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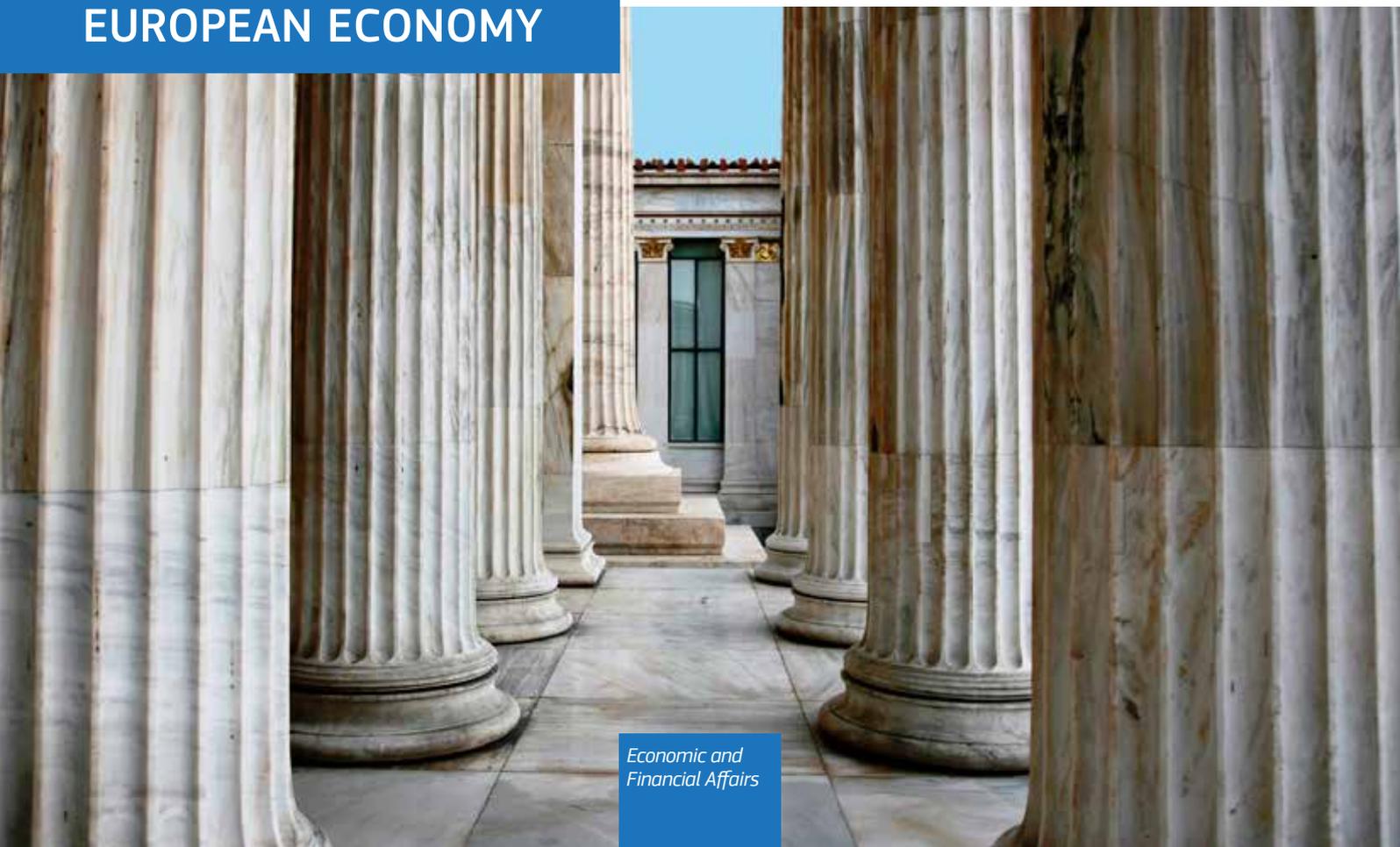
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Enhanced Surveillance Report

Greece, June 2019

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Enhanced Surveillance Report – Greece, June 2019

