I. GREECE—MEMORANDUM OF ECONOMIC AND FINANCIAL POLICIES

Objectives, Strategy, and Outlook

1. **Greece faces three key challenges**. First, the Greek economy lacks competitiveness. While progress has been made since 2010 in containing unit labor costs, the estimated real effective exchange rate overvaluation still amounts to perhaps 15-20 percent. Second, fiscal sustainability needs to be restored. The primary deficit has been brought down considerably since 2009, but the estimated 2011 outcome, a primary deficit of about [2½] percent of GDP, remains well below the debt-stabilizing surplus. Third, the financial sector faces liquidity and solvency issues due to its exposures to the sovereign, deteriorating quality of the domestic loan portfolio, and a steady loss of deposits.

2. **To address these challenges, the government will build on policies laid down in its previous program, but amend the mix of adjustment and financing**. To reduce policy conflicts, the program will continue to place emphasis on ambitious implementation of productivity-enhancing structural reforms in the labor, product, and service markets and to improve the business environment. However, we must be realistic about the ultimate magnitude and timing of their effects, which is inherently uncertain, and address pressing liquidity issues. To rebalance the economy, support growth and employment, restore fiscal sustainability, and secure financial stability, we will thus:

- Place more emphasis on securing reductions in unit labor costs and improvements in competitiveness, through a combination of upfront nominal wage cuts and structural labor market reforms. In unison with the elimination of rigidities in product and service markets, these are expected to lower costs and facilitate the reallocation of resources towards the tradable sectors, stronger growth, and higher employment.

- Smooth the impact of the deep and prolonged recession and deeper structural reforms (and give them time to take effect) by reducing the amount of fiscal adjustment in 2012.

- Fundamentally reduce the footprint of government in the economy through bold structural fiscal reforms and by privatizing public assets. Greece's recovery must come from a vigorous private sector response and this cannot happen with the government controlling access to key assets.

- Strengthen the capacity of the government to implement policies, via a wide ranging administrative reform. We need to improve significantly the quality of public services, the efficiency and effectiveness of the civil service (including in mobilizing structural funds), and its ability to regulate the economy.

- These cost-reducing structural reforms and FDI-encouraging privatization plans, when combined with fiscal retrenchment and gradual arrears clearance, will free up liquidity for the private sector. Together with continued program finance, and liquidity assistance for the banking system, this will help improve the tight financial conditions now affecting the economy.

3. **Nonetheless, the government recognizes that eliminating Greece's large initial imbalances, and achieving a balanced growth path, will take significant time:**

- **Real GDP** is expected to recover to positive quarter-on-quarter growth rates during 2013. The program assumes that over time business sentiment benefits from the successful implementation of the PSI operation, and economic activity and employment growth gather momentum as unit labor costs decline, other productivity-enhancing structural reforms are implemented, and fiscal adjustment is completed. Still in the short-term GDP is projected to contract by another 4-5 percent cumulatively in 2012-13 on account of the worsened external environment, the needed fiscal consolidation, private sector wage adjustment, and adjustments in the banking system.

- **Competitiveness** is programmed to improve at an accelerated pace, supported by upfront labor market reforms and by a comprehensive set of product market reforms. Inflation is projected to drop significantly below the euro area level as cost-reducing reforms and wage reductions filter through to prices. It should be possible to significantly shrink the competitiveness gap relative to trading partners by the end of the program period, and the economic system should continue to adjust for some time thereafter to fully eliminate the gap.

- The **external balance** is projected to adjust only modestly in the remainder of 2012 given the deterioration of global economic conditions. However, as domestic demand continues to contract and competitiveness improves the pace of external adjustment should pick up. Still it is projected to take some time before Greece's current account deficit falls to a level that will allow Greece's external debt to steadily decline.

4. **The government's policy program, assisted by debt relief from private creditors and official support on favorable terms, should put public debt on a sustainable path**. Under our program baseline, public debt will remain high during the program period, but is projected to fall to about 120 percent of GDP by 2020, with continued declines thereafter. Given the lengthy period of elevated debt levels, and Greece's continued vulnerability to shocks, we recognize that full and timely policy implementation will be critical to realize this debt trajectory, notwithstanding the favorable financing we have received. These policies and program financing are discussed in more detail in what follows.

Economic Policies

A. Fiscal policy

5. **The government is committed to achieve a general government primary surplus of 4½ percent of GDP by 2014**. This is above Greece's debt stabilizing primary balance, and will allow debt to gradually decline (even with small shocks), and it is a level which Greece and many other countries have sustained in the past. Mindful of the initial fiscal position, the potential macroeconomic impact of fiscal tightening, and limitations on the pace at which we can develop and implement structural fiscal reforms, we have adjusted our 2012 fiscal target to a primary deficit of 1 percent of GDP (versus our previous target of a small surplus). We will target an adjustment of 2¾ percent of GDP in both 2013 and 2014, drawing on bold fiscal structural reforms to be defined in the context of the 2012 update of the MTFS, due in June. We would consult with the EC, ECB, and IMF in the event of a significantly deeper than anticipated recession, to evaluate whether the fiscal adjustment path should be extended beyond 2014.

6. **To secure the program's fiscal adjustment path, the government will undertake bold structural spending reforms.** Accounting for the projected pace of recovery, Greece's ongoing problems with tax compliance, and the need to adjust some of our previous measures, additional measures will be needed beyond those already approved in the context of the 2011 MTFS and 2012 budget. We project a need for [1½] percent of GDP in measures in 2012 and a further [5] percent of GDP to get to the target of 4½ percent of GDP. The bulk of adjustment will be achieved through expenditure cuts that aim at permanently reducing the size of the state and improving government efficiency, including by closing entities that no longer provide a cost-effective public service and by targeted reductions in public employment. Many of these cuts will need to fall on social transfers, the category of spending which increased most explosively in the post euro accession period, but specific measures will be introduced to protect the core of our social safety net and the most vulnerable segments of the population.

7. Key reforms, including those defined under the MTFS and 2012 budget, include:

- **Public sector wage bill reductions.** We intend to bring our general government wage bill into line with the performance of the most efficient OECD countries (around 9 percent of GDP). This would yield [1½] percent of GDP in savings by 2015, including [¼] percent of GDP in new savings not captured in the existing MTFS. To achieve this objective, we will combine reforms of employee compensation with personnel reductions.

    - **Reform of the public sector employee compensation.** By end-June, we will reform the special wage regimes (that account for about one-third of the public sector wage bill). In line with the principles of the reform initiated in 2011, we will adjust the wage grid for special regimes (including judges, diplomats, political appointees, doctors, professors, police and armed forces), while protecting those at lower pay scales, to realize permanent net savings of about 0.2 percent of GDP on an annual basis. We will also review the new promotion system to ensure that there are appropriate controls against wage drift through such channels.

- **Personnel reductions.** We remain committed to reduce general government employment by at least 150,000 in the period 2011 -2015. To achieve this target, we will continue to strictly apply the existing 1:5 hiring to attrition ratio as well as the newly established pre-retirement scheme, and reduce contractual employment, and furlough enough redundant public employees into the labor reserve by end-2012 to achieve 15,000 mandatory separations (i.e. once their time in the labor reserve has been exhausted). The planned functional review of public administration (below), and plans to close, merge or shrink general government entities, will help identify redundant public employees.

- **Controls on hiring.** To better control and limit hiring, we will: (i) reduce the annual intake into military and police schools and public academies to a level consistent with hiring plans; (ii) augment the labor reserve annually; and (iii) eliminate vacant positions in the context of public sector restructuring. If slippages vis-à-vis the targeted personnel reductions emerge, we will immediately enact a hiring freeze.

