GREECE: Memorandum of Understanding on

SPECIFIC ECONOMIC POLICY CONDITIONALITY

May 2, 2010

The quarterly disbursements of bilateral financial assistance from euro area Member States will be subject to quarterly reviews of conditionality for the duration of the arrangement. The release of the tranches will be based on observance of quantitative performance criteria, and a positive evaluation of progress made with respect to policy criteria in the MEFP and in this Memorandum, which specifies the detailed criteria that will be assessed for the successive reviews, up to the end of 2011. The detailed criteria for the years 2012 and 2013 will be specified at the occasion of the spring 2011 review.

The authorities commit to consult with the European Commission, the ECB and the IMF on adoption of policies that are not consistent with this memorandum. They will also provide them with all requested information for monitoring progress during program implementation and the economic and financial situation (Annex 1). Prior to the release of the instalments, the authorities shall provide a compliance report on the fulfilment of the conditionality.

1. Actions for the first review (to be completed by end Q2-2010)

i. Fiscal consolidation

Progress with the implementation of the 2010 budget and fiscal measures adopted thereafter. Progress is assessed against the (cumulative) quarterly deficit ceilings in the MEFP (including the TMU). The authorities take the following measures, generating savings for a total amount of 2.5% of GDP in 2010:

- Increase in VAT rates, with a yield of at least EUR 1800 million for a full year (EUR 800 million in 2010);
- Increase in excises for fuel, tobacco and alcohol, with a yield of at least EUR 1050 million for a full year (EUR 450 million in 2010);
- Reduction in the public wage bill by reducing the Easter, summer and Christmas bonuses and allowances paid to civil servants, with net savings amounting to EUR 1500 million for a full year (EUR 1100 million in 2010);
- Elimination of the Easter, summer and Christmas bonuses paid to pensioners, while protecting those receiving lower pensions, with net savings amounting to EUR 1900 for a full year (EUR 1500 million in 2010);
- Cancel budgetary appropriations in the contingency reserve with the aim of saving EUR 700 million;
- Reduce the highest pensions with the aim of saving EUR 500 million for a full year (EUR 350 million in 2010);

- Abolish most of the budgetary appropriation for the solidarity allowance (except a part for poverty relief) with the aim of saving EUR 400 million;
- Reduce public investment by EUR 500 million compared to plans;
- Parliament adopts, as planned in the stability programme of January 2010, a Law introducing a progressive tax scale for all sources of income and a horizontally unified treatment of income generated from labour and assets;
- Parliament adopts, as planned in the stability programme of January 2010, a Law abrogating exemptions and autonomous taxation provisions in the tax system, including income from special allowances paid to civil servants. The law applies retroactively from January 1, 2010.

ii. Structural Fiscal Reforms

Government adopts by end June 2010 a law that requires the monthly publication by the General Accounting Office (GAO) of timely monthly statistics (on a cash basis) on revenue, expenditure and financing for the State, as well as on spending pending of payment, including arrears.

iii. Financial sector regulation and supervision

The Bank of Greece, on behalf of the Government, establishes an independent Financial Stability Fund, with a strong governance structure, to deal with potential solvency issues and to preserve the financial sector's soundness and its capacity to support the Greek economy, by providing equity support to banks as needed (Annex 2).

Start implementation of intensified supervision of banks, including by allocating more human resources, also with a view to the take-over of insurance supervision, frequent reporting under tighter deadlines and quarterly solvency stress tests.

Review the private sector bankruptcy law to ensure consistency with ECB observations.

iv. Structural reforms

***Authorities undertake reforms to modernise public administration*:**

Parliament adopts legislation reforming public administration at the local level, notably by merging municipalities, prefectures and regions with the aim of reducing operating costs and wage bill.

Parliament adopts legislation requiring online publication of all decisions involving commitments of funds in the general government sector.

To strengthen labour market institutions:

Government starts discussions with social partners in order to revise private sector wage bargaining and contractual arrangements.

To enhance competition in open markets:

Government adopts law to simplify the start-up of new businesses.

Government adopts the horizontal legislation on the Services Directive.

Government adopts a recovery plan for the railway sector with a timetable for measures which:

- specify how operational activities will be made profitable, including by closing loss-making lines;
- ensure the effective implementation of EU Directives allowing for competition amongst providers of railway services;
- provide for the restructuring of holding company, including the sale of land and other assets.

To raise the absorption rates of Structural and Cohesion Funds:

Government will put in place measures, including the implementation of Law 3840/2010, the establishment of a "fast-track project production", to achieve the six-monthly targets for payment claims targets in the absorption of Structural and Cohesion Funds set down in the table below. Compliance with the targets shall be measured by certified data. The government will take steps to achieve an annual target of submitting 10 major projects applications to Commission services.

Programming period 2007-2013	**Payment claims to be submitted between 2010 and 2013**			
(in million of euro)	**2010**	**2011**	**2012**	**2013**
European Regional Fund and Cohesion Fund	2330	2600	2850	3000
European Social Fund	420	750	880	890
Target of first half of the year		*1105*	*1231*	*1284*
Target of second half of the year		*2245*	*2499*	*2606*
Total annual target	*2750*	*3350*	*3730*	*3890*

Government establishes a technical task force in direct contact with Commission services, to ensure rapid implementation of a) major projects in transport sectors, b) environmental projects; c) financial engineering instruments and d) public administration reform, relying on increased technical assistance.

Government shall have completed steps to ensure that budgetary appropriations for the national co-financing of Structural and Cohesion Funds are channelled to a special central account that cannot be used for any other purposes and which should be available to provide co-financing to all entities in the general government.

2. Actions for the second review (to be completed by end Q3-2010)

i. Fiscal consolidation

Rigorously implement the budget for 2010 and the fiscal consolidation measures announced afterwards, including those in this Memorandum. Progress is assessed against the (cumulative) quarterly deficit ceilings in the MEFP (including the TMU).

Government submits the draft budget for 2011 to Parliament. The budget provides information and reliable projections on the entire general government sector and targets a further reduction of the general government deficit in line with the MEFP. It includes a detailed presentation of fiscal consolidation measures amounting to at least 3.2% of GDP (4.3% of GDP, if carryovers from measures implemented in 2010 are considered), and detailed information on the situation of public enterprises.

