

## **Greece: Defining the new Program**

The memoranda for the existing program, and most notably the 5<sup>th</sup> Review MEFP, are expected to form the basis for a new Greek program. That is, the objectives and adjustment strategies defined therein, along with the measures to deliver them, are in general expected to carry over to a new program. This document addresses suggested refinements to possibly be incorporated into a new program: (i) prior actions that would need to be completed before the program can be considered; (ii) additions and modifications to the program to address evolving circumstances or to better define policies. The list at this stage reflects the analysis of the staffs of the EC, ECB, and IMF and is expected to be refined as the Greek authorities present their own suggestions.

### **I. Fiscal Policy**

#### **Prior actions and other upfront measures**

- Fully implement all the pending MTFs measures (see Annex 1)
- Enactment of any necessary measures to reach the fiscal deficit target in 2012 (see Annex 2) [preliminary estimate at 1 percent of GDP]. All measures to be achieved on the expenditure side only and should be a few big ticket items.
- Adopt a framework law on supplementary pensions establishing a single supplementary fund and notional defined-contribution system and legislate cuts on benefits of supplementary pensions for 2013-2014 consistent with MTFs targets.
- Establish more effective control on recruitments (ensuring consistency with the staffing plans and the 1-to-5 recruitment rule), together with controls on intakes in police and military academies.

#### **Additions/Modifications to the Program**

- Tax reform. Full schedule of intermediate steps to be specified (allowing time for preparations of proposals (with full impact analysis), public consultations and full review by EC/ECB/IMF, and adequate time for revisions). Timeline to be determined; end-March date for existing structural benchmark may be too soon.
- Mid-year action to define expenditure measures to close gaps in 2013-14 to be expanded in scope to cover other spending reforms necessary to close any additional gap. Estimates of gaps pending.
- [*Measures to implement the OECD report recommendations on administrative reform to be discussed*].

- Implement a program of targeted staff reductions to achieve the target of 150,000 by 2015. The program will lay out a timetable involving the definition of the structure of the government and the definition of staffing plans per department that will achieve the overall agreed target (via redundancies and attrition).
- Health sector reforms [MoU]:
  - Transfer all responsibilities to oversee EOPYY and all other health funds to the Ministry of Health; in addition, transfer all responsibilities to oversee social assistance programs to the Ministry of Labor
  - Establish targets for pharmaceutical expenditure and for prescription of generic medicines: 50 percent of the volumes of medicines prescribed and reimbursed are generics (to be done upfront).

## **II. Fiscal Institutional Reforms**

### **Prior actions and other upfront measures**

#### *Revenue administration*

- Meet revenue administration performance targets for end-2011 on the number (see TMU to 5th Review MEFP) of full scope and VAT audits of large taxpayers.
- Pass legislation and secondary legislation and issue circulars to strengthen the tax administration:
  - Amend the recent “Omnibus bill” to repeal articles 3 and 21 (to eliminate the extension of payment terms of tax debt and overdue social security contribution, and eliminate the suspension of criminal prosecution and asset freezing).
  - Amend the BoG decisions on the reporting of suspicious transactions by financial institutions to the Financial Intelligence Unit (Decisions 285/2009 and 281/2009) and establish a mechanism to ensure that certified tax and custom cases are systematically transmitted to the FIU.
  - Improve delegation: (i) define and delegate the powers to exercise control over core business activities, select taxpayers and perform audits, and manage human resources, from the Ministerial/political level to the tax administration; (ii) tighten legally the control that central offices can have on the on the activities carried over at local tax offices; and (iii) fill the position of Secretary General of the tax administration with an external appointee with substantial professional experience in tax administration.
  - [*Other actions to be defined...e.g. actions which can be pulled forward from the anti-corruption strategy below*]

## **Additions/Modifications to the Program**

### *Revenue administration*

- Continuous criterion on no tax amnesties
- Replace managers that have underperformed targets (e.g. LTU and selected large local offices). (Need quantified targets.)
- Strategy and actions to strengthen the anti-corruption framework in the revenue administration including by the following actions:
  - Reform the financial inspection unit (e.g. limit focus to revenue administration, initiate a re-hiring/assessing program for staff);
  - Set up the internal affairs services established by law in 2011
  - Require the AML committee (FIU) to review annually [3-400?] asset declarations of revenue officials starting immediately,
  - Introduce rotation of managers on a periodical base (1-2 years)
  - Implement a comprehensive system to protect whistle-blowers who report corruption in the tax administration
  - Amend the Penal Code to ensure that the offences of active and passive bribery cover all acts/omissions in the exercise of the functions of a public official, whether or not within the scope of the official's competences (Articles 235 and 236).
  - Prepare a fully-fledged anticorruption plan to be developed over time.
- New and more ambitious performance targets for revenue administration set for mid- and end-2012. Indicator list to be expanded (e.g. freeze of assets by FIU under the AML framework; see existing program structural benchmark for details of the existing list).
- [*Actions to strengthen the administration of social security collections to be discussed*]
- Measures to address tax case backlog in the courts [e.g. Set a hearing date for the tax case backlog: 50 percent of backlog by end-June 2012, and 85 percent by end-2012, with full clearance by end-March 2013, putting priority on high value tax cases (Euro 1 million).]