- **Rationalizing and better targeting of social spending.** Over the last few years, we started reforms to contain the projected increase in pension spending to less than 2½ percentage points of GDP by 2060 (from a projection of 12½ percent of GDP), maintain public health expenditures at about 6 percent of GDP, and to improve the targeting of our social benefits. In our program we intend to bring this work agenda to closure, realize in total around [3] percent of GDP in additional savings, while improving social programs for those who are most in need:

  - **Pension reform**. Given the high share of pensions in Greek government spending, the large remaining fiscal adjustment will necessarily have to involve further pension adjustments. We will do this in a way that protects lower income pensioners. As upfront measures, to generate savings of €300 million in 2012, we will: (i) adopt a framework law to reform supplementary pension funds; and (ii) enact changes in pension funds with high average pensions or which receive high subsidies from the budget. Looking forward, by end-June, we will introduce reforms to eliminate arrears and deficits in lump sum pension funds.

- **Health spending.** Our key aims are to bring pharmaceutical spending closer to levels in other European countries, and to continue to reform health system governance. For 2012, we have set a target to reduce public spending on outpatient pharmaceuticals from 1.9 to 1⅓ percent of GDP. Key upfront actions include: promotion of the use of generics (e.g. via compulsory prescription by active substance), reduction by about 15 percent in the maximum price of generic relative to branded medicines, reduction in margins of pharmacists, and extend the coverage of copayments. An automatic claw back mechanism will guarantee that outpatient pharmaceutical spending for 2012-15 will not exceed budget limits. Through the new health fund EOPYY, we will also complete the introductions of new and more cost-effective contracts for physicians and adopt uniform conditions for the purchase of health services. To rationalize the system and exploit economies of scale, we will merge all health funds in EOPYY and move its responsibility to the Ministry of Health.

- **Other social benefit programs**. Greece's level of social spending (as a share of GDP) remains well above the euro area average. We will thus continue to reform social benefit programs and the governance of social assistance and social security programs. Drawing on external assistance, we will undertake a thorough review of social spending programs with the aim to identify [1] percent of GDP in additional measures to be taken over 2013-15. The review, to be completed by end-June 2012, will identify programs to be discontinued, and opportunities to rationalize and strengthen core social programs to better support individuals in need, while reducing transfers to individuals who do not require them.

- **Restructuring of government operations**. The Greek public administration is highly fragmented, has overlapping structures, and lacks coordination and adequate IT systems. To address this we will take upfront actions, and identify deeper changes to implement over the course of the program:

  - **Upfront actions**. To help meet our 2012 fiscal target, we will: (i) in anticipation of the forthcoming functional review, curtail operational spending and selected subsidies and transfers at the central government level by an additional 0.2 percent of GDP (compared to the 2012 budget); (ii) reduce investment subsidies and lower-priority investment projects by 0.2 percent of GDP (compared to the 2012 budget); and (iii) reduce military spending by 0.15 percent of GDP.

  - **Deeper restructuring**. By end-June 2012, we will complete a plan to restructure government operations and achieve additional savings of at least [1] percent of GDP over the period 2013-15. The focus will be on closing and downsizing general government units; identifying opportunities to outsource functions; identifying redundancies, and restructuring both central and local public administrations. The plan will also include the rationalization of defense spending (without compromising defense capabilities).

8. **Tax system reforms will also contribute to the fiscal adjustment through base broadening, and reforms will also aim to facilitate revenue-neutral tax rate reductions**.. The strategy involves:

- **Tax reform.** We intend to introduce a budget-neutral tax reform to simplify the tax system, broaden the tax base to allow reductions in selected tax rates, and rebalance the tax burden across tax categories to foster growth and competitiveness. We will define a full schedule of intermediate steps towards adoption of such a tax reform, including initial public consultation, review by the EC/ECB/IMF staff and release of a formal proposal for discussion. This process will be concluded with the presentation to parliament and approval of the reform by June 2012. The reform package will include: (i) the repeal of the Code of Books and Records and its replacement by simpler legislation, (ii) the elimination of several tax exemptions and preferential regimes; (iii) simplification of the VAT and of the property tax rate structure; (iv) a more uniform tax treatment of individual capital income; and (v) a simplified personal and corporate income tax schedule.

- **Revenue administration reforms**. Given our low tax collection compared to other European countries, our adjustment strategy relies on the introduction of extensive revenue administration reforms (see Section B). These reforms will facilitate a more equitable distribution of the adjustment burden across taxpayers. For medium-term budget planning purposes, these reforms will be assumed to provide only conservative and back loaded gains, limited to 1½ percent of GDP over the period 2011-2015 and expected to accrue only from 2013.

9. **We are committed to deliver our fiscal target and stand ready to take corrective measures in the event of underperformance.** Corrective measures, if necessary, would include additional targeted reductions in the public sector wage bill and social transfer expenditures, and defense spending. Likewise, in the event of a sustained over performance that is deemed permanent, we will tighten our deficit targets, but may also consider a reduction in social contribution rates. We intend to maintain the relative tax burden from indirect taxes.

10. **To secure early gains we will implement several prior actions, and to assist with subsequent monitoring of the fiscal adjustment program, we will set several key steps as program benchmarks**. As **prior actions** for the program, we will: (i) fully implement all overdue MTFS measures (Annex I); and (ii) enact and implement measures needed to reach the fiscal deficit target in 2012 (including €325 million in additional permanent structural spending measures, to be identified in consultation with EC/ECB/IMF staff) (Annex II). The adoption of a budget-neutral tax reform by end-June 2012, and the

completion of reviews of social spending programs and government functions that identify, respectively, [1] and [1] percent of GDP in additional measures, are proposed as **structural benchmarks** for end-June 2012.

B. Fiscal Institutional Reforms

11. **Strengthening fiscal institutions is of the utmost importance.** Greece has for many years suffered from a widespread problem of nonpayment of taxes, eroding the fairness of the system and forcing less growth-friendly policy measures, such as high tax rates. Meanwhile, the public sector has had difficulties paying its bills and tax refunds on time, driving up procurement costs and damaging corporate sector liquidity. Putting an end to these practices will require a deep restructuring of the revenue administration and the public financial management system. Of course, these are complex institutional reforms, and gains both in terms of higher revenue and lower spending can only be achieved over time with resolute efforts. Therefore, we are determined to undertake the needed reforms with urgency.

12. **We are committed to reform our revenue administration.** It is not operating at the level Greece requires, and will need to be overhauled completely. We have started this process, and made progress over the past 2 years, but much more remains to be done:

- **Strengthening of operations is the near-term priority:**

  - **The dispute resolution system**. As upfront actions, we will: (i) approve legislation making it compulsory for large tax cases to exhaust the administrative dispute phase before accessing judicial appeals; (ii) we will tighten rules for waiving the deposit to access judicial appeals (without prejudice to the independence of the judicial system); and (iii) issue secondary legislation enabling the certification of tax arbitrators, making the arbitration system established in 2011 fully operational.

  - **Making use of additional tools**. We will integrate anti-money laundering tools into our anti-tax evasion strategy. As upfront actions, we will: clarify Bank of Greece's rules on financial institutions' obligations to report to the Financial Intelligence Unit (FIU) transactions suspected of being related to the proceeds of tax evasion; and take measures to ensure that complaint reports related to confirmed unpaid tax debts arising from an audit are transmitted for prosecution and to the FIU.

  - ➢ **Upgrading personnel**. Consistent with our operational plans, by April, we will complete the reassessment and hiring of 1,000 auditors and will gradually bring the numbers of auditor to 2,000 (consistent with public sector attrition and hiring rules). For existing employees, we will establish a formal performance review framework that will specify targets against which to evaluate manager performance. The framework will be operational by June 2012. We intend to replace managers that have underperformed their targets.

- **Anti-corruption measures**. By end-June 2012, we will set up the internal affairs services established in Law 3943/2011 and reform the role of the financial inspection unit so as to limit its focus to the revenue administration. We also plan to improve the system to protect whistle-blowers reporting corruption in the tax administration, introduce procedures for the rotation of managers, and set targets for audits of asset declarations of tax administration officials. By end-September, we will prepare a fully-fledged anti-corruption plan.