The budget includes the following measures (in exceptional circumstances, measures yielding comparable savings could be considered in close consultation with European Commission, IMF and ECB staff):

- Implement the rule of replacing only 20 percent of retiring employees in the public sector (central government, municipalities, public companies, local governments, state agencies and other public institutions);
- Reduction in intermediate consumption of the general government by at least EUR 300 million compared to the 2010 level, on top of savings envisaged in the context of reforming public administration and the reorganisation of local government (see next measure);
- Government starts implementing legislation reforming public administration and the reorganisation of local government with the aim of reducing costs by at least EUR 1500 million from 2011 to 2013, of which at least EUR 500 million in 2011.
- Freeze in the indexation of pensions, with aim of saving EUR 100 million;[1]
- Reduction in domestically-financed investments by at least EUR 1000 million, by giving priority to investment projects financed by EU structural and cohesion funds;
- Temporary "crisis levies" on highly profitable firms, yielding at least EUR 600 million in additional revenue per year in 2011, 2012 and 2013;
- Incentives to regularise land-use violations, yielding at least EUR 1500 million from 2011 to 2013, of which at least EUR 500 million in 2011;
- Enforce the presumptive taxation of professionals, with a yield of at least EUR 400 million in 2011 and increasing returns in 2012 and 2013;
- Broaden the VAT base by including services that are currently exempted and move a significant proportion (at least 30%) of the goods and services currently subject to the reduced rate to the normal rate, with a yield of at least EUR 1000 million;
- Start phasing in a "green tax" on CO_2 emissions, with a yield of at least EUR 300 million in 2011;

[1] Adjustments may be needed in case of negative inflation.

- Collect revenue from the licensing of gaming: at least EUR 500 million in sales of licences and EUR 200 in royalties;
- Expand the base of the real estate tax by updating asset values to yield at least EUR 500 million additional revenue;
- Increase taxation of wages in kind, including by taxing car lease payments (at least EUR 150 million);
- Initiate the collection of a special tax on unauthorised establishments (at least EUR 800 million per year);
- Increase taxes on luxury goods by at least EUR 100 million;
- The budget will establish detailed expenditure ceilings for each line-ministry, local governments, and social security funds consistent with the general government deficit target. This also pertains to the medium-term fiscal framework for 2012-2013;
- The budget will contain indicative information on monthly revenue per category, and expenditure per Ministry. Updated figures will be regularly made available online.

Parliament adopts modifications to the organic budget law, if necessary, to ensure that the draft budget law for 2011 onwards contains detailed information on outturn and plans of the entire general government sector – including local government, social security, hospitals and legal entities. An annex to the budget will present key figures on the financial performance of the largest public enterprises, concomitant budgetary and tax expenditures, and related fiscal risks.

ii. Structural fiscal reforms

Parliament adopts legislation to improve the efficiency of the tax administration and controls, implementing recommendations provided by the European Commission and IMF. In particular, they put in place an effective project management arrangement (including tight MOF oversight and taskforces) to implement the anti-evasion plan to restore tax discipline through: strengthened collection enforcement and recovery of tax arrears (coordinated with the social security funds) of the largest debtors; a reorganized large taxpayer unit focused on the compliance of the largest revenue contributors; a strong audit program to defeat pervasive evasion by high-wealth individuals and high income self-employed, including prosecution of the worst offenders; and a strengthened filing and payment control program.

Parliament adopts a reform of the pension system to ensure its medium- and long-term sustainability. It should limit the increase of public sector spending on pensions, over the period 2010-2060, to under 2.5 percent of GDP. The reform will be designed in close consultation with European Commission, IMF and ECB staff, and its estimated impact on long-term sustainability will be validated by the EU Economic Policy Committee. The parameters of the system will ensure long-term actuarial balance, as determined by the National Actuarial Authority. The reform should include the following elements:

- Simplification of the fragmented pension system by merging the existing pension funds in three funds and introducing a unified new system for all current and future employees. The new universally binding rules on entitlements, contributions, accumulation rules and indexation of pension rights shall be applied pro rata to everybody from 1 January 2013;

- Introduction of a unified statutory retirement age of 65 years, including for women in the public sector (phased in immediately after adoption), to be completed by December 2013;
- Gradual increase in the minimum contributory period for retirement on a full benefit from 37 to 40 years by 2015;
- Amendment of the pension award formula in the contributory-based scheme to strengthen the link between contributions paid and benefits received, with accrual rate limited to an average annual rate of 1.2%, and pensions indexed to prices;
- Introduction of an automatic adjustment mechanism that, every three years and starting in 2020, will increase the (minimum and statutory) retirement age in line with the increase in life expectancy at retirement;
- Extend the calculation of the pensionable earnings from the current last five years to the entire lifetime earnings (while retaining acquired rights);
- Reduction of the upper limit on pensions;
- Introduction of a means-tested minimum guaranteed income for elderly people (above the statutory retirement age), to protect the most vulnerable groups, consistent with fiscal sustainability;
- Measures to restrict access to early retirement. In particular, increase the minimum early retirement age to 60 years by 1st January 2011, including for workers in heavy and arduous professions and those with 40 years of contributions. Abolish special rules for those insured before 1993 (while retaining acquired rights). Substantial revision of the list of heavy and arduous professions;
- Reduction of pension benefits (by 6% per year) for people entering retirement between the ages of 60 and 65 with a contributory period of less than 40 years;
- Introduction of stricter conditions and regular re-examination of eligibility for disability pensions;
- Until the entry into force of the new rules on the retirement age (January 1, 2011), new demands for pensions will be frozen and requests for retirement will be considered on the basis of the new eligibility rules.

Government adopts a reform of the GAO, including the following elements:

- Strengthening of the role of the GAO in budget planning and control;
- Provision of the necessary resources in terms of high-level personnel, infrastructure and equipment support, managerial organisation and information-sharing systems;
- Provision of safeguards for GAO staff against political interference, and personal accountability in the provision of reliable data;
- Strengthen the institutional mechanisms for providing reliable and plausible official budgetary forecasts that take into account available recent execution developments and trends; to this end, the official macroeconomic forecasts should be reviewed by external experts;.

