud. Abolition of the Code of Books and Records. Adopt measures (wine, insurance) to compensation for VAT on private education.		Adopt parametric measures of 3% of GDP by 2018 including reform of the personal income tax (to meet 1% of GDP), pension reform (1%), VAT (¼%), public sector wage bill (¼%) and other parametric measures (½%) including excise on energy, car taxation etc… Tightening the definition of professional farmers with respect to taxable income.	Adopt the medium term fiscal strategy (MTFS) for 2017-2020.
Revenue administration reforms	Transfer of tax and customs related capacities from the Corps for the prosecution of financial crimes (SDOE) and other entities to the revenue administration. Reform of garnishments rules.	Indirect bank accounts register accessible by tax administration and investigation bodies. Adoption of strategy to promote electronic payments. Strengthen revenue administration by transfer of SDOE staff to the revenue administration (GSPR). Improved selection tax audit cases. Establish three mobile enforcement teams to combat smuggling.	Agree a concept note on the design of the independent revenue Agency. Actions to combat VAT carousel fraud and fuel smuggling.	Adopt legislation to establish a fully autonomous revenue Agency.	Measures to provide for adequate resources so as to allow the Agency to operate effectively. Complete the reorganisation of the customs service. Publish updated list of large tax debtors. Adoption of legislation to promote electronic payments
Public Financial Management and Public Procurement	Create a ring-fence the account for the management of EU structural funds.	Adopt secondary legislation for the Fiscal Council. Amend and upgrade the Organic Budget Law (OBL). Action plan on public procurement.			Transposition of directives on Public procurement and on Concessions. Medium term action-plan to ensure compliance with the Late Payment Directive.

Pillar I. Delivering sustainable public finance					
Policy area	**Prior Actions July-August 2015**	**Milestones November 2015**	**Milestones December 2015**	**Prior Actions 1st review 2016**	**Key deliverables between June and December 2016**
Sustainable social welfare: Pensions	First part of a comprehensive pension reform (extended the freeze of guaranteed minimum pensions to the public sector; gradual elimination of the grandfathering to statutory retirement age and early retirement).	Unification of all supplementary pension funds. Supplementary pension funds to be financed by own contributions (by Jan.2015). Early retirement law for public sector.		Comprehensive pension reform (unified pension system with harmonised contributions and entitlements, creation of a national pension and contributory pension with adjusted accrual rates, structural reform of supplementary pensions, and recalibration of existing pensions)	
Sustainable social welfare: Health Care	Re-establish INN prescriptions based on active substance.	Extend the claw back ceilings for diagnostics, private clinics and pharmaceuticals. Adopt measures to increase the rate of generics penetration.	Implementation of hospital claw back. Align private diagnostics to claw back ceiling.		
Sustainable social welfare: Social safety nets and activation	Launch a comprehensive Social Welfare Review with World Bank.	Complete preparatory work for a gradual nationwide roll-out of a Guaranteed Minimum Income Scheme, including the set-up of benefits registry and social inclusion strategy.			Adopt legislation to reforms welfare benefits based on World bank Review Launch the gradual nationwide roll-out of the GMI scheme.

Pillar II. Safeguarding financial stability					
Policy area	**Prior Actions July-August 2015**	**Milestones November 2015**	**Milestones December 2015**	**Prior Actions 1st review 2016**	**Key deliverables between June and December 2016**
Restoring liquidity and capital in the banking system	Transposition of the Bank Recovery and Resolution Directive.	Comprehensive strategy for the financial system. Amendment of HFSF law including bank recapitalisation framework.	*(Completion of the comprehensive assessment and recapitalisation of the systemic banks*).		*(Completion of the recapitalisation process of the less significant institutions).*
Resolution of Non-Performing Loans (NPLs)	Amendments to the corporate insolvency law. Amendments to the Household insolvency law. Enabling legislation for creation of a regulated profession of insolvency administrator. Reactivation of the Governing Council of Private Debt.	Agreement on Strategy for NPLs. Amendments to the Household insolvency law (protection of primary residence).	Amendments to the Household insolvency law (financial assistance for vulnerable households). Legislation of NPL market (regulation for non-bank service providers, loan transfers, debt information network, bank liquidators).	Revision of the NPL law (removal of impediments to the sale and servicing of performing and non-performing loans). Operationalise the licensing framework of credit servicing companies. Amend income tax law related to debt write-offs.	Amend the legal framework for the out-of-court workout. Improve the institutional framework for NPL resolution (insolvency administrators, etc.). Amend corporate insolvency law.
Improving Governance of the Hellenic Financial Stability Fund (HFSF) and Governance of banks		Changes of HFSF law and new recapitalisation framework. Bank of Greece's Code of Conduct on relationships between banks and borrowers.	Establish a selection panel to review governance of the HFSF. HFSF to nominate executive board member dedicated to NPL resolution.		Finalise the review of the boards of the banks and of the HFSF.