- **Over time, we need to restructure the administration** to create an independent but accountable tax administration, with a functional organization centered in a strong headquarters. Towards this end, for 2012 our priorities include:

  - **Establishing key functional units.** The major units have been set up, including the large taxpayer unit, the debt collection unit and the audit department. Looking ahead, our priority is to build capacity in these units. In 2012, by the second quarter, we will complete the doubling of the audit capacity of the large taxpayer unit.

  - **Consolidating tax administration operations**. We plan to close a total of 200 underutilized local tax offices with completion by end-December 2012.

  - **Securing greater control over local tax offices.** By end-March 2012 the GSTC headquarters will set operational targets for local tax offices for core activities including audits, dispute resolution and filing, and performance targets for local managers against which they will be assessed. The GSTS headquarters will be given legal powers to direct how local tax office resources must be used. Additionally, collection of large debts will be placed under direct central control and consolidated in the largest 35 tax offices. Processing of all tax payments in local offices will be discontinued by end-September 2012 and replaced by mandatory bank transfers, and payments at banks.

  - **Steps towards independence**. By end-March, we will appoint as Secretary General of the revenue administration an individual with an impeccable track record of tax compliance and with significant experience in tax matters. To support independent decision-making, we will delegate from the ministerial to the administrative level, via a Ministerial decision, the control over core business activities and human resource management. We will ensure that at the same time activities of the tax administration headquarters will be externally audited.

- **Collection of social security contributions will be strengthened**. We will undertake a thorough review of current collection and enforcement practices, drawing on external assistance. A fully articulated reform plan will be developed by end-September 2012, which will, among other things, lay out a timeline and set of intermediate steps to fully integrate tax and contribution collections. In the near term, to help stem deep recent problems with social security collections, by March 2012 we will expand monthly declarations to a wider range of large taxpayers, unify the collection of tax and social security contribution debts of the largest tax debtors, enact common audits of tax and social security contribution of large taxpayers, increase the number of inspections and establish targets for inspectors.

- **The government undertakes to fully enforce the tax code, and to forego any tax amnesties.** We commit not to implement any new or extend any existing amnesties or incentive schemes for the collection of taxes and social security contributions. Given the importance of making this regime change, we will amend law 4038/2012 to eliminate the extension of payment terms for tax debt and overdue social security contributions and the suspension of criminal prosecution and asset freezing.

13. We are determined to secure tighter control over all general government spending and to prevent the accumulation of arrears. This will require improving every step of our spending process: budgeting procedures; commitment-based spending controls; and fiscal reporting and budget monitoring:

- **Budgeting**. To improve budgeting at both the medium and short term horizons, we will: (i) issue a circular during Q1 2012 regulating the calendar, deadlines, and the role of all institutions in formulating the next MTFS (covering 2012-2016); and (ii) adopt legislation and regulations by October 2012 to streamline submission and approval procedures of within-year supplementary budgets.

- **Spending controls.** Once fully established, commitment-based spending controls, and the architecture accompanying them, will help us to prevent units both at the central and decentralized level from overspending their budgets. There are two near-term issues, and a set of next steps for the remainder of the program:

  - **Commitment registers.** By March 2012, we will begin to extend registers to cover the investment budget. By June 2012, we will increase the number of fully functional commitment registers reporting on the e-portal of the ministry of finance to 70 percent of spending units, including in local governments, social security funds, extra budgetary funds, and hospitals. We will also consistently enact sanctions (when needed) to improve data reporting from commitment registers, and expand the content of the e-portal reporting system include the whole expenditure cycle (e.g. cumulative appropriations released, commitments made, invoices received, and payments made at the end of each month).

- **Accounting officers.** We have appointed permanent accounting officers in all line ministries. The officers will be responsible for line ministries' financial management, including budget formulation, spending controls, and data reporting. The accounting officers will be obliged to adopt and implement new organizational plans for their directorates by end-June 2012.

- **Revised audit procedures**. Looking forward, we will focus on the progressive devolution of financial responsibility to accounting officers and reforming the functions of financial audit offices in line ministries and the Court of Audit. This will involve a shift away from preventive audits towards ex-post quality audits, and reconfiguration of our financial information systems.

- **Fiscal reporting.** More comprehensive, timely, and accurate reports will help us better monitor budget execution and spot problems early. To this end, in 2012 we will: (i) expand our arrears data base to cover tax refunds, and establish standards for their processing and payment (by June 2012); (ii) make operational by end-March the inter-ministerial committee to monitor, control, and report on the implementation of the social budget; and (iii) expand the recently piloted information systems to collect more detailed revenue and spending data from general government entities (the new system will cover more than 90 percent of spending by end June 2012).

- **Clearance of arrears**. We expect to clear our existing arrears in line with available program financing. The 2012 budget includes a budget appropriation, based on the end-2011 outturn, and conditions to access it will include the verification of arrears claims, compliance with basic financial management reforms (as described above), and that line ministries and general government entities requesting access demonstrate that they have not accumulated any further arrears and have reported at least 3 months of consistent data from commitment registers.

14. **We will further strengthen the Greek statistical agency, El.Stat**. We will revise the statistics law to reform El.Stat governance arrangements. The law will establish the El.Stat Board as advisory, and clarify the professional authority of El.Stat's president as the institution's chief officer and coordinator of the national statistical system.

15. **We are taking prior actions to secure early gains, and to track progress during the program.** As **prior actions** for the program, we will: (i) meet the end-2011 revenue administration performance targets that have not yet been met, including full scope and VAT audits of large taxpayers; and (ii) enact legislation to implement measures to strengthen tax administration operations (Annex III). Looking ahead, we will monitor quantified quarterly performance indicators for revenue administration and public financial management (see the Technical Memorandum of Understanding for a full description of the indicators; the targets for end-June and end-December are proposed as **structural**

benchmarks). Beyond these indicators, an additional **structural benchmark** will focus on the completion of the strategy for strengthening social security collections.

C. Financial sector policies

16. **The government is committed to provide the support needed to restore confidence in the Greek banking system**. The combination of the deepening recession and government debt restructuring will require significant government support to ensure the soundness of the banking system and to maintain depositor confidence. Well-targeted recapitalization and resolution actions will be needed, alongside legal changes to facilitate the strategy and improve the financial oversight framework. With the actions specified, the Greek authorities intend to support banking system liquidity, and create a viable and well-capitalized private banking sector that can support the economic recovery and sustainable growth. Depositors will be protected.

17. **The financial sector reform strategy comprises several key elements**:

- **An assessment of capital needs**. All banks will be required to achieve a core tier 1 capital ratio set at 9 percent by end-September, reaching 10 percent in June 2013.The BoG, with the support of external consultants, will undertake an assessment of banks' capital needs (**prior action**). This assessment will be based on, inter alia, the results from the BlackRock loan diagnostic exercise, the PSI impact, and the business plans banks have submitted. In addition banks' capital needs will be determined on the basis of a requirement to maintain a 7 percent core tier 1 capital ratio under a three year adverse stress scenario (Pillar II requirements). Based on these capital needs identified by the Bank of Greece, banks will revise their business plans and submit capital raising plans by end-March.

- **In parallel, a strategic assessment of the banking sector will be carried out.** In consultation with the EC/ECB/IMF, the Bank of Greece will conduct a thorough and rigorous assessment of each bank, using a set of quantitative and qualitative criteria. The criteria will include in non-exhaustive terms: shareholders' soundness and willingness to inject new capital; quality of management and risk management systems; capital, liquidity, and profitability metrics (both forward and backward looking); the Bank of Greece's assigned ratings to bank risks; and a sustainable business model. The assessment will be complete by end-March (proposed as a **structural benchmark**).

- **ATE**. Based on the ongoing work by the commissioned external audit firms, we will complete a study on how to address ATE (as a **prior action**). This study will illustrate the legal, operational, and financial aspects of the different solutions and lay out the associated costs.