Government takes the following measures to ensure timely provision of reliable fiscal accounts and statistics:

- GAO starts, in June 2010, the publication of timely monthly statistics (on a cash basis) on revenue, expenditure and financing and spending arrears for the "available general government" and its sub entities (state, social security, hospitals, local governments and legal entities);
- Government adopts a detailed time-bound action plan, to be agreed with Eurostat, to improve collection and processing of general government data required under the existing EU legal framework, in particular by enhancing the mechanisms that ensure the prompt and correct supply of these data, and ensure personal responsibility in cases of misreporting; and seek appropriate resident technical assistance to ensure rapid progress;
- Government starts to publish timely information on the financial situation in public enterprises (at least the 10 largest loss-making ones) and other public entities not classified in the general government (including detailed income statements, balance sheets and data on employment and the wage bill). To this end, a regular and timely reporting mechanism is introduced.

iii. Financial sector regulation and supervision

The Bank of Greece and the Government ensure that the Financial Stability Fund is fully operational.

Review the adequacy of the insolvency framework, for banks as well as for non-financial entities.

iv. Structural reforms

Progress with reforms to modernise public administration:

Government launches the process, including the principles and timetable, for establishing a simplified remuneration system covering basic wages and allowances. It shall apply to all public sector employees, and be part of an overall reform of Human Resource management. This should lead to a system where remuneration reflects productivity and tasks.

Government launches independent functional reviews of the public administration at central level and of existing social programmes. It is to be conducted by internationally renowned and external experts. The Terms of Reference for the reviews will be agreed with European Commission, IMF and ECB staff. The objectives of the reviews are:

- To take stock of the use of resources, including human resources, to carry out government functions (e.g., employment, goods and services) in the central government and subordinated public institutions;
- To identify actions to rationalize the organisation of public administration and generate productivity gains, and quantify possible fiscal savings from implementation of these actions;

- To assess effectiveness and appropriateness of existing social programmes and make proposals for reform or cancellation of the least effective ones, while quantifying possible fiscal savings from implementation of these actions.

To strengthen competition in open markets

Authorities make the General Commercial Registry (GEMI) fully operational

Under the Services Directive, the government finalizes the review of existing sectoral legislation (screening), ensures that the point(s) of single contact is(are) operational.

Government adopts a law on road freight transport that removes restrictions not provided for in Directive 96/26/EC of 29 April 1996 on admission to the occupation of road haulage, including minimum fixed prices.

Issue a Ministerial Decree for the liberalisation of wholesale electricity market and a Ministerial Decision on rationalisation of electricity consumer tariffs.

Promoting investments and exports

Government takes measures, in line with EU competition rules, to facilitate FDI and investment in innovation in strategic sectors (green industries, ICT etc...) through a revision of the Investment Law, the adoption of measures to facilitate PPPs, action to fast-track large FDI projects and measures to strengthen export promotion policy.

3. Actions for the third review (to be completed by end Q4-2010)

i. Fiscal consolidation

Government achieves the programme target for the 2010 general government deficit.

Parliament adopts draft budget for 2011 targeting a further reduction of the general government deficit and including the consolidation measures specified in this Memorandum.

Government prepares a privatization plan for the divestment of state assets and enterprises with the aim to raise at least 1 billion euros a year during the period 2011-2013.

ii. Structural fiscal reforms

Government adopts draft legislation to strengthen the fiscal framework, following discussions with European Commission and IMF staff. The following elements should be part of the reform:

- Introduce a medium-term fiscal framework covering the general government based on rolling three-year expenditure ceilings for the State, social security entities and local governments;

- Strengthen the position of the Finance Minister vis-à-vis line ministers in both budget preparation and execution phases (giving him/her veto power on spending decisions and execution);
- Introduce a compulsory contingency reserve in the budget, corresponding to 10 percent of total appropriations government departments other than wages, pensions and interest; the use of the contingency reserve will be decided by the Finance Minister;
- Ensure that Parliament does not modify the overall size of the budget at the approval stage, and focus on the composition of public expenditure and revenue, and reliability of projections for expenditure and revenue;
- Introduce stronger expenditure monitoring mechanisms, particularly by implementing an appropriate control of spending commitments, through which spending entities (line ministries, local authorities, social security funds, hospital and legal entities) would report on a regular basis to the Treasury on their outstanding expenditure commitments against their authorised appropriations in the budget law;
- Introduce a revenue rule for the general government, according to which the allocation of higher-than-expected revenues should be specified *ex-ante* in the budget law;
- Creation of a fiscal agency attached to Parliament providing independent advice and expert scrutiny on fiscal issues, and reporting publicly on the budgetary plans and execution of the spending entities of the general government, and on macroeconomic assumptions used in the budget law.

Parliament adopts reform of the public wage legislation consistent with this Memorandum.

iii. Structural reforms

To reform and modernise public administration:

Government adopts all necessary legislation and decree for the full entry into force of the local administration reform.

Government completes the creation of a Single Payment Authority for the payment of wages in the public sector. The Ministry of finance publishes a detailed report, based on information and in collaboration with the Single Payment Authority, on the structure and levels of compensation and the volume and dynamics of employment in the general government.

Authorities complete the first phase of the public procurement system reform, with a central procurement authority and involving a swift implementation of the electronic platform for public procurement and introducing the use of e-auctioning system. It should ensure a common approach and tendering procedures, *ex ante* and *ex post* controls.

Government adopts legislation and measures needed to implement the Better Regulation agenda.

To modernise the health care systems:

Government adopts legislation on the institutional framework for health supplies (Law 3580/2007), establishes new systems for the management of drugs that favour more use of generic medicines, including a new system for the electronic monitoring of doctors' prescriptions.

Government completes the programme of hospital computerisation, upgrading hospital budgeting systems, and the reform of management, the accounting (including double-entry accrual accounting) and financing systems.

Government ensures greater budgetary and operational oversight of health care spending by the Finance Minister, the publication of audited accounts and improvement in pricing and costing mechanisms.

