

REFORM, STABILISATION AND RECOVERY AGENDA

March 2015

Government of the Hellenic Republic

Preface: From destabilization to recovery

The Greek economy is in a debt-deflationary crisis that began in 2009.¹ From late 2014 the economy was destabilized even further by a scare campaign, launched in anticipation of the elections on January 25, 2015. Following the election, an atmosphere of tense negotiations, intense financial pressure on the government and adverse media commentary especially regarding a possible “Grexit” have all made matters worse. The result has been ongoing bank deposit outflows, low business investment, reduced consumer spending, and so reduced tax revenues as fearful citizens have hoarded cash.

Nevertheless, it is the view of the Greek government that, so long as the negotiations with the institutions are completed very soon and so long as the short-term cash-flow issues facing the government for this year are fully resolved – so that the atmosphere of crisis and uncertainty recedes – the Greek economy can be stabilized in the months immediately ahead. In that case tax revenues will begin to recover, so that the state’s finances will nevertheless produce a small but significant primary surplus in calendar year 2015.

In this context, Section 1 presents current macroeconomic estimates. Section 2 outlines new fiscal measures to support economic stabilization and economic growth. Section 3 begins to define the long-term plans and programs of the government for renewed economic growth, development and employment in the period after June 30, 2015. A final section presents the government's proposals for structural reforms to support a successful final review of Greece's present loan arrangements with its partners. On this basis, the Greek government seeks a new Contract for Growth and Development with its European and international partners.

Fear is the most powerful enemy of the Greek state and of the Eurozone today. Hope, born of compromise, agreement, solidarity and resolve, is the remedy and the most urgent requirement. For this reason, it is imperative that the on-going negotiations at the Brussels Group, EWG and Eurogroup levels be completed as soon as possible.

1. Macroeconomic framework

Real output is now forecast to grow by 1.4 % in 2015 and 2.9 % for 2016. Both forecasts are lower than those projected by the Budget for 2015 (2.9%) and the

¹ While real GDP stabilized and even grew a little in late 2014, nominal GDP continued to fall. In other words the rise in real GDP registered only because prices fell faster than incomes. This is the meaning of “debt - deflation.”

Program for 2016 (3.7%). The new forecast takes account of lower consumption and investment plans in the first two quarters of 2015 due to continued uncertainty as described above.²

If the crisis is resolved, some recovery in economic activity may occur in the second half of 2015, extending into 2016 as uncertainty subsides. In that case, the main drivers of real growth are expected to be consumption and investment expenditure, especially consumption as deferred purchases occur.

Under the new forecast, unemployment is estimated at 23.4% in 2015, in comparison to 22.6% in the 2015 Budget, and 21.1% for 2016. The Greek government emphasizes that this level of unemployment remains entirely unacceptable from both the social and the economic standpoint. It is the legacy of past policy failures, and it will stand as a continuing obstacle to sustained recovery and especially to a climate of expectations conducive to business investment and growth.

The baseline scenario (see Table 1 below) assumes no policy changes.

Table 1 - Baseline Macroeconomic Assumptions						
	2015 Budget			Updated Projections MoF		
	2014	2015	2016	2014	2015	2016
Real GDP Growth (%)	0.6	2.9	3.7	0.8	1.4	2.9
HICP (%)	-1	0.3	1.1	-1.4	-0.5	0.6
Unemployment	24.8	22.6	19.5	24.5	23.4	21.1

Source: Preliminary projections Ministry of Finance.

Fiscal assessment and projections

The 2014 primary surplus came to 0.3% of GDP, considerably less than the Budget forecast of 1.8% of GDP.

The 2015 Budget (passed by the previous Parliament) projected a primary surplus for 2015 of 3% of GDP.

The new Greek government considers such a primary surplus, especially under the present circumstances, to be both unachievable and undesirable from the perspective of economic recovery and also of fiscal consolidation in the long term. It is unachievable in part due to the uncertainties affecting economic activity both before and after the election. It is undesirable because policy measures ostensibly aimed at achieving it would further depress economic activity and so would prove self-defeating from a fiscal standpoint.