- **Recapitalization and resolution actions.**

- **Banks will be given time to raise capital in the market.** Based on an assessment of their viability and capital raising plans, the Bank of Greece will communicate to banks, by end-April, specific deadlines to raise capital in the market. The deadlines to raise capital will be set for each bank on a case by case basis—with a maximum duration to end-September—taking into account the regulatory framework and the requirements set by the Hellenic Capital Market Commission.

- **Banks submitting viable** capital raising plans will be given the opportunity to apply for and receive public support in a manner that preserves private sector incentives to inject capital and thus minimizes the burden for taxpayers. Specifically, banks will be able to access capital from the Hellenic Financial Stability Fund (HFSF) through common shares and contingent convertible bonds.

  We will ensure that Greek banks have business autonomy both dejure and defacto. The voting rights of the HFSF for the common shares it holds will be strictly limited to specific strategic decisions (unless the private participation in the form of common shares is less than a given minimum percentage of the bank's total capital needs). This percentage will be defined in the amended HFSF law. The shares and/or the voting rights acquired by the HFSF shall not be transferred or sold to any other state-related entity in any form. Private shareholders will be given incentives to purchase HFSF-held shares. A ministerial decree agreed in consultation with the EC, ECB and IMF shall provide the technical details of the banks' recapitalisation framework, embodying these principles, by end-March 2012 (proposed as a **structural benchmark**).

- **Banks that do not submit viable capital raising plans and do not raise the capital needed to meet the regulatory requirements within the deadline set by the Bank of Greece** will be resolved in an orderly manner and at the lowest cost to the State, in a way that ensures financial stability and which follows the overall strategic plan for resolved banking system assets. Resolution options will include the tools available under the law such as, inter alia, purchase and assumption (transfer order), interim credit institution (bridge banks), and orderly wind down.

- **Follow up**. To ensure that the system remains well-capitalized, the Bank of Greece will by end-June 2013 conduct a new stress test exercise, based on end-2012 data, using a methodology determined in consultation with the EC/ECB/IMF (proposed as a **structural benchmark**).

18. **We will enact legislation to support our strategy for bank recapitalization and resolution (prior action):**

- **Capital adequacy requirements**. The banking law (3601) will be amended to enable the Bank of Greece to set new bank capital standards through regulation, and the Bank of Greece will introduce regulation to phase in the foreseen increases in Core Tier 1 requirements.

- **Technical aspects of bank resolution**. Building on the recent changes in the bank resolution framework and the experiences gained so far, we will clarify the procedures and responsibilities for the valuation of assets and liabilities and thus for the opening balance sheet of the interim credit institutions. We will also strengthen the framework to ensure that future resolutions initially use conservative asset valuations of failed banks' assets, based on fair value, and subsequently allowing for a proper due diligence and revaluation followed by complementary asset transfers within a specified time period. We will also identify the legislative impediments to a flexible management of employment contracts in the context of bank resolutions and adopt the needed legislative changes to remove them.

- **Recapitalization framework.** The HFSF law will be amended to allow the use of contingent convertible bonds and to provide for restrictions on HFSF voting rights for a 5 year period. The voting rights of the HFSF for the common shares it holds will depend on the size of the capital injection by private investors via common shares. If this injection is below a given minimum percentage of a bank's total capital needs (to be defined in the HFSF law), the HFSF will have full voting rights. The HFSF shall hold its shares for a period of two years, with the possibility to extend for an additional two years for financial and market stability reasons. If instead this private injection is larger than this percentage, the HFSF voting rights will be strictly limited to specific strategic decisions. In this case, the legal framework will be revised to allow the HFSF to hold bank shares for 5 years.

- **Resolution framework**. We will introduce a clear separation of the supervisory, resolution and restructuring functions. In particular, the legal framework shall vest resolution responsibilities in a separate department in the BoG and restructuring responsibilities (pertaining to management of all temporary credit institutions) in the HFSF. As regards interim credit institutions, the Bank of Greece will continue pursuing its financial stability role, notably via its supervisory authority, while the HFSF will continue aiming at safeguarding its investments.

19. **The government will ensure that enough financing is available to provide for recapitalization and resolution needs**. Total bank recapitalization needs and resolution costs are estimated to amount to €[xx] billion. The phasing will be determined taking into account the expected timeline for bank resolution and recapitalization, and requirements for continued ECB liquidity support. Funds received via program disbursements will be deposited in the HFSF's ring-fenced account.

20. **We are committed to preserve continued access to central bank liquidity support**. The Bank of Greece, as a member of the Eurosystem, stands ready to disburse adequate liquidity support in a timely manner. Adequate liquidity support in the near term must be consistent with plans to reduce banks reliance on exceptional central bank support in the medium term. To this end, medium-term funding plans will be updated after completion of the recapitalization and restructuring exercise to ensure that the gradual unwinding of exceptional liquidity support proceeds at a pace consistent with the program's macroeconomic, fiscal, and financial framework.

21. **The government will enact legislation to strengthen governance arrangements in financial oversight agencies (prior action)**:

- **Hellenic Financial Stability Fund**:

    - We will revise the legal framework to clarify that the HFSF shall have two departments, responsible for separate functions:

        - A department responsible for managing its ownership interest in banks on behalf of the Government. In this capacity, its mandate shall be to ensure that the banks under its stewardship operate on a commercial basis and are restored to a well-functioning and profitable part of the Greek financial sector, which can eventually be returned to private ownership in an open and transparent manner.

        - A department for management of interim credit institutions (bridge banks), established following the resolution of non-viable banks. It will undertake this role in a cost-effective manner, based on a comprehensive strategy agreed by the BoG, MoF and HFSF, and in compliance with EU state aid rules. From time-to-time, this function may require funding to accomplish its restructuring role. Such funding will be reduced, either partly or entirely, by a contribution from the HDIGF Depositor Branch to the extent of its obligations for deposit insurance.

    - We will revise the legal framework to changes the HFSF's governance structure to include a General Council and an Executive Board:

        - The General Council shall have five members: two members, including the Chair, with relevant international experience in banking, one other member, one representative from the MoF, and one member nominated by the BoG. All members shall be appointed by the Minister of Finance with the approval of the Euro Working Group (EWG); other than the representative from the MoF and the nominee from the BoG. EC and ECB observers on the Council will be maintained.

- The Executive Board shall have three members: two members—one of which shall be the CEO—with international experience in banking and bank resolution, and one member nominated by the BoG. All members shall be appointed by the Minister of Finance with the approval of the EWG. Staff and officials of the BoG shall not sit on the Board of the HFSF.

- We, in consultation with HFSF, will adopt regulations to help the HFSF execute its mandate with full autonomy and at the same time coordinate effectively with the Ministry of Finance. It will cover reporting lines and frequencies, strategic decision-making (and the involvement of the Ministry of Finance therein), investment mandate and business plan, relationship with the Ministry of Finance (in its role as shareholder in the HFSF), and remuneration policy.

- **Hellenic Deposit & Investment Guarantee Fund.** We will strengthen the funding of the HDIGF Depositor Branch by revising the HDIGF Law to: (i) prescribe that fees shall be increased if its funds fall below a certain level of coverage of insured deposits, which should be set taking due account of developments in the financial system; (ii) ensure adequate diversification of re-deposits of HDIGF funds and to gradually eliminate re-deposits in covered banks, as developments with the restructuring of the Greek banking sector permit; and (iii) clarify that the HDIGF's status as privileged creditor does not impinge on claims secured with financial collateral in the sense of the financial collateral directive. With a view to limiting any real or perceived conflicts of interest we will prohibit HDIGF board membership for individuals who are actively involved in credit institutions and introduce in the law strong conflict of interest rules for Board members.

22. **We will also reform governance arrangements in the Bank of Greece**. In light of the BoG's responsibility for resolution, restructuring, and supervision, we will revise the BoG Statute to provide for collegial decision-making at the level of executives (Governor and Deputy Governors) and ongoing accountability through internal oversight by nonexecutives in the General Council (also including oversight in matters other than ESCB-related tasks). We will also revise the structure and rights of BoG shareholders to eliminate possible conflicts of interest in the Bank of Greece's public policy role (e.g. prohibiting supervised institutions from shareholdings and setting a cap on the number of votes that each or related private shareholders can exercise). We propose that this become a **structural benchmark** for end-December 2012.

