

## KEY REFORMS AND MEASURES FOLLOWING THE AGREEMENT OF 12 JULY 2015 AND THE SIGNING OF GREECE'S NEW AGREEMENT WITH THE INSTITUTIONS

The Agreement of July 12th between the Hellenic Republic and the Institutions brought to an end an extended period of negotiation, introducing into implementation the Third Programme for support, fiscal adjustment and structural reform of the Greek economy.

The will of the Greek government was and continues to be the implementation of the agreement without delay and the speedy completion of the reforms.

The precondition for the timely implementation of the Programme, as well as for its economic sustainability, is maintaining social cohesion, as it has now been proven that no programme of reforms and fiscal adjustment can be effective without social support.

Measures that increase the already vast social inequalities and limit the protection of the more vulnerable social classes not only fail to accelerate the recovery process, but, to the contrary, create risks with regard to the Programme's economic and social sustainability.

It is also vital not to speculate about supposed delays on the part of the Greek government in implementing the Programme.

From July 2015 up until today, the Greek government has already moved ahead with a reform effort unprecedented in depth and breadth. Specifically, **over 100 reform actions** have been implemented, in spite of the 40 days it took to hold the elections, form the new government and assemble the new Parliament.

Moreover, the recapitalization of Greece's systemic banks has been completed in record time. Private sector participation in the recapitalization surpassed all expectations. While the amount of state participation in the recapitalization provided for in the July Agreement was €25 billion, in the end only €5.7 billion was needed. At this time, Greece's systemic banks have the highest capital adequacy index in Europe.

With regard to the Hellenic Republic Asset Recovery Fund, the Greek government, via the Finance Minister, has already sent – as of 11 November 2015 – a detailed and elaborated proposal to the head of the EWG and, through him, to all of the

competent Finance Minister of the Eurozone.

Finally, the 2016 Budget has already been passed and provides for a fiscal adjustment in the amount of €5.7 billion, so that the goal of a primary surplus 0.5% for 2016 can be achieved. This adjustment comes on the heels of an measures in excess of €64 billion – that is, over 30% of Greece's current GDP – from 2010 to 2015. This is an unprecedented magnitude in global economic history.

By next week, the Greek government will have completed the implementation of the second round of Milestones, and by the end of January it will have completed the reform of the social security system, so that the process of the first review can begin.

In this effort, the Institutions as well as the governments of the Eurozone member states need to maintain a supportive and constructive stance, recognizing the difficulties of the Greek people and the determined stance of the Greek government on the implementation of the Programme.

Statements and interventions in the news media that create **mistaken impressions as to the reform performance of the Greek authorities** and that recycle the dead debate over a possible 'Grexit' from the Eurozone are not only unhelpful, but actually undermine the prospects for the recovery of the Greek economy.

The Greek government guarantees social cohesion, political stability and the timely implementation of the Programme. For the information of all interested parties, an indicative list follows, containing the reforms completed by the Greek authorities, along with informative notes on tax revenues, the recapitalization of the Greek banks, and the macroeconomic performance of the Greek economy.

## **REFORM ACTIONS OF THE GREEK GOVERNMENT FOR THE IMPLEMENTATION OF THE THIRD SUPPORT PROGRAMME OF THE GREEK ECONOMY**

### **July 2015**

- Adoption of EU Directive BBRD for the recapitalization of banks, the conditions for granting state aid to them and the defining framework for possible consolidation of banks.
- Adoption of the new Civil Procedure Code.
- Increased contributions for health coverage in main and supplementary pensions.
- Increased levels of retirement ages and their stabilization from 01.01.2023.
- Consolidation plan of supplementary insurance funds.
- Savings of around 1% of GDP from the insurance system through its reform and rationalization. Most of the savings (0.6%) have been already achieved by an increase of the retirement age, a considerable reduction of early retirement, the increased health coverage contributions and the reduction of the beneficiaries of EKAS.
- First amendment of the provisions-annexes regarding VAT.
- Luxury tax imposed on all recreational marine craft and swimming pools.
- Amendment of the ELSTAT legislation.