Assuming no policy changes, the new macroeconomic environment is consistent

² The Ministry of Finance real output growth forecast for 2015 is near the median forecast of a wide range of domestic and foreign banks and research institutes.

with a primary surplus in the order of 1.2% of GDP. Again this is on the assumption that negotiations between the Greek authorities and the institutions are completed forthwith, thus resolving present uncertainties and restoring a degree of normality and of hope to the Greek economic scene.

Two policy changes (from the previous Budget) will have a negative net financial impact on 2015. These concern privatizations and the governments decision to maintain minimum pensions at their existing levels. The 2015 Budget forecast 2200 millions of privatization related revenues. This is now reduced to 1500 millions. However, it is important to note that given the statistical treatment given to privatization revenues, this projected reduction has no impact in the primary deficit for 2015. In the case of the pensions, the measures involve the removal of the zero clause for secondary pensions (which applies to pensions below a threshold) plus a 13th pension for pensioners below the poverty line. The fiscal cost of the pensions program amounts to an estimated 1078 million euros.

To strengthen its budget and to offset the fiscal impact of the aforementioned pension measures, the government will pass new tax measures, to generate up to 4679 million euros in new tax revenues. These measures will provide a fiscal buffer in the event that economic conditions do not improve. However under the above economic assumptions, and assuming that the present political and financial uncertainties are speedily resolved, the general government's overall primary balance could easily exceed the present baseline target of 1.2% of GDP in 2015.

Table 2 - Fiscal Projections				
Millions of Euros	2015 Budget		Updated Projections MoF	
	2014	2015	2014	2015
Unit of Government				
State Budget	-631	2700	-2962	481
Local Governments	713	938	503	730
Social Security Funds	1588	-162	1299	-1011
Extra Budgetary Funds	1131	1411	1098	1297
State Owned Enterprises	778	1021	933	917
*Internal transfers adjustments	-278	-313	-278	-313
General Government Primary Balance	3301	5595	593	2101
as % of GDP	1.8	3.0	0.3	1.2

Memo Item (Millions of Euros)

Financial Needs for 2015	21700	19000
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Source: Preliminary projections Ministry of Finance.

Note: It is important to highlight that the shortfall of the 2014 primary surplus by 2709 millions was carried over into 2015, paid for from the general government's liquidity reserves.

2. Fiscal measures to stabilise the 2015 Budget

Table 3 shows an overview of the total financial and fiscal impact of the reform, stabilisation and recovery agenda.

Table 3 - Overview of Financial and Fiscal Impact of Greek Reforms - General Government				
	2015			
	Min		Max	
	(Millions of Euro)	(% of GDP)	(Millions of Euro)	(% of GDP)
Net Revenues	6184	3.5%	7711	4.2%
Net Expenditures	1078	0.6%	1078	0.6%
Net Financial Impact	5106	2.8%	6633	3.7%
Of which:				
Net Fiscal Revenues	4679	2.6%	6101	3.4%
Net Fiscal Expenditures	1078	0.6%	1078	0.6%
Net Fiscal Impact	3601	2.0%	5023	2.8%
Non Fiscal Revenues	1505	0.8%	1610	0.9%

Source: Preliminary projections Ministry of Finance and Technical Group.

Table 4 shows the range of fiscal scenarios associated with the full implementation of the reform agenda.

Table 4 - Fiscal Scenarios for Greek Reforms	
Scenario 1 - Primary Balance GG for 2015	% of GDP
Baseline Scenario	1.2
Min. Fiscal Impact of Reform Program	2.0
Primary Balance	3.2
Scenario 2 - Primary Balance GG for 2015	% of GDP
Baseline Scenario	1.2
Max. Fiscal Impact of Reform Program	2.8
Primary Balance	4.0
Memo Item - Primary Balance Target Final Review	3.0

Source: Preliminary projections Ministry of Finance and Technical Group.

Table 5 describes the list of policy measures with an expected positive fiscal impact for 2015.