D. Privatization

23. **Under the program, we aim to accomplish a fundamental shift of public assets to private sector control.** Transferring assets in key sectors of the economy (such as ports, airports, motorways, energy, and real estate) to more productive uses through privatization and concessions should help encourage FDI and other private investment, supporting the

economic recovery and long-term growth. It will also help to reduce public debt, contributing to improved market sentiment over time and supporting Greece's return to bond markets. The government is determined to overcome the challenges posed by market conditions and clean the assets from technical and legal complexities, and the program defines targets and the steps towards achieving these.

24. **The assets comprising the privatization program have been identified**. The list includes state enterprises, concessions, and real estate (Annex IV) along with any bank assets either previously owned or acquired during the recapitalization process. Given the assets targeted for sale, the government anticipates €50 billion in proceeds over the lifetime of the asset sale program, including at least €19 billion through 2015. Because many of these assets are encumbered, and with current poor market conditions, we expect it to take time beyond the program period to realize the full amount of proceeds. We will annually update the expected value of proceeds over the timeframe in question, and to the extent proceeds fall short of target, we will identify additional assets to be brought into the program, including stakes in public corporations not now included. The program will monitor progress towards objectives via quarterly indicative targets.

25. **The privatization process for each asset is in general expected to comprise several stages**. This includes most prominently transferring the asset to the privatization fund and appointing the advisors. Other steps include, cleansing and/or restructuring of the asset, filling in public policy and regulatory policy gaps, design of the tender process, EC clearances (for procurement, competition and state aid), running the tender, and obtaining all of the necessary by-law approvals.

26. **To move the privatization process forward in 2012, we will take a number of steps:**

- **Appointment of advisors.** We expect to appoint by end-March 2012 all remaining advisors for thirteen 2012/13 projects which do not currently have all their advisors.

- **Transfer of assets to the privatization fund (HRADF)**. By end-March 2012, all assets included in the MTFS will be transferred, except banking shares and loss making assets which HRADF cannot finance before their privatization (TRAINOSE, ELVO, EAS). Also the remaining balance of the shares of the two large ports (OLP and OLTH) will be transferred. Real estate assets will be transferred at HRADF's request from the Government Real Estate Company (ETAD). Shares already transferred or to be transferred to the HRADF will be provided their voting rights in full so that the Fund will be able to make all the changes necessary for the swift privatization of each asset.

- **Preparations of state-owned enterprises.** We will work with the EU authorities to obtain clearance for state aid for the lottery, DEPA/DESFA, EAS, OPAP and ODIE, and develop the necessary regulatory frameworks with assistance from the EU Task Force for Greece. Ministries and other public bodies will expedite administrative decisions and/or special legislation to facilitate privatizations.

- **Preparation of real estate assets.** The government will correct legal and technical deficiencies, expedite zoning, and issue required permits for real estate assets. It has requested technical assistance from the Task Force to develop a comprehensive land registry, and in this context, the HRADF will register 3,000 plots by end-June.

- **Policy coordination.** The government will formulate new policies regarding the use of assets (e.g. town planning, spas, golf courses, REITS) and set up new regulatory authorities (e.g. for water, ports, airports, motorways). The Task Force for Greece is expected to support the government through technical assistance.

- **Offer of assets for sale.** We intend to launch some landmark asset sales in the first half of 2012, such as DEPA/DESFA, HELPE, OPAP, EYDAP, EYATH, and IBC, and in the second half of the year to proceed with tenders for the ports, airports and Egnatia Odos motorway.

27. **We remain committed to a process insulated from political pressures**. The HRADF has been set up to operate under a mandate to privatize assets at prevailing market conditions as soon as technically feasible and in an open and transparent manner. Under the HRADF, assets will be overseen and directed so as to accelerate their transfer to the private sector. The HRADF will not be able to transfer assets back to the general government, and if it is determined by the Board that an asset cannot be sold in its current form, it will be sold in pieces or liquidated. The Fund is able to raise money, on market terms, but cannot grant liens over any of its assets if this might prevent or delay the relevant assets from being privatized. The Fund will return all proceeds received to the government without delay.

E. Structural reforms

28. **As noted above, the government's most pressing priority is to restore competitiveness and economic growth.** We recognize a need to significantly accelerate the implementation of comprehensive and deep structural reforms aimed at boosting employment, output, and productivity growth by liberalizing labor, product, and service markets and removing existing barriers in the business environment. However, as these will likely require some time to fully translate into sustained growth, we will also take upfront measures to allow a reduction in nominal wages to rapidly close our competitiveness gap and lay an earlier foundation for sustained growth.

29. **The government will take actions to improve the functioning of the labor market**. Rigidities in the labor market are preventing wages from adjusting to economic conditions and are pushing labor into the informal sector. To protect employment and close Greece's competitiveness gap more rapidly, the government intends to target a reduction in

unit labor costs of about 15 percent during the program period. If the ongoing social dialogue is unsuccessful in identifying concrete solutions by end-February to achieve this goal, the government will take legislative measures in the urgent public interest to allow wage and non-wage costs to adjust as needed. The package of labor market measures that will be implemented includes:

- **Structural measures to level the playing field in collective bargaining.** The key measures we will legislate (as a **prior action**) include:

  - ***Length of collective contracts and revisions of the 'after effects' of collective contracts.*** Changes will specify that: (i) all collective contracts should have a maximum duration of 3 years; (ii) collective contracts already in place for 24 months or more will expire not later than one year after the law is adopted; (iii) the grace period after a contract expires is reduced from 6 to 3 months; and (iv) in the event that a new collective agreement cannot be reached after three months of efforts, remuneration will revert back to the basic wage plus the following general allowances (seniority, child, education, and hazardous). This will continue to apply until replaced by terms specified in a new collective agreement or in new or individual contract.

  - ***Removal of 'tenure' in all existing legacy contracts*** in all companies. The new legal provision will automatically transform contracts with definite duration (defined as those expiring upon age limit or retirement) into indefinite duration contracts for which standard layoff procedures apply.

  - ***A freeze of 'maturity'*** provided by law and/or collective agreements (referring to all automatic increases in wages dependent on time) until unemployment falls below 10 percent.

  - ***Elimination of unilateral recourse to arbitration***, allowing requests for arbitration only if both parties consent. At the same time, we will clarify (by law or circular) that: (i) arbitrators are prohibited to introduce any provisions on bonuses, allowances, or other benefits, and thus may rule only on the basic wage; and (ii) economic and financial considerations must be taken into account alongside legal considerations.

- **Adjustment of wage floors.** This will help ensure that as the economy adjusts, and collective bargaining agreements respond, firms and employees do not find themselves bound at a lower limit (and a limit which is very high in international comparison):

  - We will legislate: (i) an immediate realignment of the minimum wage level determined by the national general collective agreement by 22 percent at all levels based on seniority, marital status and daily/monthly wages; (ii) its freeze until the end of the program period; and (iii) a further 10 percent decline for youth, which will apply generally without any restrictive conditions (under the age of 25) (**prior action**). These measures will permit a decline in the gap in the level of the minimum wage relative to peers (Portugal, Central and South-East Europe). We expect this measure to help address high youth unemployment, the employment of individuals on the margins of the labor market, and to help encourage a shift from the informal to the formal labor sector.

- ➢ Together with social partners, we will prepare by end-July 2012 a clear timetable for an overhaul of the national general collective agreement. This will bring Greece's minimum wage framework into line with that of comparator countries and allow it to fulfill its basic function of ensuring a uniform safety net for all employees.