### **August 2015**

- Changes in legislation for the management of private debt to public, pension funds and banks.
- Amendments to the law on the management of enterprise debt to banks.
- Adoption of the profession of consultant of "private debt" which will provide consulting services to individuals for the better settlement of debts to the public, pension funds and banks.
- Creation of a public authority Credit Bureau which will collect all the debts of individuals in order a) to achieve optimal management of their debts and b) can

effectively borrow funds from banks in a transparent and objective manner.

- Increase the number of municipal courts to achieve faster administration of justice on matters related to the management of the total debt of natural and legal persons.
- Possibility of debt forgiveness up to 20.000 €, of households with no income after three years.
- Increase the tonnage tax for ships.
- Phasing out the return of the special oil consumption tax to farmers.
- Increase solidarity surcharge on income over 30.000 €.
- Tightening the legislative framework for uninsured and uncontrolled vehicles.
- Changing and tightening of criteria for providing heating allowance.
- VAT reform to achieve revenue growth by 1% in 2016 by changing the rates on products and services and the gradual elimination of exemptions and deductions such as eg. the islands of the Aegean Sea.
- Upgrade the technology infrastructure to improve collectability and reduce tax evasion by the VAT.
- Enable Fiscal Policy Council, which provides advice to the Treasury for optimal management and efficiency of public finances.
- Tightening the framework for early retirement.
- Adoption of a new method of calculation of the minimum pension for the public and private sectors.
- Release professions and opening markets in terms of "toolboxes" I & II of the OECD to stimulate competition.
- Open the gas market.
- Alteration and modernization of the framework for evaluation and selection of hospital administrations.



- Create a separate account for the management of EU funds and national contributions to the program of public investments.
- Develop a strategy for creating Social Security "nets" and application of the minimum guaranteed income.
- Adopt a national strategy to address the problem of corruption.
- Amendment of the law on travel expenses with the aim of rationalizing the compensation received by public servants for travel expenses incurred, etc.
- Various fees in favor of third parties were eliminated.
- Incorporation of supplementary insurance funds into ETEA as of 1 September 2015.
- A team was set up for the reconstitution of the Project Management Team for the Streamlining of Permit Issuing for exercising of economic activity.

#### **October-November 2015**

- Law for the recapitalization of banks under the EU directive of BBRD.
- Improving the legislative framework for the governance of the HFSF.
- Improving the legislative framework for the governance of banks.
- Adoption of Code of Conduct of the BoG that delineates the relationship between borrowers and banks in a manner beneficial to both parties .
- Review and tightening of limits / criteria of protection of primary residence.
- Create a framework of protection for first home of lower income groups through the assumption that the cost will burden the state budget.
- Activating the Governing Council of Private Debt, which will be the governing body to take appropriate measures to settle the problems associated with managing the debt of individuals and legal entities.
- Complete planning for the full repayment of arrears of the government to the private sector.

- Review and tightening of the framework of debt settlement in the public and social security funds through a 100-dose system.
- Reinforce staffing of the Secretariat of Public Revenue through transfer of qualified staff from SDOE.
- Develop a strategy for the promotion of electronic transactions
- Non-taxation of uncollected rents, avoiding thereby a possible injustice to owners would otherwise be taxed on income they had not received.
- Increase taxes on gambling games.
- Tightening the concept of farmer profession aiming to fair taxation of the sector.
- Reduce early retirement wave of public sector employees.
- Streamlining of non-wage benefits of public sector employees in accordance with EU best practices.
- Develop a strategy for the completion of the reform to provide the investment license.
- Opening closed professions and implementing the OECD toolboxes for enhancing competition.
- Review framework for pharmacy ownership in non-pharmacists.
- Establishment of the automatic return mechanism (claw back), which will contribute to reducing hospital costs while ensuring the sustainability of hospital budgets.
- Allowing ELSTAT have access to tax data exclusively for statistical processing.
- Measures to promote energy efficiency, energy audits and energy management systems.
- Agreement with the institutions in providing technical assistance on tax and administrative reform.
- Introduction of criminal sanctions for tax evasion and fraud.