Communication from the Commission
and accompanying Commission Staff Working Document

ABBREVIATIONS

ADEDY: Ανώτατη Διοίκηση Ενώσεων Δημοσίων Υπαλλήλων (Civil Servants' Confederation)
ADMIE: Ανεξάρτητος Διαχειριστής Μεταφοράς Ηλεκτρικής Ενέργειας (Greek Electricity Transmission System Operator)
AEDIK: Corinth Canal S.A.
AEO: Authorised Economic Operator
AFCOS: anti-fraud coordination service
AFEK: Ατομικό Φύλλο Εκκαθάρισης (personal clearance certificate)
AIA: Athens International Airport
AMC: Asset Management Company
ANFA: Agreement on Net Financial Assets
APS: Asset Protection Scheme
ASEP: Ανώτατο Συμβούλιο Επιλογής Προσωπικού (Supreme Council for Civil Personnel Selection)
BoD: Board of Directors
BoG: Bank of Greece
CBD: Consolidated Banking DataCCM: Central Committee of Mediation
CCP: Code of Civil Procedure
CDLF (ΤΠΔ): Ταμείο Παρακαταθηκών και Δανείων (Consignment Deposits and Loans Fund)
CEO: Chief Executive Officer
CET1: Common Equity Tier 1
CF: Cohesion Fund
CIT: corporate income tax
CO2: carbon dioxide
CoCo: contingent convertible bond
CoEx: Committee of Experts
CoS: Council of State
DAPEEP: Διαχειριστής Ανανεώσιμων Πηγών Ενέργειας & Εγγυήσεων Προέλευσης (RES Market Operator)
DEPA: Δημόσια Επιχείρηση Αερίου (Public Gas Corporation of Greece)
DESFA: Διαχειριστής Εθνικού Συστήματος Φυσικού Αερίου (Natural Gas Transmission System Operator)
DSA: debt sustainability analysis
DTAs: deferred tax assets
DTCs: deferred tax credits
EBA: European Banking Authority
EBF: Extra Budgetary Funds
EBRD: European Bank for Reconstruction and Development
ECB: European Central Bank
EDA Attiki: Εταιρεία Διανομής Αερίου Αττικής (Natural Gas Distribution Company of Attica)
EDP: excessive deficit procedure
EFKA: Ενιαίος Φορέας Κοινωνικής Ασφάλισης (Unified Social Security Fund)
EFSF: European Financial Stability Facility
EIB: European Investment Bank
EKAPY: Εθνική Κεντρική Αρχή Προμηθειών Υγείας (National Central Authority of Health Procurements)
EKAS: Επίδομα Κοινωνικής Αλληλεγγύης Συνταξιούχων (pensioners' social solidarity grant)
ELA: emergency liquidity assistance
ELSTAT: Ελληνική Στατιστική Αρχή (Hellenic Statistical Authority)
ELTA: Ελληνικά Ταχυδρομεία (Hellenic Post)
EMFF: European Maritime and Fisheries Fund
EMU: Economic and Monetary Union
ENFIA: Ενιαίος Φόρος Ιδιοκτησίας Ακινήτων (unified property tax)
EOPYY: Εθνικός Οργανισμός Υπηρεσιών Υγείας (national health insurance body)
EPA Attiki: Εταιρεία Παροχής Αερίου Αττικής (Natural Gas Supply Company of Attica)
ERDF: European Regional Development Fund