Pillar III. Structural policies to enhance competitiveness and growth					
Policy area	**Prior Actions July-August 2015**	**Milestones November 2015**	**Milestones December 2015**	**Prior Actions 1st review 2016**	**Key deliverables between June and December 2016**
Labour market and human capital				Launch independent review of the labour market frameworks including collective dismissals, industrial action and collective bargaining.	Align labour market frameworks to best practice. Action plan to fight un- and under-declared work. Implementation plan for VET 2016-2018, incl. pilot projects. Adopt a three-year Education Action Plan.
Product markets and business environment	Recommendations on OECD toolkit I (bakeries, milk, promotions, sales periods, tourist buses, and truck licenses) and some OECD Toolkit II recommendations (beverages and petroleum). Opening of restricted profession of notaries, actuaries and bailiffs. Liberalisation of tourist rental. Establishing the inter-ministerial Committee for the investment licensing reform and lower administrative burden on companies as identified by the OECD.	Recommendation of OECD on pharmacy ownership. Adoption of 40 recommendation on beverages and petroleum products (OECD toolkit II). Issuance of Joint Ministerial Decision on determination of the notaries' fees. Adoption of road map for investment licensing reform. Launch of impact assessments of selected reforms on competition, investment licences and administrative burden. Reconvene the inter-Ministerial spatial planning committee.	Address another 18 recommendations on beverages and petroleum products (OECD toolkit II). Reinstate the inter-ministerial Committee for regulated professions. Proposal for improvements in spatial planning and Presidential Decree on forestry definitions. *Ex-ante* conditionality and Law on activation of EU structural funds.	Adoption remaining (apart from 5) recommendations to address competition issues on beverages and petroleum products (OECD toolkit II). Adoption of primary legislation on OTC pharmaceutical products (OECD toolkit I). Submit roadmaps to liberalise specific regulated professions. Agree improvements in spatial planning law, and adopt legislation on forestry maps. Adopt Digital Policy General Secretariat Law relevant for the structural funds.	Recommendations on OTC pharmaceutics (toolkit I) and on wholesale trade, construction, e-commerce, media and manufacturing (OECD toolkit III) Adopt legislation for the reform of the investment licensing in three key sectors. Recommendations of the ex-post assessments of selected reforms on competition, investment licences and administrative burden. One stop shops for businesses. Legal framework for the implementation of nationwide cadastre offices.

Pillar III. Structural policies to enhance competitiveness and growth					
Policy area	**Prior Actions July-August 2015**	**Milestones November 2015**	**Milestones December 2015**	**Prior Actions 1st review 2016**	**Key deliverables between June and December 2016**
Regulated Network Industries, notably energy	Adoption of legislation to reform the gas market. Adoption of legislation to promote competition in the electricity market.	Implementation measures on the gas market reform. Implementation of measures on the electricity market reform.	Agreement of a framework for the separation of transmission company (ADMIE) from the incumbent producer PPC.	Action plan to implement the full ownership unbundling of ADMIE from PPC. Design of the NOME system of auctions. Adopt the NOME mechanism into the electricity market. Adopt the temporary capacity payment scheme. Cost based HV tariffs.	Review of the gas release program. Transposition of the EU model for electricity market. Privatisation of at least 20% of ADMIE. Fist auction in the electricity market under the NOME mechanism. (*Transport*) Implementation of the Logistics Law (*Transport*)Port Regulatory Authority to be fully functional. (*Water*) Special Secretariat for Water to finalise the charging rules for water services
Privatisation and the new Privatisation and Investment Fund	Endorsement of the Asset Development Plan approved by Hellenic Republic Asset Development Fund (HRADF). Adopt government pending actions GPAs (sales of regional airports, launch the bid for Piraeus and Thessaloniki ports).	Completion of Government Pending Actions for Q4-2015. Restructuring plan for the OASA-Transport of Athens.	Completion of Government Pending Actions (GPAs) for Q4-2015, including on OTE (telecom shares) , TRAINOSE (train) and OASA (metro/bus). Agreement on a action plan for the new Privatisation and Investment Fund.	Endorsement of Asset Development Plan approved by HRADF. Implementation of Government Pending Actions (GPAs). Adoption of legislation to establish the new Privatisation and Investment Fund, and to transfer assets to sub-entities.	Appointment of Supervisory Board and Management Board of the Holding Company TAE and sub-entities. Complete asset transfers on real estate and SOEs to the new Privatisation and Investment Fund.

Pillar IV. A modern State and Public Administration					
Policy area	**Prior Actions July-August 2015**	**Milestones November 2015**	**Milestones December 2015**	**Prior Actions 1st review 2016**	**Key deliverables between June and December 2016**
Public administration	Legislation to align non-wage benefits (e.g. travel allowances etc...) to EU best practices.		Adopt legislation to reform the unified wage grid. Commitment to continue the attrition rule for recruitments in the public sector in 2016.	Adopt legislation on appointment of managers and top managers in the public sector (including the depoliticisation of Secretaries General), and on the new performance assessment scheme.	Adopt legislation to achieve rationalisation of the specialised wage grids. Adopt legislation to introduce a new permanent mobility scheme in the public sector. Issue secondary legislation to implement the reformed performance assessment scheme for civil servants.
Justice	Adopt legislation of significantly amend the Code of Civil Procedure.	Adopt a roadmap for the implementation of the revised Code of Civil Procedure, including on electronic auctions.		Adopt a three year strategic plan to strengthen the justice system.	Take steps, including Presidential Decrees to ensure the full implementation of the Code of Civil Procedure
Anti-corruption	Publish an update strategic plan against corruption.			Amend legislation on the declaration of assets.	Modify the legal framework for financing of political parties.
Independent agencies and regulatory bodies	Amend legislation on the independence of ELSTAT including the appointment process for the ELSTAT President.	Take measures to ensure ELSTAT is granted access to administrative data.		Finalise access of ELSTAT to administrative data. Amend legislation to ensure institutional and operational autonomy of the Hellenic Competition Commission (HCC).	Undertake horizontal review of autonomy on independent agencies and entities and amend legislation where needed including the HCC. Strengthening the Regulatory Authority for Energy. Address conflicts of interest in HCC.