- Amendment of the legislation on the exception with regard to major issues that emerged regarding the matter of price protection (data vs. patent), as well as the mechanism for drug pricing.
- Amendment of the law on reorganization of the natural gas market.
- Adoption, via legislation, of the reform of Athens transport (OASA), as agreed with the institutions.
- Exemption of tax administration auditors from civil and criminal liability for a reasoned opinion or recommendation stated or decision they issued within the framework of the implementation of the legislation in effect during the execution of their duties.
- The relevant articles were amended for the convening of the tourism port committee, which is linked to a number of HRADF activities.
- Formation of the Tourist Port Committee.
- Recall of the Ministerial Decision of GG 1117/2015, to render sanctions and penalties in force as a result of the assessment of bad conduct and conflict of interests in prescription-writing conduct, as well as non-conformance with National Organization for Medicines (EOF) instructions.
- Extension and amendment of the operation of the Bank Account and Wage Account Registry System.
- Founding three mobile units for combating illegal trade in fuel.
- Issuing a Joint Ministerial Decision on notary fees.
- Issuing a Presidential decree which specifies the terms for establishing appropriate structures for the auction webpage, the conditions required and all of the other details for corresponding publications.

#### **December 2015**

- Taking measures to secure revenue collection: (i) Adopt measures, including legislative, if necessary, for cross-checking registrations of fuel storage tanks (fixed or mobile) to combat fuel smuggling.

- Appoint a procurement committee to be able finalise the purchase of software for VAT network analysis to combat VAT carousel fraud;
- The Government will issue Ministerial Decisions (i) on the implementation of hospital claw back, (ii) to revise downward the prices of diagnostics from private providers to align the spending to clawback ceiling.
- Operationalize the HFSF selection panel for the appointments of all members and chairman including (i) reaching agreement on a binding Terms of Reference for the selection process,
- Adopting secondary legislation on the financial assistance scheme for vulnerable households to facilitate the payments required under the household insolvency law.
- The Bank of Greece will issue a decision on the procedure and criteria to be used for determining the maximum of borrower repayment capacity, the amount that creditors would have received in case of emergency enforcement and the potential prejudice to the creditors;The Bank of Greece will issue a decision on the procedure and criteria to be used for determining the maximum of borrower repayment capacity, the amount that creditors would have received in case of emergency enforcement and the potential prejudice to the creditors;
- Providing a detailed implementation plan to establish a Credit and Wealth Bureau by end-June 2016 as an independent authority that will identify borrowers' payment capabilities for the facilitation of banking institutions.
- Adopting the relevant legislation enabling licensing and regulation for non-bank service providers and loan transfers, to be effective as of 1 January 2016. For loans secured by the primary residences as well as loans of SMEs and consumers, the implementation framework will be finalised in the context of the first review of the ESM programme;adopt the relevant legislation enabling licensing and regulation for non-bank service providers and loan transfers, to be effective as of 1 January 2016. For loans secured by the primary residences as well as loans of SMEs and consumers, the implementation framework will be finalised in the context of the first review of the ESM programme;
- Initiate preparatory work to update and amend the out-of-court debt resolution law.



- Propose a coordination mechanism overseen by the Bank of Greece with a mandate to consider large debts to both private and public creditors and identify and execute specific NPL resolution action.
- Submit a Presidential Decree to establish a debt information network and debt information centres
- Set up a new project structure for implementing and monitoring the NPL strategy including the establishment of a special coordinating secretariat and project management office at the Bank of Greece to support the Government Council for Private Debt Management.
- The authorities will follow up as agreed with OECD and adopt or otherwise address 10 more recommendations of the OECD toolkit II on beverages and petroleum products in addition to those completed in the context of the first set of milestones.
- The authorities shall issue in agreement with the institutions a Ministerial Decision to (re-) convene the inter-ministerial committee for regulated professions.
- On structural funds, the authorities will (i) implement Law 4314/2014 on European Structural and Investment Funds, adopt all associated delegated acts and any other measures indispensable for the activation of the available funds and ensure the fulfilment of significantly-delayed ex-ante conditionalities.
- Presenting the proposals for potential improvements of the law 4269 on spatial planning.
- Agree with the institutions the content of and submit the Presidential Decree on forestry definitions.
- Taking all the irreversible steps for the electricity transmission company, ADMIE to provide full ownership unbundling from PPC.
- Providing a plan for the new privatisation fund so that it can become operational as soon as possible in early 2016.