To strengthen labour market institutions:

Following dialogue with social partners, the government proposes and parliament adopts legislation to reform wage bargaining system in the private sector, which should provide for a reduction in pay rates for overtime work and enhanced flexibility in the management of working time. Allow local territorial pacts to set wage growth below sectoral agreements and introduce variable pay to link wages to productivity performance at the firm level.

Government amends regulation of the arbitration system, (Law 1876/1990), so that both parties can resort to arbitration if they disagree with the proposal of the mediator.

Following dialogue with social partners, government adopts legislation on minimum wages to introduce sub-minima for groups at risk such as the young and long-term unemployed, and put measures in place to guarantee that current minimum wages remain fixed in nominal terms for three years.

Government amends employment protection legislation to extend the probationary period for new jobs to one year, to reduce the overall level of severance payments and ensure that the same severance payment conditions apply to blue- and white-collar workers, to raise the minimum threshold for activation of rules on collective dismissals especially for larger companies, and to facilitate greater use of temporary contracts and part-time work.

To enhance competition in open markets:

Government adopts changes to existing (sectoral) legislation in key services sectors such as tourism, retail and education services. New legislation should facilitate establishment, by significantly reducing requirements covered by Articles 15 and 25 of the Services Directive, in particular requirements relating to quantitative and territorial restrictions, legal form requirements, shareholding requirements, fixed minimum and/or maximum tariffs and restrictions to multidisciplinary activities. It should also facilitate the provision of cross-border services by implementing the freedom to provide services clause in Article 16 of the Service Directive through an approach ensuring legal certainty for services providers, i.e. by clearly setting out in the respective (sectoral) legislation which requirements can and which requirements cannot be applied to cross-border services.

Government proposes legislation to remove restrictions to trade in restricted professions including:

- the legal profession, to remove unnecessary restrictions on fixed minimum tariffs, the effective ban on advertising, territorial restrictions on where lawyers can practice in Greece;
- the pharmacy profession, covering limits on the number of pharmacies and minimum profit margins;
- the notary profession, covering fixed tariffs, limits on the number of notaries, territorial restrictions on where notaries can practice and the effective ban on advertising;
- architects, covering fixed minimum tariffs;
- engineers, covering fixed minimum tariffs;
- auditing services, covering fixed tariffs.

Government adopts legislation and takes all necessary measures to complete the full and effective transposition of EU rules on recognition of professional qualifications, including the transposition of the Professional Qualifications Directive (Directive 2005/36/EC) including compliance with ECJ rulings.

Government adopts legislation to simplify and accelerate the process of licensing enterprises, industrial activities and professions, which inter alia revises Law 3325/05, makes Law 3335/05 for business areas, and operationalises the spatial plan.

Government adopts a law modifying the existing institutional framework of the Hellenic Competition Commission (HCC) which abolishes the notification system for all agreements falling within the scope of Article 1 of Law 703/1977, gives the HCC the power to reject complaints, to increase the independence of HCC members, and to establish reasonable for the investigation and issuance of decisions.

Promoting investments and exports

Government carries out in depth evaluation of all R&D and innovation actions, including in various Operational Programmes, in order to adjust the national strategy.

Government creates an external advisory council financed through the 7th R&D programme, to consider how to foster innovation, how to strengthen links between public research and Greek industries and the development of regional industrial clusters.

To raise the absorption rates of Structural and Cohesion Funds

Government to meet targets for payment claims (to be measured against certified data) and for the submission of large projects.

4. Actions for the fourth review (to be completed by end Q1-2011)

i. Fiscal consolidation

Rigorously implement the budget for 2011 in line with this memorandum, and the fiscal consolidation measures in the budget. Progress is assessed against the (cumulative) quarterly deficit ceilings in the MEFP (including the TMU).

ii. Structural fiscal reforms

Parliament adopts legislation to strengthen the fiscal framework, consistent with this memorandum.

iii. Structural reforms

To reform and modernise public administration:

Government completes effective transposition of Directive 2007/66/EC on public procurement regarding remedies, and at the same time ensures that responsibility for the review of award procedures be vested with the administrative courts. Government completes the transposition of Directives 2009/81 on defence and security expenditure.

Reforms to improve the business environment:

Government fully implements the recovery plan for the railway sector to make operational activities profitable, implement EU Directives and restructure the holding company.

Parliament adopts legislation unbundling electricity and gas activities.

Government adopts measures, in line with EU requirements to strengthen the independence and capacity of the Energy Regulatory Authority and further unbundle the transmission system operators DESMIE (electricity) and DESFA (gas), including by bringing forward transparent criteria and procedure to govern the selection of the chair and members of RAE.

5. Actions for the fifth review (to be completed by end Q2-2011)

i. Fiscal consolidation

Rigorously implement the budget for 2011 in line with this memorandum, and the fiscal consolidation measures in the budget. Progress is assessed against the quarterly deficit ceilings in the MEFP (including the TMU).

ii. Structural reforms

Reforms to modernise public administration:

Government adopts legislation/decrees establishing a simplified remuneration system covering basic wages and allowances that applies to all public sector employees ensuring that remuneration reflects productivity and tasks: this reform should be part of an overall reform of Human Resource management in the public sector.

On the findings of the external and independent functional review of public administration at central level, the government adopts legislation and measures to rationalize the use of resources, the organisation of the public administration and social programmes.

Authorities take the following measures to strengthen labour market institutions:

Government completes the reform to strengthen the Labour Inspectorate, which should be fully resourced with qualified staff and has quantitative targets on the number of controls to be executed.

Government adapts the legislation on tackling undeclared work to require the registration of new employees before they start working.

Review the scope for improvements in the targeting of social expenditures to enhance the social safety net for the most vulnerable.

To strengthen competition in open markets:

Government adopts specific legislation to in restricted professions including for the legal profession, the pharmacy profession, the notary profession, architects, engineers and auditing services.

To raise the absorption rates of Structural and Cohesion Funds:

Government to meet targets for payment claims to be measured against certified data.