Table 5 - Policy Measures with Net Fiscal Revenue Impact (Millions of Euros)			
Reform Area	Policy Actions	2015	
		Min	Max
Taxation	Intensification of audits on lists of bank transfers and offshore entities	725	875
	Combating illegal trade on oil, tobacco and alcohol	250	400
	Enforcement transfer pricing legislation	40	60
	Introduction of a VAT lottery scheme	270	600
	Fight against VAT fraud	350	420
	Improvement of state revenue collection mechanism	225	235
	Instalment scheme	300	400
	Initiatives to increase revenues	414	450
	Implementation of TV advertisement tax	50	70
	Luxury tax	20	20
	Streamling income tax code	300	400
	Tax evasion by independent business professionals	20	30
	Incentives for tax payments based on audits	100	200
	Administrative dispute settlement on property taxation	50	70
Other Tax Public Revenue Mobilization	E-gaming	125	175
	Public tender/auctions for TV licences	350	380
Public Finance Management	Public Procurement	180	180
	Introduce electronic payments to address shadow economy	200	266
Public Administration	Enhancing compliance with EU legislation	200	210
Social Security Reform	Improved regulation settlement for debts	300	300
	Utilization of remaining assets of social security	50	50
	Reinforcement public control mechanism	150	300
	Merging social security institutions	10	10
Total Revenues		4679	6101

Source: Preliminar projections Ministry of Finance and Technical Group.

Table 6 aggregates the measures with an expected negative fiscal impact.

Table 6 - Policy Measures with Net Fiscal Expenditure Impact (Millions of Euros)		
Reform Area	Policy Actions	2015
Social Security Reform	Postponement zero deficit clause	326
	Replacement of one-off formula	70
	Conservation of conditions for EKAS	82
	Partial reintroduction of 13th pension to low pensions	600
Total Expenditures		1078

Source: Preliminar projections Ministry of Finance and Technical Group.

Table 7 and 8 aggregate those measures that do not affect the primary surplus, but have a positive financial effect for other reasons.

Table 7 -Policy Measures with Public Revenue Impact - Off Budget (Millions of Euro)		
Reform Area	Policy Actions	2015
Non Tax Public Revenue Mobilization	Cultural Herigate	5

Table 8 - Policy Measures - Non Fiscal Transaction (Millions of Euro)			
Reform Area	Policy Actions	2015	
		Min	Max
Privatization	Privatization	1500	1600

Source: Preliminar projections Ministry of Finance and Technical Group.

3. Eight Bills-Actions-Structural Reforms to be introduced shortly

1. ENHANCED-AUTONOMY & ACCOUNTABILITY OF GSPR

Action, by legislation if necessary, to strengthen the autonomy of the General Secretariat of Public Revenues (GSPR) within the Finance Ministry, and to protect the GSPR from political and other interference while guaranteeing full accountability and transparency of its operations.

2. LEGAL IMPEDIMENTS TO EARLY RETIREMENTS

While maintaining the lowest pensions, the government will act to tighten the rules regarding early retirements, which undermine the system's sustainability.

3. INCOME TAX REFORM

Legislation has already been prepared to modernize the income tax code and to eliminate income tax exemptions, replacing them, when necessary, with measures that enhance social justice.

4. ARREARS CLEARANCE

The government will legislate a system of multilateral cancellations of arrears from the state to taxpayers and vice versa. For instance, if the state is in arrears vis-à-vis Company A, while Company A owes monies to taxpayer B and taxpayer B is in arrears to the state, the Law will enable for a mutual cancellation of arrears during the time it would have taken from the state's arrears to be cleared.

5. ORGANIC BUDGET LAW

The government will amend the Organic Budget Law and take other steps to improve public financial management. Budget implementation will be improved and clarified as will control and reporting responsibilities. Payment procedures will be modernized and accelerated, while providing a higher degree of financial and budgetary flexibility and accountability for independent and/or regulatory entities.

6. OUT OF COURT SETTLEMENT MECHANISM – NPLs, ARREARS

The government will legislate to create efficient out-of-court settlement mechanisms, to speed the clearance of arrears to the state and NPLs to the financial sector. Presently delays in the courts encourage strategic defaults and give rise to moral hazard as well as to adverse selection problems.

7. JUDICIAL REFORMS

The government will improve the organization of courts through greater

specialization and, in this context, adopt a new Code of Civil Procedure – in collaboration with lawyers’ associations and in a manner that is sensitive to the effect on foreclosures as well as on the rights of defendants and witnesses. The new Law will also promote the digitization of legal codes and the electronic submission system, and governance, of the judicial system.