- **Adjustment to non-wage labor costs**. To help reduce non-wage costs and foster employment, we will bring the labor tax wedge in Greece broadly into line with European peers:

  - ➢ We will enact legislation to reduce IKA social security contribution rates for employers by 5 percentage points, and implement measures to ensure that this is budget neutral. Rates will be reduced only once sufficient measures are in place to cover revenue losses. The measures to finance rate reductions will be legislated in two steps. First, as a **prior action**, we will enact legislation to close small earmarked funds engaged in non-priority social expenditures (OEK, OEE), with a transition period not to exceed 6 months. Second by end-September, we will adjust pensions (with protections for low-income pensioners), and broaden the base for contribution collections (proposed as a **structural benchmark**).

  - ➢ As an additional measure, by end-September we will prepare jointly with social partners an actuarial study of first pillar occupational pension schemes in companies with excessive social security costs (relative to comparable firms or industries covered by IKA) and finalize a list of concrete proposals to eliminate this differential in a fiscally neutral manner.

- **Follow up work**. We will review on an ongoing basis the effects of these measures on the labor market and unit labor costs and, if necessary, are prepared to take additional corrective measures to facilitate collective bargaining, in order to ensure wage flexibility and higher employment. If by end-2012 effects on the labor market remain elusive, we will consider more direct interventions.

30. **The program will, like our previous program, place deep emphasis on product and service market reforms.** The slow response of inflation to the current crisis, even after adjusting for taxation and energy prices, suggests that rigidities remain in such markets.

These will need to be addressed in tandem with labor market reforms to facilitate the pass-through from wages to prices. Our strategy will consist of prioritizing and phasing service sector reforms while pushing forward with product market reforms:

- **Service sector reforms.** As a **prior action**, we will abolish restrictions in 20 high value and/or highly restricted professions, from the list of professions and economic activities covered in Annex II of KEPE's "Second Report on the Impact of Liberalizing Regulated Professions". We will also publish the ministerial decision establishing the road haulage license price in line with administrative costs. Looking forward, by end-March we will prepare a detailed quarterly timetable for 2012 for the screening and cleaning of existing legislation prioritized according to economic performance, and again drawn from Annex II of the KEPE report (completion of this work by end-2012 is proposed as a **structural benchmark**). Finally, for professions where reinstatement of restrictions is required in line with the principles of necessity, proportionality, and public interest, we will pass the required legislation no later than end-June and upon consultation with the HCC and the EC/ECB/IMF staff.

- **Product market reforms**. To promote price flexibility, by April we plan to screen the retail, wholesale, and distribution sectors and prepare an action plan to promote competition and facilitate price flexibility in product markets.

31. **The government is committed to continue with improvements in Greece's business environment.** A number of reforms initiated in 2011—fast-tracking investments, speeding up licensing procedures and facilitating electronic business registration—will be fully implemented this year. These reforms are key to promoting investment and exports, and will boost growth once the recovery takes hold.

- By end-March, we will enact and publish legislation facilitating investment and exports:

  - We will enact legislation which: (i) improves the functioning of the fast-track investment law (by making the framework available to more projects, lowering fees, and relaxing financing requirements), and (ii) eliminates the registration requirement in the Export Registry and simplifies export legislation.

  - Moreover, we will publish the main secondary legislation required to implement the licensing laws technical professions manufacturing activities, business parks and environmental licensing.

- By end-March we will also establish timetables with the key steps needed to complete (by end-December) the implementation of an electronic export window, e-customs, and the new electronic environmental register, as well as to fully implement the two licensing laws.

32. **In support of efforts to improve the business climate, we will advance our medium-term reform agenda aimed at improving the efficiency of the judicial system**. Greece's judicial system is highly inefficient, with significant backlogs despite a relatively large number of courts and judges. Complex judicial procedures, cumbersome execution of court decisions, lack of transparency, and disconnect between court performance and budgeting, have negatively affected FDI, other private investment, entrepreneurship, exports, and employment. In this regard, our efforts will focus on:

- ***Addressing the case backlog in the courts.*** We have identified the backlog of tax cases in courts and plan to address it, including by setting hearing dates for 50 percent of the backlogged cases by end-June 2012, 80 percent by end-2012, with full clearance by end-July 2013 (placing priority on high-value tax cases exceeding €1 million). Regarding the non-tax case backlog, we have commissioned a study to be completed by end-June, on the basis of which we will draw up an action plan (by end-August) with specific targets for the clearance of all cases.

- ***Speeding Case Processing:*** We plan to speed up civil and administrative case processing by passing (by end-March) a law aimed at improving the efficiency of court proceedings (including by streamlining procedures for group adjudication of similar administrative cases and requiring submission of decisions in electronic form by administrative and civil judges).

- ***Improving the Performance and Accountability of Courts***: To improve the effectiveness of magistrate courts, secondary legislation will be published by end-May, merging existing courts to reduce their number. To improve transparency, at end-March the Ministry of Justice will start publishing detailed court information on its web site. This quarterly exercise will initially cover data for tax cases. These actions will help set the stage for the design (by end-September) of a performance framework for all courts, including the development of a dependable data management system, and a workload measurement system.

- ***Reforming the Code of Civil Procedure:*** By end-March, we will establish a Task Force to review the Code of Civil Procedure so as to bring it in line with international best practices. By end-June, the Task Force will issue a concept paper identifying the core issues and bottlenecks in the pre-trial, trial, and enforcement stages of civil cases and set out proposed solutions. Following its issuance, we will consult with domestic and international experts, such that, by end-December, a detailed paper can be prepared outlining the main proposals for amendments to the Code of Civil Procedure.

33. **The government will accelerate efforts to improve structural reform management and monitoring.** To this end, by end-February we will implement a directorate of planning, management, and monitoring of reforms. Starting with end-March,

we will start publishing on a quarterly basis monitoring indicators for each reform initiative on the government's website. Our efforts to carry out our ambitious reform agenda (including for judicial reform, screening of legislation for closed professions, and using the competition toolkit to identify rigidities in product markets) will be supported by the Commission's Technical Assistance Task Force.

E. Program Financing

34. **Greece will face sizable financing needs during the program period.** It is expected to take time for Greece to restore market access, given the long process of reforms and adjustment ahead, and the projected government debt trajectory. As a result, we expect to face sizable financing needs in the period ahead. We project a financing gap of €[xxx] billion during the program period, which we anticipate covering through financial support from our European partners, the IMF, and private sector involvement in the form of a comprehensive debt restructuring operation.

35. **We expect private sector involvement (PSI) to help Greece achieve debt sustainability and to cover a significant portion of our financing gap.** While the measures outlined above would bring about an improvement in the fiscal accounts, they would not by themselves close the financing gaps and put debt on a sustainable path. Accordingly, with the assistance of our debt advisors, and after consultations with creditors, we [have launched] a comprehensive debt exchange offer, covering a pool of government debt of €[xxx] billion. Our program assumes that we will derive €[xx] billion in financing from this over the program period (including a reduction of interest costs from €[xx] to [zz] billion), and a face value write down of some €[xx] billion. We recognize that this financing is essential to the program and securing it is necessary to give the program financing assurances. The debt exchange will be successfully completed prior to the meeting of the IMF Board to consider the request for an EFF arrangement.

36. **Beyond our request to the Fund (€[xx] billion), to fill remaining needs, we have secured additional financial resources from our European partners.** Euro area partners have committed additional resources to support Greece's adjustment and reform efforts, for a total of €[xxx] billion over the program period. They have also committed to support Greece for as long as it takes to restore market access, provided Greece adheres to its policy program. Finally, to ensure that this financing places Greece on a sustainable debt trajectory, to deliver a debt-to-GDP ratio of about 120 percent by 2020, they have: (i) committed to new lending at maturities of 30 years and at close to funding costs, using the EFSF as a financing vehicle; (ii) *list to be added*.

F. Program modalities

37. Progress in the implementation of the policies under this program will be monitored through reviews and consultations, and via quarterly (and continuous) quantitative performance criteria (PCs) and indicative targets, and structural benchmarks. These are

detailed in Tables 1 and 2. The attached Technical Memorandum of Understanding (TMU) defines the quantitative performance criteria, indicative targets, and various benchmarks under the program. Quantitative targets up to December 2012 are PCs. Targets for 2013– 2015 are indicative and for 2013 will be converted into PCs at the time of the [second] review. A Memorandum of Understanding (MoU) on specific policy conditionality agreed with the European Commission, on behalf of the euro-area Member States, specifies additional structural policies, and sets a precise time frame for their implementation.