6. Actions for the sixth review (to be completed by end Q3-2011)

i. Fiscal consolidation

Rigorously implement the budget for 2011 in line with this memorandum, and the fiscal consolidation measures in the budget. Progress is assessed against the quarterly deficit ceilings in the MEFP (including the TMU).

Government adopts draft budget for 2012 aiming at a further reduction of the general government deficit in line with the programme and including the detailed presentation of consolidation measures amounting to at least 2.2% of GDP, including the following measures (in exceptional circumstances, measures yielding comparable savings could be considered in close consultation with European Commission, IMF and ECB):

- Reduce public employment on top of the rule of 1 recruitment for each 5 retirements in the public sector; the reduction in public employment on top of the 5-to-1 rule should allow savings of at least EUR 600 million;
- Establish excises for non alcoholic beverages, for a total amount of at least EUR 300 million;
- Continue the expansion of the base of the real estate tax by updating asset values to yield at least EUR 200 million additional revenue;
- Continue the reorganisation of local government, to generate at least EUR 500 million in savings;
- Nominal freeze in pensions;
- Continue to increase the effectiveness of the presumptive taxation of professionals, with the aim of collecting at least additional EUR 100 million;
- Reduction of transfers to public enterprises by at least EUR 800 billion following their restructuring;
- Make unemployment benefits means-tested (aiming at savings of EUR 500 million);
- Collect further revenue from the licensing of gaming: at least EUR 225 million in sales of licences and EUR 400 in royalties;
- Further broadening of VAT base, by moving goods and services from the reduced to the normal rate, with the aim of collecting at least additional EUR 300 million.

ii. Structural reforms

Reforms to modernise public administration:

Government ensures full operation of the Better Regulation Agenda to reduce administrative burden by 20% compared with 2008 level, and sends report to the Commission.

Improve the business environment:

Government changes legislation to mitigate tax obstacles to mergers and acquisitions such as the non-transfer of accumulated losses, together with the company and the complex computation of "excessive benefit" (Law 3522/2006, Article 11) in the transfer of private limited companies.

Government takes decisions to simplify the process to clear customs for exports and imports and give larger companies or industrial areas the possibility to be certified to clear cargo for the customs themselves; Government abolishes the requirement of registration with the exporter's registry of the chamber of commerce for obtaining a certificate of origin.

7. Actions for the seventh review (to be completed by end Q4-2011)

i. Fiscal consolidation

Government achieves the programme target for the 2011 general government deficit.

Parliament adopts draft budget for 2012 a further reduction of the general government deficit and including consolidation measures amounting to at least 2.2% of GDP, in line with Memorandum.

ii. Structural reforms

To raise the absorption rates of Structural and Cohesion Funds:

Government to meet targets for payment claims (to be measured against certified data) and for the submission of large projects.

Introduced of web-based open-access monitoring tool of procedures for approval of project proposals and for implementation of public projects.

Ensure that the managerial capacity of all Managing Authorities and Intermediate Bodies of operational programmes under the framework of the National Strategy Reference Framework 2007-2013 has been certified by the International Organization for Standardization according to the standard ISO 9001:2008 (Quality Management).

Annex 1. Provision of data

During the programme, the following indicators and reports shall be made available to the European Commission, the ECB and the IMF by the authorities on a regular basis. In general, reporting information provided to other multilateral and bilateral lenders involved in the programme of financial assistance of which the assistance provided by the Community forms part shall at the same time also be provided to the Commission, unless the Commission has indicated that this is not specifically required. The authorities shall provide the Commission and the ECB with compliance reports on the fulfilment of conditionality immediately after test dates.

To be provided by the Ministry of Finance	
Preliminary monthly data on the state budget execution (including functional breakdown by main categories of revenue and expenditure and by line ministry)	Monthly, 15 days after the end of each month; these data should also be included in subsequent transmissions in case of revision
Updated monthly plans for the state budget execution for the remainder of the year, including functional breakdown by main categories of revenue and expenditure and by line ministry	Monthly, 30 days after the end of each month
Preliminary monthly cash data on general government entities other than the State	Monthly, 30 days after the end of each month, these data should also be included in subsequent transmissions in case of revision
Monthly data on the public wage bill (of general government, including a functional breakdown in nominal wage and allowances paid to government employees per line ministry and public entity), number of employees (including a functional breakdown per ministry and public entities outside the central government) and average wage (including the relative shares of the base wage, allowances and bonuses). A functional breakdown of these data into the main public entities will be added.	Monthly, 30 days after the end of each month (starting in June 2010)
Quarterly data on general government accounts, and general government debt as per the relevant EU regulations on statistics	Quarterly accrual data, 90 days after the end of each quarter
Weekly information on the Government's cash position with indication of sources and uses as well of number of days covered as well as information on the main government spending and receipt items	Weekly on Friday, reporting on the previous Thursday
Data on below-the-line financing for the general government	Monthly, no later than 15 days after the end of each month, ; these data should also be included in subsequent transmissions in case of revision
Data on expenditure pending payment (including arrears) of the general government, including the State, local government, social security, and legal entities	Quarterly, within 55 days after the end of each quarter
Data on expenditure pending payment (arrears) of the State and hospitals	Monthly, 30 days after the end of each month
Public debt, and new guarantees issued by the general government to public enterprises and the private sector	Monthly, within one month
Income and expenditure statement and balance sheets of 30 largest public enterprises by total expenditures	Quarterly, three months after the end of the quarter

Data on EU project grants (reimbursements and advances), capital expenditures and subsidies covered by EU advances or eligible for EU reimbursement on EU supported projects specifically agreed with the EU	Monthly, within three weeks of the end of each month
Monthly statement of the transactions through off-budget accounts	Monthly, at the end of each month
Monthly statements of the operations on the special account	Monthly, at the end of each month
Report on progress with fulfilment of policy conditionality	Monthly, at the end of each month
To be provided by the National Bank of Greece	
Assets and liabilities of the Bank of Greece	Weekly, next working day
Assets and liabilities of the Greek banking system - aggregate monetary balance sheet of credit institutions	Monthly, 30 days after the end of each month
Evolution of the external funding provided by Greek banks to their subsidiaries abroad[2]	Monthly, 15 days after the end of each month
External funding flows for the banking, corporate and government sector, including also expected developments in the 12 months ahead	Monthly, 30 days after the end of each month
Report on banking sector liquidity situation	Weekly, next working day
Report on the evolution of financial stability indicators	Quarterly, 15 days after the end of each quarter depending on data availability
Report on results from the regular quarterly solvency stress tests	Quarterly, 15 days after the end of each quarter depending on data availability
Detailed report on the balance sheet of the Financial Stability Fund with indication and explanation of changes in the accounts	Weekly, next working day

[2] All forms of debt instruments and capital, as well as net deposits provided to subsidiaries abroad.