8. ENHANCED CREDIBILITY/INDEPENDENCE OF HELLENIC STATISTICAL OFFICE - ELSTAT

The government will honour fully the Commitment on Confidence in Statistics, and in particular the institutional independence of ELSTAT, ensuring that ELSTAT has the necessary resources to implement its work programme. The new Law will guarantee the transparency and propriety of the process of appointment of the ELSTAT President, in cooperation with EUROSTAT and in a manner that puts her/his propriety and reputation beyond reproach.

4. Toward A New Economic and Development Model for Greece

In this section we begin the task of setting forth a strategic framework for Greece and its European partners to guide negotiations for a new contract between them, for the period following the termination of the present programme in June 2015.

1. A PLAN THAT DID NOT WORK

The previous programm⁴ turned on the goal of generating renewed competitiveness and export-led growth through the process of internal devaluation. This process included a reduction of labour costs, deregulation of the labour market including the end of collective bargaining, privatization of public enterprises, business deregulation, privatization and long term leasing of public land, the creation of a 'favorable' environment for private investment, and greater competition that was meant to push export prices down. In turn, increased exports were expected to provide a flow of incomes to the Greek economy, facilitating economic growth and employment.

The larger economic consequences of this strategy are well-known. Greece has suffered six years of recession, a decline in real GDP of over twenty- five percent, an unemployment rate over twenty percent, declines in the quality of core public services, a rise in poverty, homelessness and suicides, and a social and humanitarian crisis. But the core fact is that the strategy failed to produce export growth. And while there was a marked "improvement" in net exports, this was based entirely on a decline of imports in line with the fall of incomes and internal demand.

2. WHY DID INTERNAL DEVALUATION FAIL TO PRODUCE EXPORT GROWTH?

Why did the export-led growth strategy fail?

A number of important explanations are connected to the nature of the crisis itself. Among these are financial constraints, especially a breakdown in credit, which deprived even profitable exporters with the resources required to pay for imported inputs, insurance, and other critical requirements for successful export trade. Further, state subsidies to exporters have been removed, and VAT returns delayed, depriving exporters of needed liquidity. Deprived of resources, exporters have been unable to improve labour productivity or to renew or expand their capital equipment. And as competition declined due to bankruptcies, concentration ratios increased, and firms turned to price discrimination methods, in particular charging higher prices domestically than abroad. But this reduced their incentives to export especially in cases where a secondary market was possible; in that case, third parties buying the same Greek product abroad and re-selling it in Greece.

These explanations help to explain why a policy of internal devaluation does not

⁴ See Greece: Growth Strategy 2021, Medium Term Fiscal Strategy Programme 2015-2018, New Strategic Reference Framework 2014-2020.

produce a return to export competitiveness in a relatively weak economy (such as Greece), attempting to sell to advanced economies (such as those in the Eurozone). The fact is, labor costs are not decisive when working and investment capital are unavailable and when (therefore) technical improvements are impossible. Further, deterioration in infrastructure and in the social institutions and prospects for social stability that support the workers and managers in exporting industries discourage private location/investment decisions both for foreign and national firms. Measures that might have been tolerated in wealthier and societies with better developed public health, education and safety-net provisions stressed Greek institutions and society to the breaking point.

Further, the Greek crisis did not occur in a vacuum. It occurred in the wake of massive unit-labor-cost reductions and technological improvements in the advanced industries of Greece's major trading partners, especially Germany, which have produced large and growing trade surpluses for Germany ever since the creation of the Eurozone in 1999. These advantages have had the effect of obliterating the prospects for Greek industrial competitiveness irrespective of policies that might have been pursued (but were not) before 2009 by the Greek state. Greece in the wake of the crisis is therefore left heavily dependent on agriculture, with limited price elasticity of demand, on shipping, which depends heavily on the volume of world trade, and on tourism, which depends most on the income levels in Greece's European partners, as on uncontrollable conditions elsewhere in the Mediterranean basin. None of these sectors are susceptible to improvement through internal devaluation.

Internal devaluation therefore did not merely fail. It was actively counter-productive in the Greek case.