*Public financial management*

- Establish a calendar for the medium-term fiscal strategy and budget
- Define and publish conditional procedures for the clearance of past arrears using the 2012 central budget allocation
- Define and publish tax refund arrears and establish standards for their processing and payment
- Create an inter-ministerial committee (GAO, MoH, and MoL) to monitor and publish on the MoF's website, on a monthly basis, the performance of the social budget
- Achieve quarterly quantitative performance targets on the performance of commitment registers and fiscal reporting. Some indicators for commitment-based spending and fiscal reporting include, but are not limited to, the following (a more complete list of indicators will be agreed with technical staff of GAO):

AREA	OBJECTIVE	INDICATOR	BASELINE	2012 TARGETS				2013 TARGET
				Q1	Q2	Q3	Q4	Full Year
1. Expenditure Control	Comprehensive coverage of commitment registers	a. Reporting of GG commitment, payment, and arrears data on e-portal (% of units)	36.80% (Oct 2011)	50%	75%	90%	100%	100%
	Reliable data on arrears accumulation	b. Discrepancy in GG total arrears data between e-portal and ad hoc survey (% of arrears)	36.54% (Oct 2011)	20%	10%	5%	1%	1%
2. Fiscal Reporting	More detailed monthly GG fiscal reports	d. Coverage of Stage 3 fiscal reports (out of 1070 units)	33 (Dec 2011)	250	550	750	1000	1070
		e. Coverage of Stage 3 fiscal reports (% of GG expenditure)	TBC	40%	60%	90%	95%	100%

- Revise the statistical law to establish a firmer basis for the independence of Greek official statistics, notably by establishing the Elstat Board as advisory, and by further clarifying the professional authority of the Elstat president as the chief officer of Elstat and coordinator of the national statistical system.

**III. Financial Sector****Prior actions and other upfront measures**

- The Bank of Greece to complete the assessment of the banks' capital shortfalls
- The BoG and MoF will deliver a plan for ATE Bank [*to be discussed*].
- Enact a package of reforms to the financial oversight system:
  - Amend the relevant legislation (including the commercial law and the HFSF law) to allow/require the use of non-voting instruments for bank recapitalization in viable banks;

- Amend the HFSF law to improve the HFSF corporate governance and allow the HFSF to lend to the resolution arm of TEKE;
- Amend the banking law (3601) to enable the BoG to set bank capital standards through regulation, and the BoG will introduce regulation setting banks' consolidated core tier 1 minimum regulatory capital requirement at 9 percent from the beginning of 2012 and 10 percent from July 2013.
- The authorities identify the legislative impediments to payroll cost cutting and employment reductions to assist bank resolutions and adopt all legislative changes to remove them
- [*Other actions to strengthen financial sector governance and the resolution framework, to be identified with the assistance of experts*]

#### **Additions/Modifications to the Program**

- The BoG to design the strategic action plans for the banking sector by end-March 2012, reflecting the outcome of PSI2 and of the BlackRock's loan diagnostics.
- The authorities will enact ensure that the new financial oversight framework is fully operational by [date]

#### **IV. Privatization**

##### **Additions/Modifications to the Program**

- Consistent with privatization targets [to be defined], offer two to three large companies for privatization in Q2 2012
- Prepare assets for privatization. This requires: an accelerated unbundling of assets, changes in the regulatory framework, timely clearance of state aid issues, respect of public procurement rules, a more comprehensive assets inventory, systematic work in the re-allocation of land uses [specific actions to be discussed].

#### **V. Structural Policies**

##### **Prior actions and other upfront measures**

- Enact legislation to improve wage flexibility. Precise target to be discussed. Combination of instruments to be determined.
- Reduce social security contribution rates by at least [5] percent by reducing non-priority social security spending and by ...*to be defined*
- Pass legislation to further liberalize product and service markets:

- Pass the law ending the transition period for the liberalization of road haulage and publish the ministerial decree establishing the license price of road haulage in line with administrative costs.
- Take further steps to liberalize the main professions (i.e. providing for the freedom of incorporation of law firms and of opening of branches of law firms inside Greece, eliminating the nationality restriction for entering into the notary profession, and eliminating the possibility for the TEE to undertake disciplinary action against engineers agreeing on “unusually low” fees). Further remove restrictions for the lawyer profession, by amending the Code of Lawyers to: (i) eliminate the requirement for the mandatory presence of a lawyer in various transactions where a notary is also required (Art. 42.1) and (ii) eliminate minimum fees for salaried lawyers (Art 92.2 and 92a).
- Pass legislation abolishing restrictions in [20] high value and/or highly restricted professions in line with law 3919/2011 [the list could include: sworn-in valuers; accountants and tax consultants; actuaries; private schools/training centers/tutoring; stevedores; tourist guides; temporary employment companies; brokers; and private providers of primary care services].
- Pass legislation and publish secondary legislation to further improve the business environment.
  - Eliminate the requirement to register in the Export Registry and simplify export legislation
  - Generalize and lower fees for the fast-track investment framework, and amend it to relax the financing requirement for the fast-track investment law
  - Pass legislation eliminating company publication requirements in newspapers for firms with own website and registered in GEMI (end-March) and removing the mandatory registration of companies in Chambers of Commerce.
  - Publish the main secondary legislation required for implementing the business and technical professions and the environmental licensing laws [end-March, to add table specifying each of the key acts]

### **Additions/Modifications to the Program**

#### *Tax wedge and informal labor*

- The authorities should introduce the compulsory use of the Labour Card without any discount on contribution rates.

- The anti-corruption mechanisms and internal audit function of the Labour Inspectorate should be reviewed.

#### *Product and Service Market Reforms*

- All reinstatements of restrictions for professions to be completed by end-March 2012, in consultation with the HCC and EC/ECB/IMF and in line with the principles of necessity, proportionality and public interest
- Specify quarterly timetable for screening and cleaning legislation for restricted professions [in groups of 20] over 2012
- Prepare an action plan to facilitate price flexibility in product markets (especially retail, wholesale and distribution), including elimination of non-reciprocating charges.
- Electricity market reforms (MoU):
  - Develop an action plan to improve the electricity wholesale market and consolidate oil market (MoEE to provide details)
  - Revise the electricity market codes to ensure transparent, non-discriminatory and efficient allocation of capacity on electricity networks.
  - Combine the sale of lignite with hydro plants owned by the incumbent electricity company, to create competition in the generation side of the market.
  - Revise renewable energy support schemes to reduce the impact of those schemes on Greek public finances.

#### *Business environment reforms*

- A timetable to complete, by end-2012, the full implementation of the licensing laws, including finalizing the electronic environmental register
- Complete the introduction of an electronic export window and e-customs (end-2012; authorities to specify intermediate steps, as needed, i.e. tender process, etc.)
- Prepare secondary legislation to ensure compatibility of sectoral land-use plans (e.g., for industry and tourism) with the 12 regional land-use plans.
- Undertake a structured analysis of barriers to business activities in areas such as retail, health and safety rules, urban planning, zoning, energy and tourism.

- Make the Single Public Procurement Authority (SPPA) operational, as well as the e-procurement platform, which should cover all pre-awarding procurement processes. Additional efficiency measures to be included, such as the creation of central purchasing bodies for services and supplies' contracts both at the central and regional level, coordinated by the SPPA and operating through the e-procurement platform.
- Telecommunications policy: speed up the licensing of antennae and base stations as well as on the procedural steps to allocate and authorise of the use of the digital dividend to electronic communications services' providers.

*Judicial reform*

- Pass the law on issues of fair trial and denial of justice by end-March
- Revise the Code of Civil Procedure: The task force to prepare a concept note by [end-June 2012] and finalize a concrete action plan by [end-2012].
- Performance and Accountability Framework for Courts: [*to be developed by legal experts, in consultation with MoJ*]
- Other measures to improve enforcement [*to be developed*]

### Annex I: Pending MTFS Measures

<b>Actions</b>
<b>From the July MTFS</b>
<ul style="list-style-type: none"> <li>• Issue MDs for the implementation of the business tax (Article 36 of Law 3986)</li> <li>• Issue MD to increase the legal value of real estate by 25 percent (retroactively to Jan. 1)</li> </ul>
<b>From the end-October implementation bill</b>
<ul style="list-style-type: none"> <li>• Issue the 4 pending MDs to fully implement the new wage grid (see Annex)</li> <li>• Issue MD to establish deadline for recovery of wage overpayments in the general government since November 1, 2011</li> </ul>
<b>From the November prior actions</b>
<ul style="list-style-type: none"> <li>• Issue the pending MDs on the closure/merger of extra-budgetary funds</li> <li>• Update the positive list mechanism to deliver the 2012 savings target of Euro 250 million</li> </ul>

**Annex 2: Measures to reach the 2012 deficit target (preliminary)**

Pass a supplementary budget that reflects all the changes below with a deficit target of [x] percent of GDP for 2012

Suggestions for several large spending cuts:

- defense spending
- health spending (focus on pharmaceuticals per MoH suggestions)
- entity closures [and employment cuts]

*Specific measures to be defined*