Annex 2. Financial Stability Fund

General

- The purpose of the Financial Stability Fund (the 'Fund') is to maintain the stability of the Greek banking system by providing equity capital in case of a significant decline of capital buffers.
- The Fund will not provide liquidity support, which will be provided under existing arrangements.
- The equity will be provided in the form of preference shares to credit institutions authorised to operate in Greece by license from the Bank of Greece. The preference shares will be convertible into ordinary shares at a later stage under certain conditions to be further specified in the legislation establishing the Fund.
- Participation in the Fund will be based on a trigger linked to the minimum required level of capital adequacy requirements, as established for specific credit institutions by the Bank of Greece, in its capacity as the competent supervisory authority, if no private solution has been found.
- The Fund will be established by specific Greek legislation.
- An initial lifespan of [7] years would be envisaged for the Fund. After the end of the lifespan of the Fund any acquired ownership rights fall to the Greek State.

Legal status

- The Fund will be established as a private law legal entity in order to enhance its flexibility and efficiency (e.g., to facilitate the recruitment and remuneration of appropriately qualified staff).
- The legal structure of the Fund should allow for private participation.

Funding

- The Fund will be exclusively financed through its own resources lent by the Greek Government of up to EUR 15 billion. [Specifically, financing will be provided by the Greek Government using part of the proceeds of the loans granted in the EU/IMF programme. This implies that the risk of losses arising out of the Fund's operations would lie exclusively with the Greek Government, as the primary shareholder in the Fund, which would also be obliged to repay the loans granted in the EU/IMF programme. The purchase of preference shares shall be done in cash]

Organizational issues

- The Fund would be managed by a Governing Council composed of (1) a Chairperson, a Chief Executive and two directors appointed by the Governor of the Bank of Greece; (2) a director appointed by the Governor of the Bank of Greece on the nomination of the European Commission (without prejudice to the application by the Commission of state aid and competition rules); and (3) two ex officio directors who represent the Minister of Finance and the Governor of the Bank of Greece. The ECB will nominate an observer who would have a right to participate, without voting, in meetings of the Governing Council.

- The Chairperson, Chief Executive and the non-ex officio directors will be required by law to be persons of recognised standing in banking or financial matters in Greece, the EU or internationally.
- Each of the Chairperson and the non-ex officio directors will be appointed to a five year term of office and may only be compulsorily removed from office by an appropriate Greek court on application of the Governor of the Bank of Greece where (1) no longer capable of fulfilling the conditions required for the performance of the duties of office or (2) guilty of serious misconduct.
- No member of the Governing Council may be represented on the board of directors of any credit institution.
- The legislation establishing the Fund will provide that, when exercising the powers and carrying out the tasks and duties conferred upon them under the legislation, neither the Governor of the Bank of Greece nor the members of the Governing Council of the Fund shall seek or take instructions from the Greek Government or any other State entity, institution, body or undertaking.
- The Governing Council will present a semi-annual report to the Greek Parliament, the European Commission, the ECB and the IMF.
- The operating expenses will be covered by the Fund.

<u>Powers of the Fund</u>

- In order to fulfil its purposes the Fund will enjoy certain powers over credit institutions receiving capital from the Fund, including <u>without limitation</u> the power:
    - to require a credit institution to provide the Fund with all information necessary for the Fund to fulfil its tasks;
    - to appoint a member of the Board of Directors of a credit institution;
    - to require a credit institution to present a restructuring plan;
    - to veto key decisions of a credit institution (e.g., business strategy, dividend distributions, salary caps, liquidity and asset-liability management, etc.);
    - to call a general shareholders' meeting for a credit institution in accordance with Greek company law;
    - to require conversion of preference shares into ordinary shares insofar as a credit institution fails to meet (1) the minimum required level of capital adequacy requirements established for credit institutions generally under applicable regulatory requirements or (2) certain financial conditions to be further specified in the legislation establishing the Fund; and
    - to conduct diagnostic studies and special audits with the help of outside consultants to assess the solvency of a credit institution where the Fund considers this necessary.

- Each of the Bank of Greece, in its capacity as the competent authority for the supervision of credit institutions, and the Fund will be authorised to exchange confidential information with one another to the fullest extent permitted by EU law.
- The powers of the fund are without prejudice to the supervisory powers of the bank of Greece.

<u>Conditions applicable to capital increases</u>

- The conditions <u>applicable to any capital increases</u> should be aligned with the Commission Decision of 19.11.2008 (N 560/2008 support measures for the credit institutions in Greece). The granting of equity capital is made subject to the following conditions in particular:

- The credit institutions will be expected to pay a market-oriented, non-cumulative remuneration unless an analysis of the restructuring plan warrants an alternative approach. A market-oriented, non-cumulative remuneration can either be 10% as stipulated in the above decision or depending on the risk profile of the credit institution and the quality of the capital, between 7% and 9.3%, whereas core tier 1 capital for fundamentally sound credit institutions should normally be remunerated at at least 9%.
- The credit institutions will not pay dividends or coupon on hybrid capital, unless they are legally obliged to do so, which is typically the case when a credit institution is profit making (the credit institution should however not be allowed to use reserves to book a profit).
- Preference shares shall be repurchased by the credit institution for an amount that is equivalent to the amount originally invested in the credit institution. After five years the shares shall be repurchased or be remunerated at penal rates. If they cannot be repurchased because the capital adequacy requirements are not fulfilled, the preference shares shall be converted into ordinary shares.