3. OUR AIM: A NEW DEVELOPMENT MODEL FOR GREECE

Greece is a small country with just two percent of the economic weight of the European Union. In the wake of the crisis, especially, it has limited industrial and technological capacity in comparison to its European partners. It has, on the other hand, numerous infeasible assets, including a hardworking population, a Mediterranean climate and agriculture, a strategic location for shipping, a vast classical heritage and limitless potential for tourism and for human services such as education, health care and services to the retired. Greece has also preserved a foundation of its economy in small and medium enterprises and in the conservation of its natural beauty and environment. It is on this basis that we seek to construct a new economic and development model for Greece, one that can engage the energies and provide effective livelihoods for the Greek people.

To achieve this new development model, the Greek Government requires the long-term assistance of and investments by its European partners, in frank recognition on one side that the previous policies did not succeed – and that the debts incurred in the effort are a barrier to future progress – and on the other hand that purposeful and successful development requires a modern, efficient, professional and

parsimonious state. Internal reform and external support must therefore proceed together from this point forward.

The broad strategy going forward must start from the proposition that Greece has a specialized future in the European Union. It can be a center for growth in certain specific productive sectors, to which it is already well-suited, including pharmaceuticals, agro-alimentary products, solar and wind energy, eco-construction and eco-innovation, cultural activities such as film-making, and tourism. It can be a center for investment in preservation and study of Europe's classical heritage, and therefore of education in this area especially. In these areas, the potential is already present, and the government proposes to develop measures that will foster participation by the private sector, including infrastructure investments, support for back-office operations, and some relief from pension contributions and investment taxation for start-ups and new initiatives.

Looking further down the road, the government considers that the Greek future lies in part in providing specialized human services to an integrated Europe. These include especially services for an increasingly mobile elderly population on a sustained basis, such as caring and assisted-living communities. It may include the development of health care facilities to cater to all of Europe and the Mediterranean basin. It may include the development of new facilities for integrated European higher education facilities, taking advantage of the cultural heritage, climate and natural settings unique to Greece. On this basis, primarily, Greece proposes to deepen its integration with Europe and to do so as a full partner in a larger project of European development and common prosperity, aiming especially at high employment for the Greek people on Greek soil.

At the macroeconomic and financial level, realization of this goal will require clearing away the financial as well as the physical debris of the past developmental failures.

On the financial side, it will be necessary first to create a "bad bank," financed by HFSF residual capital, to cleanse non-performing loans from existing banks. It will be necessary to agree to a debt swap program, based on (nominal) GDP (or tax-revenue) indexed bonds, which will create confidence in the private sector that Greece's debt repayments are manageable in the future, so that investors will recognize Europe's direct stake in Greece's stabilization, recovery and development along new, viable and sustainable lines.

On the physical side, it will be necessary to create a new development bank and to develop public assets to be used as collateral in the new bank which, thus, may act as a conduit between the European Investment Bank and Greece's private sector. It will be necessary to develop and agree to a large scale investment plan for Greece with the EIB, the EIF and the EBRD, both to redevelop areas blighted by the economic collapse of recent years and to support new initiatives along agreed lines. It will be necessary, finally, for governments of Greece's partner countries to make allowances in their own development plans and social policies for the greater

integration of Greek development into their own models, and to share human, physical and technological capital required to help the new Greek model succeed.

5. Completing the Loan Agreement's (MFAFA) Final Review

The completion of the Final Review is a first step in fulfilling this vision for the future. In this section, the institutions' assessment of the Greek Programme's residual fifteen measures is presented (in blue). The Greek government's response can be found below each of these fifteen passages. The colour red signifies areas of difference, the colour green signifies agreement and, finally, the government's counter-proposals appear in light blue.

Budget and fiscal sustainability

Budget. The authorities committed unconditionally to deliver the primary surplus targets of 3% of GDP in 2015 and 4.5% of GDP in 2016. They have adopted the 2015 budget and have proposed to take certain measures to achieve the 2015 target (e.g., increasing the VAT rate for hotels from 6.5% to 13%; reducing or abolishing general government non-wage benefits; and lowering spending ceilings). However, the EC-ECB-IMF project a sizeable gap, and discussions are ongoing on measures to close it, including legislating now measures that have been proposed by the authorities on a contingent basis.