ERGANI: database of registered employment contracts
 ESA: European System of Accounts
 ESKAEN: Εθνικό Συμβούλιο για την Κωδικοποίηση και την Αναμόρφωση της Ελληνικής Νομοθεσίας (National Council for the Codification of Legislation)
 ESM: European Stability Mechanism
 ETAA: Ενιαίο Ταμείο Ανεξαρτήτων Απασχολούμενων (Independent professionals Social Security Fund)
 ETAD: Εταιρεία Ακινήτων Δημοσίου ΑΕ (Public Properties Company)
 ETEAEP: Ενιαίο Ταμείο Επικουρικής Ασφάλισης & Εφάπαξ Παροχών (Single Social Security Fund for Supplementary and Lump Sum Benefits)
 ETMEAR: Ειδικό Τέλος Μείωσης Εκπομπών Αερίων Ρύπων (Special Duty for Reduction of Gas Emissions)
 ETS: emissions trading scheme
 EU: European Union
 EYATH A.E.: Εταιρεία Ύδρευσης και Αποχέτευσης Θεσσαλονίκης Α.Ε. (Thessaloniki Water Supply and Sewerage Company S.A.)
 EYDAP A.E.: Εταιρεία Ύδρευσης και Αποχέτευσης Πρωτεύουσας Α.Ε. (the Athens Water Supply and Sewerage Company S.A.)
 FDI: foreign direct investment
 FEK: Φύλλο Εφημερίδος της Κυβερνήσεως (Government Gazette Issue)
 GACS: Guarantee on Securitization of Bank Non Performing Loans
 GAIAOSE: SOE active in the fields of railway property and rolling stock exploitation, management and development
 GAO: General Accounting Office (part of Ministry of Finance)
 GDP: gross domestic product
 GFN: gross financing needs
 GGE: general government entities
 GLF: Greek Loan Facility
 GSAC: General Secretariat for Anti-corruption
 GSCO: General Secretariat for Coordination
 GSIS: General Secretariat of Information Systems
 HBA: Hellenic Banking Association
 HCA: Hellenic Court of Auditors
 HCAP: Hellenic Corporation of Assets and Participations
 HELPE: Hellenic Petroleum
 HFED: Hellenic Fund for Entrepreneurship and Development
 HFSF: Hellenic Financial Stability Fund
 HICP: harmonised index of consumer prices
 HR: human resources
 IAPR: Independent Authority for Public Revenue
 ICT: information and communication technologies
 IDIKA: Ηλεκτρονική Διακυβέρνηση Κοινωνικής Ασφάλισης Α.Ε. (Government Center for Social Security Services)
 ILIMS: Ολοκληρωμένο Πληροφοριακό Σύστημα Άσκησης Δραστηριοτήτων και Ελέγχων (Integrated Licensing and Inspections Management System)
 IMD: International Institute for Management Development
 IMF: International Monetary Fund
 JMD: Joint Ministerial Decision
 ΚΕΑΟ: Κέντρο Είσπραξης Ασφαλιστικών Οφειλών (Centre for the Collection of Social Security Debt)
 ΚΕΚ: Κεντρική Επιτροπή Κωδικοποίησης (Central Codification Committee)
 ΚΕΡΑ: Κέντρο Πιστοποίησης Αναπηρίας (Disability certification centre)
 ΚΕΡΕ: Κέντρο Προγραμματισμού και Οικονομικών Ερευνών (Centre of Planning and Economic Research)
 KPI: Key Performance Indicator
 KYSOIP: Governmental Council for Economic Policy
 LCR: liquidity coverage ratio