Approval of restructuring plan by European Commission

- Any restructuring plan needs to be in accordance with State aid rules and approved by decision of the European Commission ensuring that the credit institutions will restore viability at the end of the restructuring period, burden sharing of shareholders is achieved and distortion of competition is limited.

Follow-up

- The Greek authorities would prepare the necessary legislation implementing the details of the above by the end of June 2010, at the latest.

Annex 3. Fiscal measures to be implemented over 2011-2014

2010

in million EUR		**% of GDP**
Revenue		**0.5**
Increase in VAT rates	800	0.3
Increase in excise tax on fuel	200	0.1
Increase in excise tax on cigarettes	200	0.1
Increase in excise tax on alcohol	50	0.0
Expenditure		**1.9**
Wage bill cut by reducing the Easter, summer and Christmas bonuses and allowances	1100	0.5
Intermediate consumption	700	0.3
Pension cuts (highest pensions)	350	0.1
Elimination of solidarity allowance (second instalment)	400	0.2
Pensions cut by reducing the Easter, summer and Christmas bonuses	1500	0.6
Public investment reduction	500	0.2
TOTAL ANNUAL IMPACT	**5800**	**2.5**

2011

in million EUR		% of GDP
Carry over from last year		**1.1**
Increase the VAT rates	1000	0.4
Increase in excise tax on fuel	250	0.1
Increase in excise tax on cigarettes	300	0.1
Increase in excise tax on alcohol	50	0.0
Wage bill cut by reducing the Easter, summer and Christmas bonuses and allowances	400	0.2
Pensions cut by reducing the Easter, summer and Christmas bonuses	500	0.2
Revenue		**2.2**
Taxation on unauthorised establishments	800	0.4
Luxury goods tax	100	0.0
Book specification of income	50	0.0
Gaming royalties	200	0.1
Gaming licenses	500	0.2
Special levy on profitable firms	600	0.3
Levies on illegal buildings	500	0.2
VAT - changes in the sub-categories and broadening base	1000	0.4
Green tax	300	0.1
Presumptive taxation	400	0.2
Increase of legal values of real estate	400	0.2
Taxation of wage in kind (cars)	150	0.1
Expenditure		**1.0**
Intermediate consumption	300	0.1
Savings from the introduction of unified public sector wages	100	0.0
Pension freeze	100	0.0
Kalikrates savings	500	0.2
Pension cuts (highest pensions)	150	0.1
Public investment reduction	500	0.2
TOTAL ANNUAL IMPACT	**9150**	**4.1**

2012

in million EUR		% of GDP
Revenue		**0.7**
Excise non-alcoholic beverages	300	0.1
Gaming licenses	225	0.1
Gaming royalties	400	0.2
VAT - broadening base	300	0.1
Presumptive taxation	100	0.0
Increase of legal values of real estate	200	0.1
Expenditure		**1.2**
Reduction in public employment in addition to the 5-to-1 replacement rule	600	0.3
Means test unemployment benefit	500	0.2
Pension freeze	250	0.1
Kalikrates savings	500	0.2
Cut transfers to public entities	800	0.4
Public investment reduction	500	0.2
Unidentified cuts in operational expenditure	900	0.4
TOTAL ANNUAL IMPACT	**5575**	**2.4**

2013

in million EUR		% of GDP
Revenue		-0.3
Presumptive taxation	100	0.0
Gaming licenses	-725	-0.3
Expenditure		0.5
Reduction in public employment in addition to the 5-to-1 replacement rule	500	0.2
Pension freeze	200	0.1
Kalikrates savings	500	0.2
Unidentified measures	**4200**	**1.8**
TOTAL ANNUAL IMPACT	**4775**	**2.0**

2014

in million EUR		% of GDP
Temporary measures		**-0.4**
Special levy on profitable firms (discontinuation of temporary measures)	-600	-0.2
Levies on illegal buildings (discontinuation of temporary measures)	-450	-0.2
Unidentified measures	**5750**	**2.4**
TOTAL ANNUAL IMPACT	**4700**	**1.9**
TOTAL MEASURES 2010 - 2014	**30000**	**13.0**

Annex 4. Structural reforms conditionality

STRUCTURAL REFORMS: CONDITIONALITY		
	Action	**Time frame**
PUBLIC ADMINISTRATION REFORMS		
Simplify the remuneration system for public sector employees	- launch a process to create a simplified remuneration system to cover basic wages and all allowances applying to all public sector employees and ensuring that remuneration reflects productivity and tasks - establish a fully operational Single Payment Authority to centralize the payment of all salaries paid to civil servants at all levels of government, - adopt legislation for a simplified remuneration system	*September 2010* *December 2010* *June 2011*
Public procurement	- complete the first phase of the public procurement system for all sectors and levels of government with a fully operational electronic platform introducing the use of e-auctioning systems - implement EU Directives and have an effective appeals system	*December 2010* *March 2011*
Transparency of public spending decisions	- adopt legislation to ensure transparency by requiring online publication of all government expenditure decisions	*June 2010*
Local administration reform	- adopt legislation reforming public administration at the local level - adopt all legislation and decrees for full entry force of the reform on 1 January 2011 involving transfer of responsibilities and resources across entities	*June 2010* *December 2010*

STRUCTURAL REFORMS: CONDITIONALITY		
	Action	**Time frame**
Independent functional review of the central government	- launch an independent and external review of the organization and functioning of the central administration - adopt legislation and measures to rationalize the use of resources, the organisation of the public administration and the effectiveness of social programmes.	*September 2010* *June 2011*
Better Regulation	-adopt legislation to implement the Better Regulation agenda - ensures full implementation to reduce administrative burden by 20compared with 2008 level and submit a progress report to the Commission	*December 2010* *September 2011*
LABOUR MARKET and WAGES		
Start discussion with social partners	To prepare the revision of private sector wage bargaining and contractual arrangements	*June 2010*
Reform Employment Protection Legislation	- extend the probationary period for new jobs to one year - reduce the overall level of severance payments which should apply equally to blue and white collar workers, - raise the minimum threshold for activating rules on collective dismissals especially for larger companies, - put measures in place to guarantee that current minimum wages remain fixed in nominal terms for 3 years - facilitate use of temporary contracts and part-time work	*December 2010*
Reform minimum wages	- following dialogue with social partners, government adopts legislation on minimum wages to introduces sub-minima for groups at risk such as the young and long term unemployed,	*December 2010*