The 20th February Eurogroup agreement has altered the primary surplus targets. It has replaced them with the following: A primary surplus for 2015 consistent with the prevailing economic conditions (see Section 1) and 'appropriate' primary surpluses for 2016 and for the future. Sections 1&2 have already explained the Greek government's position regarding 2015. For subsequent years, the Greek government is proposing that a new Debt Sustainability Analysis is carried out for the purpose of identifying appropriate' surpluses in the context of: (a) designing an appropriate investment program (EIB), (b) addressing the Non-Performing Loans issue through the creation of a Bad Bank (using the HFSF buffer), and (c) restructuring debt through a menu of smart swaps that include nominal GDP-indexed bonds (the latter signalling to investors the world over a new form of incentive compatibility between Greece and its creditors).

Installment schemes. Discussions are ongoing on needed modifications of recently enacted schemes for the payment of tax and social security debt to align them with programme commitments, preserve the payment culture, and reduce fiscal costs. These relate for instance to eligibility criteria identifying debtors' capacity to pay, strengthening enforcement, and improving incentives for early payment. The authorities have committed to fully staff the tax investigation and large debtor units, and to amend the processes for dealing with uncollectable tax debts where significant changes from old practices and procedures are needed.

A Law that improves upon an existing instalment scheme (voted in by the previous government) has already been passed into law. The said Law was passed without prior approval by the Brussels Group because of pressing time constraints, namely the April tax return deadline. The new Bill represent a major improvement over the existing Law as it offers significant incentives to frontload repayments - with

discounts on premia that support a strong payment culture through rewards linked to the taxpayer's payment history and the amount paid immediately. Regarding the long-term resolution of the adverse selection and moral hazard issues, the government is committed to establishing extra-judicial procedures that will end unacceptable delays in resolving disputes and, thus, help isolate the strategic defaulters from taxpayers in genuine distress.

Revenue administration. Long-standing programme objectives are to strengthen significantly the autonomy of and modernize the tax administration. There is agreement in principle to adopt policies in this review for establishing a revenue administration agency, with appropriate autonomy from the Ministry of Finance, governed by a management board that develops and approves the human resource strategy and budget of the agency, and having a new funding formula that allows budget flexibility. As per the authorities' action plan, discussions on draft legislation will take place with the aim to adopt the legislation, to the extent possible, by end-2014.

We pledge to strengthen the independence of the General Secretariat of Public Revenue – see Section 3, Measure 1. However, the government will not implement the so-called payroll 'rationalization' of GSPR and, more generally, of public sector employees (that the previous government had agreed upon) since that would diminish sharply the already uncompetitive salaries of specialized tax collectors.

Pension reform. The programme commitment entails consolidating pension funds, containing spending, and establishing close links between contributions and benefits in all funds. The authorities committed to adopt legislation taking certain administrative (e.g., unification of social security funds) and policy (e.g., gradual elimination of early retirement privileges) actions with effect in the medium to long term. Discussions are ongoing on the scale and scope of the reforms needed to meet the programme commitments.

During the four-month extension period agreed by the Eurogroup on 20th February 2015, and a time of great economic distress for pensioners on low pensions, the government will refrain from reducing pensions (i.e. it will alter the zero rating clause passed by the previous government. The fiscal impact of this alteration have been fully budgeted for, as is evident in Section 2. The government will, however, implement legislation limiting severely early retirements – see Section 3, Measure 2 – and will take measures to eliminate pension and social security system fraud. In the longer term, the government considers that the pension system is unsustainable and should be strengthened in three ways: (A) Employment growth (reducing unemployment); (B) Reduction of the use of the pension system as a substitute for adequate social welfare structures (e.g. today only 9% of the unemployed receive any unemployment benefit, so there is considerable pressure that unemployed people in their late 50s are offered early retirement) (C) The government's new privatisation policy (see below) envisages the retention of a stake for the state, the purpose being to secure an income stream that will be used

to fund, at least partially, the pension funds which were haircut deeply at the 2012 PSI.