38. In the context of the arrangement, the Bank of Greece will undergo an updated safeguards assessment in accordance with the IMF safeguards policy. Given that financing from the IMF will be used to provide direct budget support, the Memorandum of Understanding regarding the respective responsibilities of the Ministry of Finance and the BoG for servicing of IMF lending will be updated. As part of these arrangements, Fund disbursements will continue to be deposited into the government's single treasury account at the BoG pending their use.

Annex I: Pending Fiscal Measures

From the July MTFS
• Government to adopt a framework law to reform supplementary pensions, to generate savings of 0.4 percent of GDP by 2014 (in line with MTFS estimates) • Issue MDs for the implementation of the business tax (Article 31 of Law 3986)
From the end-October implementation bill
• Issue the 4 pending MDs to fully implement the new wage grid (see TMU) • Pass law to establish deadline for implementation of the wage grid reform in the general government and the recovery of wage overpayments since November 1, 2011 • Issue MD to bring down the transfer time from PPC of the property tax proceeds to 2 days
From the November prior actions
• Issue the pending MDs on the closure/merger of extra-budgetary funds • Update the positive list mechanism to deliver the 2012 savings target of €250 million

Annex II. Measures to reach the 2012 deficit target

- Pass a supplementary budget with a primary deficit target of 1 percent of GDP for 2012 that reflects all of the changes that follow
- Reduce operational spending of the state by €200 million
- Adjust other spending by €280 million: election spending, subsidies for remote areas; allocations for the ministry of education, (including for service abroad; staff allowance for universities, alternate teachers in secondary schools; operational spending of high schools); allocation of the ministry of agriculture; and transfers to entities.
- Adjust supplementary pensions and enact changes in pension funds receiving high subsidies from the budget to realize savings of €300 million in 2012.
- Cut domestic investment spending by €400 million relative to the 2012 budget
- Cut defense spending by €300 million relative to the 2012 budget in cash and accrual terms
- Identify and implement €325 million in additional permanent structural spending measures.
- Eliminate 550 positions of deputy majors in local governments, effective end-February, including the associated staff positions.
- Take actions (all laws, Ministerial Directives (MDs), and circulars) to limit overprescribing of pharmaceuticals and reduce the share and price of generics:
    - Pass law and issue MDs to set maximum price of generics to 40 percent and for off-patented products to 50 percent of patented products..
    - Reduce profit margins for pharmacies to below 15 percent. Reduce wholesale margins from 5.3 to a maximum of 5 percent. Establish a fixed rate of €30 for all medicine above €200. Increase rebate for pharmacies with turnover above €35,000.
    - Pass law on rebates that will yield €250 million plus should spending (after tax), retroactive to January 1, 2012 exceed €240 million per month. This rebate will be legislated for the period 2012-15.
    - Make compulsory: electronic prescription for all doctors (and only reimburse pharmacies for electronic entries); prescriptions of the cheapest product by active substance; international protocols for 160 diseases, including the 10 most expensive.
    - Update negative and OTC list; issue MD to allow for intakes of new brands into the positive list if they have been included by two-thirds of EU countries

Annex III. Upfront Revenue Administration Reforms

Meeting end-2011 targets
• General Secretariat for Tax and Customs to meet end-2011 revenue administration performance indicators (full scope and VAT audits of large taxpayers)
Amnesty reversal
• Amend the recent “Omnibus bill” to repeal/modify articles 3 and 21 (to eliminate the extension of payment terms of tax debt and overdue social security contributions, and eliminate the suspension of criminal prosecution and asset freezing).
Regulations
• Amend the Bank of Greece's decisions on the reporting by financial institutions, to the Financial Intelligence Unit, of suspicious transactions linked or related to tax evasion (Decisions 285/2009 and 281/2009) to enhance monitoring and detection mechanisms. • Take measures to ensure that complaint reports related to confirmed unpaid tax debts arising from an audit are transmitted for prosecution and to the FIU. • Make it compulsory for large tax cases to exhaust the administrative dispute phase before accessing judicial appeals • Tighten rules for waiving the deposit to access judicial appeals (without prejudice to judicial independence)
Delegation of powers
• Issue decisions and legislative acts to delegate from the ministerial to the administrative level the control powers over core business activities and human resource management. • Place under direct control and management of GSTC headquarters the collection of large debts, and consolidate activities in the largest 35 tax offices

Annex IV. Privatization Program

Timing of Privatization (launch)	Project	Transferred to Fund	Advisors contracted	Intermediate steps
I. State-owned enterprise/share sale				
2012 Q1	Public Gas (DEPA)	v	v	Call for tender to be launched by February 2012.
Q1	Public Gas (DESFA)	v	v	Call for tender to be launched by February 2012.
Q1	Horse Racing (ODIE)	v	v	Adopt restructuring law and establish time-bound concession rights by March 2012.
Q1	Football Betting (OPAP)	v	v	State aid clearance.
Q2	Hellenic Defense Systems (EAS)	1/	v	Clearance by Ministry of Defense. Adopt restructuring law by April 2012.
Q2	Hellenic Petroleum (HELPE)	v	v	Sign MoU with Paneuropean by April 2012.
Q2	Athens Water (EYDAP)	v	March 2012	Establish regulator and pricing policy by June 2012. Extend concession.
Q2	Thessaloniki Water (EYATH)	v	March 2012	Establish regulator and pricing policy by June 2012. Extend concession.
Q2	Mining and Metallurgical Company (LARCO)	v	v	Adopt restructuring law by March 2012.
Q2	Hellenic Post (ELTA)	v	March 2012	Adopt law determining the public service by February 2012.
Q2	Casino Mont Parnes	March 2012	March 2012	State aid clearance.
Q2	Electricity Company (PPC)	1/	March 2012	Restructuring to be decided by June 2012.
Q3	Hellenic Vehicle Industry (ELVO)	1/	March 2012	Adopt restructuring law by June 2012.
Q4	Railways (Trainose)	1/	March 2012	Ongoing restructuring and last phase of state aid clearance by June 2012.
Q4	Athens Airport (AIA)	v	v	Decision on minority share before proceeding with tender by March 2012.
II. Concessions				
---	OPAP 1	v	n.a.	Done.
---	OPAP 2	v	n.a.	Done.
---	Mobile Telephony	v	n.a.	Done.
2011 Q4	Hellenic Motorways	v	March 2012	end 2012.
Q4	State Lottery	v	v	Expected financial offer from the three bidders by March 2012.
2012 Q2	Egnatia Odos	v	March 2012	Unbundling into services/motorway rights. Establish regulator by end 2012.
Q3	Small ports and marinas	2/	March 2012	Identify proper policy. Establish regulator by September 2012.
Q3	Thessaloniki Port	March 2012	March 2012	Identify proper policy. Establish regulator by September 2012.
Q3	Piraeus Port	March 2012	March 2012	Identify proper policy. Establish regulator by September 2012.
Q3	Large regional ports	March 2012	March 2012	Identify proper policy. Establish regulator.
Q3	Regional airports	v	March 2012	Identify proper policy. Establish regulator by September 2012.
Q4	South Kavala Gas Storage	v	March 2012	Clear legal obstacles by September 2012.
To be determined	Gold mining rights	v		
To be determined	Digital dividend			
To be determined	ITGI Gas pipeline			
III. Real Estate				
2011 Q4	Hellenikon 1	v	v	Adopt law on land use by March 2012.
2012 Q1	Sale/repo N buildings	1/	March 2012	Government to sign rental contracts and transfer clean title to HRADF by May 2012.
Q1	Real Estate IBC	1/	March 2012	Strategic environmental study. Zoning permit to be issued by June 2012.
Q1	Real Estate/Astir Vouliagmenis	1/	March 2012	Negotiations with NBG. Zoing permit to be issued. Process led by NBG by June 2012.
Q2	Real Estate/Cassiopi	1/	March 2012	Move NATO radar. Zoning permit to be issued by June 2012.
Q2	Real Estate lot 1 (Afantou)	1/	March 2012	Zoning permit to be issued by June 2012.
Q2	Real Estate lot 2	1/	March 2012	Identify assets by June 2012.
Q3	Real Estate lot 3	1/	March 2012	Identify assets by September 2012.