STRUCTURAL REFORMS: CONDITIONALITY		
	Action	**Time frame**
	- guarantee that current minimum wages remain fixed in nominal terms for three years	
Reform private wage bargaining system to ensure wage moderation	- adopts legislation to reform wage bargaining system in the private sector, including local territorial pacts to set wage growth below sectoral agreements - introduce variable pay to link wages to productivity performance at the firm level - amend regulation of the arbitration system	*December 2010*
Increase the flexibility of working hours	- adjust legislation to introduce annual time accounts and reduce overtime pay	*December 2010*
Fight undeclared work	- strengthen legislation to enforce the registration of new employees - ensure the Labour Inspectorate is fully staffed and quantitative controls targets are in place	*June 2011*
Review social safety net	Review the scope for improvements in the targeting of social expenditures to enhance the social safety net for the most vulnerable	*June 2011*
PENSIONS		
Reform pension system	Government adopts a new simplified system (pro rata) for all current and future employees including: - by December 2015, a unified statutory retirement age of 65 years, including for those insured before 1 Jan 1993. - increase retirement age of women in the public sector to 65 by 2013	*June 2010*

STRUCTURAL REFORMS: CONDITIONALITY		
	Action	**Time frame**
	- strengthened link between contributions and benefits - pension earnings calculated on the entire lifetime - an average annual accrual rate of 1.2 - price indexation of pensions - an automatic adjustment mechanism that links the retirement age with increases in life expectancy at retirement - an increased minimum contribution period from 37 to 40 years by 2015 - restricted access to early retirement and increased minimum retirement age of 60 years by 1st January 2011, including for workers in heavy and arduous professions, and those with 40 years of contributions - revised disability scheme - reduced (by 6 per year) pension benefits for people retiring between the ages of 60 and 65 with less than 40 years of contribution - No special rules for those insured before 1 Jan 1993 - substantial cuts in the list of heavy and arduous professions (to no more than 10 of employees) - a means-tested minimum guaranteed pension for people aged above 65 years of age - a reduction in the number of funds to 3 Parliament adopts the pension reform	*September 2010*
HEALTHCARE		
Healthcare reform	Complete reforms to improve management and procurement systems of health system: complete move to double accounting systems, establish operational oversight by the Finance Minister, the publication of audited accounts	*December2010*
BUSINESS ENVIRONMENT		
Facilitate business start ups		*June 2010*

STRUCTURAL REFORMS: CONDITIONALITY		
	Action	**Time frame**
	Simplify the start up of new businesses and make the General Commercial Registry (GEMI) fully operational	*September 2010*
Simplify the licensing of industrial units and reduce the costs of doing business	- simplify and accelerate the process of licensing enterprises, industrial activities and professions through legislation and by making the spatial plans operational - Government changes legislation to mitigate tax obstacles to mergers and acquisitions, and lower costs associated with customs	*December 2010* *September 2011*
Implement the Services Directive	- adopt horizontal legislation, finalize screening of sectoral legislation, make single points of contact operational -adopt measures in key service sectors such as tourism, retail and education	*June 2010* *September 2010* *December 2010*
Open up restricted professions	- propose sector-specific legislation to remove restrictions to trade in the legal profession, the pharmacy profession, the notary profession, architects, engineers, auditing services - implement the Professional Qualifications Directive so that qualifications from third countries are recognized -adopt legislation to open up restricted professions	*December 2010* *December 2010* *June 2011*
Road freight transportation	Liberalize road freight transport by removing all unnecessary restrictions on admission to the occupation of road haulage, including minimum fixed prices	*September 2010*

STRUCTURAL REFORMS: CONDITIONALITY		
	Action	**Time frame**
Competition policy framework	Modify the existing institutional framework of the Hellenic Competition Commission, including to allow prioritisation on important cases and to strengthen the independence of HCC members	*December 2010*
Railways	- Prepare a recovery plan for the railway sector to restore profitability to operational services, ensure compliance with EU Directives, and -specify a timetable for the restructuring of the holding company including the sale of land and other assets - Implement fully the recovery plan for the railway sector	*June 2010* *March 2011*
Energy	-Decisions on the liberalization of wholesale electricity market and to commence the rationalization of consumer tariffs -Adopt legislation to unbundle electricity and gas activities, including measures - Adopt measures to strengthen the independence and capacity of the Energy Regulatory Authority	*September 2010* *March 2011* *March 2011*
PROMOTING INVESTMENT AND EXPORTS		
Promoting FDI and investment in strategic sectors	Government takes measures to facilitate FDI and investment in innovation in strategic sectors (green industries, ICT etc...), through a revision of the Investment Law, the adoption of measures to facilitate PPPs, action to fast-track large FDI projects and measures to strengthen export promotion policy	*September 2010*
R&D and innovation	- Carry out in depth evaluation of all R&D and innovation actions,	*December 2010*

STRUCTURAL REFORMS: CONDITIONALITY		
	Action	**Time frame**
	including in various Operational Programmes, in order to adjust the national strategy - Create an Advisory Council financed through the 7th R&D programme, to consider how to foster innovation, how to strengthen links between public research and Greek industries and the development of regional industrial clusters	 *December 2010*
STRUCTURAL AND COHESION FUNDS		
Increase absorption of Structural and Cohesion Funds	- put in place measures to achieve binding targets for payment claims of Structural and Cohesion Funds and for submission of large projects - establish Task Force with the Commission to speed-up the development of high quality projects, through better coordination and other actions - complete steps to prioritize public investment spending for projects benefiting from EU funds, including the introduction of a central bank account - meet targets for payment claims (measured against certified data) and large projects - introduction of a web-based open access monitoring tool of procedures for approval of project proposals and for implementation of public projects; - ensure that the managerial capacity of all Managing Authorities and Intermediate Bodies of operational programmes	*June 2010* *December 2010 and every six months thereafter* *December 2011* *December 2011*