VAT reform. The programme commitment is to legislate a comprehensive reform of VAT policy and administration. The authorities committed to legislate in the context of this review an increase of the VAT rate on hotels in 2015 from 6.5% to 13% and to take administrative measures to increase compliance and enforcement. Discussions continue on needed reforms to narrow the VAT gap and simplify the VAT rate structure.

The Greek government does not plan to increase VAT before 30th June in the tourism sector at a time when tourism offers an important source of aggregate demand growth for the whole country. Similarly with VAT rates on food, medicine, books etc. However, the government will improve VAT administration way especially in terms of compliance and implementation. The objective is to strengthen the payment culture and to remove unfair competition obstacles favouring VAT fraudsters. During 2015 the government will implement systems such as Croatia Smart SIM-card-based POS system that connects cash registers with the Ministry of Finance in real time. The government will also introduce a Portuguese-style VAT lottery, and will implement the Belgian method of addressing the problem with missing-link/carousel fraudulent practices.

Income tax reform. The authorities have made significant progress in finalizing the ongoing modernization of the income tax system and tax procedures—in particular, on quantifying and assessing current tax incentives, preparing legislation to integrate into the income tax code the taxation of collective investment vehicles and business income tax expenditures, and broadening the definition of tax fraud and evasion.

The Greek government agrees and will proceed in this direction – see Section 3, Measure 3.

Public administration reform. Programme commitments include legislating reforms of the public sector wage grid in a fiscally neutral manner and aligning non-wage benefits with good practices in other countries. Progress is being made and the authorities committed to legislate by end-2014 the key principles of a fiscally neutral public sector wage grid reform for implementation by January 2016, conduct a pilot of the new wage grid in the Ministry of Finance, and adopt legislation to rationalize non-wage benefits (including the reform of generous leaves).

The Government will streamline the payroll of the public sector and will examine the role of non-wage benefits, considering the staffing needs of public services and wage justice. However the government does not consent to the rapid reduction of wages (of 70,000) of qualified personnel (e.g., tax inspectors) by removing the allowance that they were given in lieu of a very large loss of salary during the 2012 fiscal consolidation.

Arrears clearance. The authorities have expressed their willingness to discuss ways to catch up on targets on arrears clearance, and on the clearance of the outstanding stock of tax refund and pension claims.

The government is in agreement. See Section 3, Measure 4.

Organic Budget Law. The authorities agreed to amend the budget legislation framework inter alia to clarify budget implementation, control and reporting responsibilities; modernize payment procedures; and enhance debt and cash management.

The government is in agreement. See Section 3, Measure 5. In addition the government will unify the Parliamentary Budget Office with the hitherto dormant Fiscal Council. KEPE (Government Centre for Economic Research) will be encouraged to collaborate with the newly enhanced Fiscal and assume an advisory and research role. The result, it is hoped, will be a fully impartial, independent Fiscal Council that will offer the public and the government independent reports on the execution and design of the Budget.

Insolvency reform. The authorities enacted a new out-of-court debt resolution mechanism; this mechanism needs to be amended to make it consistent with the needed reforms of the installment schemes. The authorities also committed—and the details need to be discussed and agreed—to making interim changes to the insolvency regime by amending the household and corporate insolvency laws and to establishing a professional body of insolvency administrators. Looking forward, the authorities have committed to a more permanent and comprehensive overhaul the insolvency framework, by end-2015, including introducing specialized insolvency courts.

The government is in agreement. See Section 3, Measure 6.

Judicial reform. The authorities have committed to adopt as agreed a major reform of the code of civil procedures.

The government is in agreement. See Section 3, Measure 7.

Labour market reforms. Programme commitments were to legislate reforms of the collective dismissal framework, if there is doubt about whether the existing system replicates best practice in an effective, credible and durable way, as well as to legislate the necessary reforms of the industrial action framework. Discussions are ongoing about the efficacy of the current collective dismissal framework. The authorities committed to putting disputes on wage payments during industrial actions under a fast-track judicial process rather than to amend the legislation. They proposed to amend the legislation on trade union activities inter alia to modernize the processes related to deciding and notifying strikes and streamline the benefits of trade unionists. They also committed to eliminate some excessive restrictions in the labour market. All these proposals are under discussion.