1/ Transfer of assets/rights at the point of privatisation.
2/ Transfer of voting rights.

Table 1. Greece: Quarterly Performance Criteria 2012
(billions of euros, unless otherwise indicated)

	2012				2013	2014
	Mar-12	Jun-12	Sep-12	Dec-12	Dec-13	Dec-14
	Progr. 1/	Progr. 1/	Progr. 1/	Progr. 1/	Progr. 3/ 5/	Progr. 4/ 5/
Performance Criteria (unless otherwise indicated)						
1. Floor on the modified general government primary cash balance	[-1.7]	[-3.1]	[-2.7]	[-2.2]	[3.7]	[9.3]
2. Ceiling on State Budget primary spending	[13.9]	[28.1]	[42]	[56.8]	[56.7]	[55.1]
3. Ceiling on the overall stock of central government debt	[340]	[340]	[340]	[340]	..	..
4. Ceiling on the new guarantees granted by the central government	[0.0]	[0.0]	[0.0]	[0.0]	[0.0]	[0.0]
5. Ceiling on the accumulation of new external payments arrears on external debt contracted or guaranteed by general government 6/	0.0	0.0	0.0	0.0	0.0	0.0
Indicative Targets						
6. Floor on privatization receipts 7/	[0.03]	[0.03]	[1.2]	[3.2]	[7.5]	[11.0]
7. Ceiling on the accumulation of new domestic arrears by the general government 8/	0.0	0.0	0.0	0.0	0.0	0.0

1/ Cumulatively from January 1, 2012 (unless otherwise indicated).
3/ Cumulatively from January 1, 2013 (unless otherwise indicated).
4/ Cumulatively from January 1, 2014 (unless otherwise indicated).
5/ Indicative targets.
6/ Applies on a continuous basis from program approval (March xx, 2012).
7/ Cumulatively from January 1, 2012.
8/ Calculated on a cumulative basis from January 1, 2012 and applied on a continuous basis from program approval (March xx, 2012).

Table 2. Greece: Proposed Structural Conditionality—Prior Actions

Measures	Macro critical relevance	Status
Fiscal		
1. Government to fully implement all overdue MTFS measures (Annex 1).	To help restore fiscal sustainability.	Proposed.
2. Government to enact and implement measures needed to reach the fiscal deficit target in 2012 (Annex II).	To help restore fiscal sustainability.	Proposed.
3. Government to implement measures to strengthen tax administration operations (Annex III).	To improve tax collection.	Proposed.
Structural		
4. Government to legislate measures to level the playing field in collective bargaining, including: (i) removal of the 'after effects' of contract expiration; (ii) removal of 'tenure' in all existing legacy contracts; (iii) a freeze of 'maturity' in all private contracts; (iv) elimination of compulsory arbitration.	To promote competitiveness and employment.	Proposed.
5. Government to legislate a realignment of the minimum wage level determined by the national collective agreement by 22 percent; freeze it until the end of the program period, and a further 10 percent decline for youth, which will apply generally without any restrictive conditions.	To promote competitiveness and employment.	Proposed.
6. Government to close small social security funds and reduce other non-priority social security spending to allow a fully-funded reduction in social security contribution rates.	To promote competitiveness and employment.	Modified from SBA
7. Government to enact secondary legislation establishing license prices for road-haulage in line with administrative costs, and to screen specific service sector legislation and repeal or modify unnecessary and outdated regulations for an additional 20 high value and/or highly restricted professions to ensure full consistency with the law liberalizing restricted professions (3919).	To effectively deregulate key service sectors.	Modified from SBA
Financial		
8. Government to undertake a comprehensive assessment of banks' capital needs.	Financial stability	From the SBA
9. Government to complete a detailed study on how to address ATE, based on work by the commissioned external audit firms.	Financial stability	Proposed.
10. Government to enact legislation to improve the framework for resolution and recapitalization to: (i) enable the Bank of Greece to set new bank capital standards through regulation, and to use this power to establish new Core Tier 1 requirements; (ii) remove impediments to a flexible management of employment contracts in the context of bank resolutions; (iii) ensure the use of conservative asset valuations for failed banks; (iv) allow the use of contingent convertible bonds in recapitalization; (v) introduce the possibility of restrictions on HFSF voting rights; and (vi) vest resolution responsibilities in a separate department in the BoG and systemic restructuring responsibilities in the HFSF.	To support effective recapitalization of banks	Proposed.
11. Government to enact legislation to improve the financial oversight framework. In particular, covering reforms to: (i) establish two departments in the HFSF mandated, respectively, to manage the government's ownership of banks and interim credit institutions; (ii) revise the HFSF's governance structure to include a General Council and an Executive Board; and (iii) address HDIGF funding arrangements, and to eliminate possible conflicts of interest within the HDIGF.	To strengthen governance arrangements for financial oversight agencies.	From the SBA

Table 3. Greece: Proposed Structural Conditionality—Structural Benchmarks

Measures	Macro critical relevance	Status
End-March 2012		
1. A ministerial decree agreed in consultation with the EC, ECB and IMF shall provide the technical details of the banks' recapitalisation framework	To strengthen financial sector resilience	Proposed.
2. Bank of Greece to complete a strategic assessment of banks' business plans.	To strengthen financial sector resilience	Proposed.
End-June 2012		
3. Government to adopt a budget-neutral tax reform package, including: (i) the repeal of the Code of Books and Records and its replacement by simpler legislation; (ii) the elimination of several tax exemptions and preferential regimes; (iii) simplification of the VAT and of the property tax rate structure; (iv) a more uniform tax treatment of individual capital income; and (v) a simplified personal and corporate income tax schedule.	To simplify the tax system, improve its efficiency, and broaden the tax base.	Proposed.
4. Government to complete the reviews of social spending programs to identify 1 percent of GDP in savings, while at the same time making proposals to strengthen core safety net programs.	To help achieve medium-term fiscal targets.	Maintained from the SBA.
5. Government to complete the reviews of public administration to identify 1 percent of GDP in savings.	To help achieve medium-term fiscal targets.	Proposed
6. Government to meet quantified quarterly performance indicators for revenue administration	To improve tax collection	Proposed.
7. Government to meet quantified quarterly performance indicators public financial management.	To contain arrears	
End-September 2012		
8. Government to complete the strategy for strengthening social security collections.	To improve social security collections.	Proposed.
9. Government to adjust pensions, with protections for low income pensioners, and the social security contribution base, to permit a fully-funded reduction in rates (cumulatively 5 percent from Janaury 1, 2012)	To improve unit labor costs and competitiveness	
End-December 2012		
10. Government to meet quantified quarterly performance indicators for revenue administration	To improve tax collection	Proposed.
11. Government to meet quantified quarterly performance indicators for public financial management	To contain arrears	
12. Government to complete the screening and cleaning of existing legislation covering the list of professions and economic activities covered in Annex II of KEPE's "Second Report on the Impact of Liberalizing Regulated Professions."	To improve competitiveness	Proposed.
13. Government to reform the governance of the BoG, to provide for collegial decision-making at the level of executives (Governor and Deputy Governors) and expanded internal oversight by nonexecutives of the existing General Council, and to revise the structure and rights of BoG shareholders to eliminate possible conflicts of interest in the Bank of Greece's public policy role.	To strengthen financial sector stability	Proposed.
End-June 2013		
14. Bank of Greece will complete an additional assessment of capital needs based on end-2012 data.	To align capital buffers to banks' individual risk profiles	Proposed.