- Adopt a law to reform the unified wage grid, effective 1 January 2016, setting the key parameters in a fiscally neutral manner and consistent with the agreed wage bill targets and with comprehensive application across the public sector, including decompressing the wage distribution across the wage spectrum in connection with the skill, performance, responsibility and position of staff.
- Commit to continue the attrition rule in 2016 (5:1) while the ratio for the years 2017-2019 will be set in the MTFS 2016-19.



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## POSITIVE POINTS OF THE SECOND HALF OF 2015

### **Macroeconomy**

- The recession for 2015 is revised from -2.3% to zero.
- The new agreed surplus target is revised to 0.5% from 4.5%.
- The burden of the fiscal interventions is reduced consequently by 500 million. - 6.2 bn € in the draft to 5.7 bn € in the final budget.
- Similarly, the negative forecasts -1.3% recession in 2016 are revised downwards to -0.7% - due to the time lag in absorption of the impact of capital controls.
- However, many analysts expect positive growth rates by the 2<sup>nd</sup> semester of 2016.
- Unemployment fell to 24.6%. Based on data from ERGANI we have 112,000 new jobs in the private sector and according to ELSTAT unemployment impaired by 1.4% during the last eight months.
- We promote an active employment policy by absorbing 450-500 mil. € in 2016 from ESPA funds 2014-2020. We utilize them to launch 12 programs directly for 104,000 unemployed.
- The current account deficit has been almost corrected.
- Public investment funds are for the first time in the last 5 years raised to 6.75 bn €

### **Recapitalization of Banks**

- The success of the recapitalization process of the Greek banking sector is sealed by the increased participation of private investors.
- Out of the 25bn € initially planned to recapitalize of banks, we actually used only 5.7 bn €.
- Currently, Greek banks are on top of Europe in terms of capital adequacy

according to the treaty of Basel III.

- Unlike previous recapitalization efforts, the HFSF receives normal shares and convertible bonds. It may choose between privileged return on its capital or exercise its right to control the bank through voting. In previous procedures, the shares received by the HFSF had not the right to vote or an interest rate.
- The recent solution of “red loans” does not free auction of first residence. In contrast it protects borrowers and establishes a strict framework of their management.
- The amendment of the Katseli Act ensures the protection of first residence for at least 60% of debtors with mortgage loans. Especially the 25% of the weaker ones enjoy absolute protection.

#### **Tax revenue**

- Tax revenues increased compared to last year as a percentage of GDP to 25% from 21% .
- Comparing similar months in terms of tax revenues, October '15 to October '14, we see an increase by 714 million. €. Similarly, tax revenue receipts in November 2015 are 523 mn. € higher than the revenues of November 2014.
- We intensified the job of tax collection and trading transactions through bank cards.
- For the first time, the collection of VAT on the islands followed the increased tourist flow.
- During the first ten days of the examination of the Faltsiani list the voluntary revealed undeclared deposits reached 80 mil. €.
- Tax collecting mechanisms focus now in economic crimes and corruption, leading dozens of cases to the Prosecutor and perjurers on their out from the State.
- We check all lists of tax evasion, the old ones(list Lagarde Luxembourg) as well as the new ones(list Westphalia - Rhineland).
- We introduce a special operational plan for controlling offshore vehicles. Among



the 10.000 offshore active to Greece only 6,000 are audit useable. From these 6.000 offshore we have checked 384 and confirmed taxes 129.5 million. €. Instead, during the period 2014 - 2015 only 321 offshore were audited and the corresponded confirmed taxes accounted for just 94.5 million. €

- We promote the voluntary disclosure of assets at home and abroad.
- We also reduced drastically the overdue debts from State to our citizens. In August we gave back 500 million € and another 400 million. € from the second tranche