This is an area of some disagreement between the Greek government and the institutions. For the Greek government the central problem of the Greek labour market is the large number of unregistered and uninsured workers. This phenomenon exacerbates the crisis and reflects, in part, the over-reliance of the economy on a large number of businesses. According Labour Inspectorate data, pertaining to 2012, the undeclared work accounted for 30% of employees and an even larger portion of all paid work performed. The government considers that a further deregulation of labour markets, the absence of collective bargaining agreements, and the further liberalisation of firings (which already take place en masse) contribute to, rather than help with, the structural problems of the country's labour market. The government counter-proposes measures aimed at normalising the labour market; a series of reforms that will be developed in cooperation with the OECD and the ILO along the lines of best practice

Product market reforms. Programme commitments span licensing reform, administrative burdens, OECD competition assessments, nuisance charges, restricted professions, and energy reforms. While the authorities have progressed in some areas (e.g., adopting legislation to remove licensing requirements on low-risk activities, and reducing administrative burdens), discussions are pending in others (e.g., OECD competition assessments, nuisance charges that finance pensions, and restricted professions). The authorities have stated their commitments in the context of this review to deliver legislative reforms to liberalize the gas market, binding offers for privatizing ADMIE, and reforms of the capacity payments system.

We agree with most measures aimed at increasing competition and dealing with oligopolistic and rent seeking practices. Moreover we propose a series of additional measures (e.g. change of the legal framework for the preparation of invoices so end sellers are forced to include all discounts impose on suppliers invoices). The government is currently preparing new legislative and administrative measures in cooperation with the OECD in the direction of:

- Further strengthening the resources of the Competition Commission
- Reviewing and eliminating para-fiscal 'nuisance taxes'.
- Assessment of competitive barriers in major infrastructure sectors (e.g. transport and telecommunications).
- Promotion of competition in sectors with growth potential
- Review of legislation which may hinder entrepreneurial activity in sectors with new business models such as, e-commerce and the 'new economy' start-ups

Finally the government disagrees with the previous government's commitments regarding the regulation of the market for natural gas. The government will respond in due course with its counter-proposals.

Privatization. To catch up on delays and shortfalls, the authorities have committed in the context of this review to finalize two port concession agreements; seek binding bids for railways; transfer telecommunication company shares to the privatization agency for sale; ensure fully operational port and airport regulators; and complete all pending government actions in this area.

The government is committed to making optimal use of public assets. In this context, HRADF (TAIPED) will be upgraded and other public asset management companies have been merged (with considerable savings) with a view of a possible merger with HRADF itself. The tender process that is in progress will be immediately restarted for the Port of Piraeus Authority, regional airports, ODIE etc. However, the government is eager to avoid the pitfalls of previous privatisations that failed in the courts (e.g. Asteras, EYDAP) because of shoddy tender and contract design by the previous management of HRADF. Additionally, the government disagrees with the previous government's 'firesales' at a time of rock bottom asset prices. The new government's approach is to seek, through mutually beneficial agreements, terms and conditions that: (a) maintain a sizeable stake for the state (see above the point about financing, partly, pension funds through dividends), (b) secure a minimum level of investment from investors, (c) guarantee basic rights to the labour force, (d) secure the investors' property rights and their 'emancipation' from overbearing regulation, and (e) help develop local economies.

Statistics. The authorities have committed to implement the necessary measures to fully honour the Commitment on Confidence in Statistics. The authorities will also extend the term of the Good Practice Advisory Committee for at least another two years.

The government is in agreement. See Section 3, Measure 8. However, the government has reservations regarding the current membership of the 'Advisory Committee of Good Practice' and its capacity to guarantee these "good practices".

EPILOGUE

The current negotiation between the Greek authorities and the institutions is an opportunity to arrest the nation's Great Depression, to stabilize Greek finances, to re-start economic activity, and to lay the basis for an agreement for a new economic and development model for Greece, in partnership with Europe. The Greek government is eager to implement the 20th February Eurogroup agreement and to complete successfully the final review of the current arrangement, moving swiftly into a successful negotiation for the post-June 2015 period. In this way, Greece seeks to turn a corner in its relationship with Europe, and to forge a new path with the prospect for long-standing success.