LFS: labour force survey
 MAR: Ministry of Administrative Reform
 MFI: Monetary Financial Institution
 MoJ: Ministry of Justice, Transparency and Human Rights
 MoF: Ministry of Finance
 MREL: minimum requirement for own funds and eligible liabilities
 MSS: motor service stations
 MTFS: Medium-Term Fiscal Strategy
 MTO: medium-term budgetary objective
 MW: megawatt
 MWh: megawatt hour
 NACAP: National Anti-corruption Action Plan
 NED: Non-Executive Directors
 NFC: non-financial corporation
 NOME: Nouvelle Organisation du Marché de l'Electricité (electricity auction)
 NPE: non-performing exposure
 NPL: non-performing loan
 NSJ: National School of Judges
 NSRF: National Strategic Reference Framework
 OAEΕ: Οργανισμός Ασφαλίσεων Ελεύθερων Επαγγελματιών (Self-employed Social Security Fund)
 OAKA: Ολυμπιακό Αθλητικό Κέντρο Αθήνας «Σπύρος Λούης (Olympic Athletic Centre of Athens)
 OASA: Οργανισμός Αστικών Συγκοινωνιών Αθηνών (Athens' public transport company)
 OASTH: Οργανισμός Αστικών Συγκοινωνιών Θεσσαλονίκης (Thessaloniki's public transport company)
 OBL: organic budget law
 OCC: Operational Coordination Centre
 OCW: out-of-court workout mechanism
 OECD: Organisation for Economic Co-operation and Development
 OGA: Οργανισμός Γεωργικών Ασφαλίσεων (Agricultural Insurance Organization)
 OPEKA: Οργανισμός Προνοιακών Επιδομάτων και Κοινωνικής Αλληλεγγύης (Organization of Welfare Benefits and Social Solidarity)
 OPS-SEPE: Ολοκληρωμένο Πληροφοριακό Σύστημα - Σώμα Επιθεώρησης Εργασίας (Integrated Information System - Labor Inspectorate)
 OSDDY/PP: Ολοκληρωμένο Σύστημα Διαχείρισης Δικαστικών Υποθέσεων / Πολιτικών και Ποινικών (Integrated Management System for Judicial Cases / Civil and Penal)
 OTC: over-the-counter
 PCI: European Project of Common Interest
 PCR: price coupling of regions
 PDMA: Public Debt Management Agency
 PFM: public financial management
 PIB: public investment budget
 PIT: personal income tax
 PPC: Public Power Corporation
 PRP: Primary Residence Protection
 PSO: public service obligation
 RAE: Ρυθμιστική Αρχή Ενέργειας (Regulatory Agency for Energy)
 RAEM: Ρυθμιστική Αρχή Επιβατικών Μεταφορών (Regulatory Authority for Passenger Transport)
 RES: renewable energy source
 RFA: Relationship Framework Agreement
 ROSCO: Rolling-Stock Maintenance Company
 SME: small and medium-sized enterprise
 SMP: Securities Markets Programme
 SOE: State-owned enterprise
 SPA: Single Payment Authority
 SPV: special purpose vehicle
 SRSS: Structural Reform Support Service

SRSP: Structural Reform Support Programme
SSI: social solidarity income
SSM: Single Supervisory Mechanism
SSW: Special Secretariat for Water
SUP: Special Urban Planning
TAIPED: Ταμείο Αξιοποίησης Ιδιωτικής Περιουσίας του Δημοσίου ΑΕ (Hellenic Republic Asset Development Fund)
TEI: Τεχνολογικό Εκπαιδευτικό Ίδρυμα (technical education institutions)
TEN-E Regulation: Trans-European Networks-Energy
TITLOS: swap proceeds securitised in the form of a structured finance vehicle
TLA: Tunnel Licencing Authority
TOMY: Τοπική Μονάδα Υγείας (Primary Health Care Unit)
TSA: Treasury Single Account
UCoA: Unified Chart of Accounts
VAT: value added tax
WWF: World Wide Fund for Nature

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Communication from the Commission



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COMMUNICATION FROM THE COMMISSION

Enhanced Surveillance update – Greece, June 2019

{SWD(2019) 540 final}

BACKGROUND

Economic developments and policies in Greece are monitored under the European Semester for economic policy co-ordination and under the enhanced surveillance framework according to Regulation (EU) No 472/2013 ⁽¹⁾. The activation of enhanced surveillance for Greece ⁽²⁾ acknowledges the fact that over the medium term, Greece needs to continue adopting measures to address the sources or potential sources of economic and financial difficulties, while implementing structural reforms to support robust and sustainable economic growth.

Enhanced surveillance provides a comprehensive framework for monitoring economic developments and the pursuit of policies needed to ensure a sustainable economic recovery. It provides for a regular assessment of recent economic and financial developments in Greece, as well as for monitoring sovereign financing conditions and updates of the debt sustainability analysis. Enhanced surveillance also provides the basis for assessing the general commitment given by Greece to the Eurogroup of 22 June 2018 to continue and complete reforms adopted under the European Stability Mechanism (ESM) programme and to ensure that the objectives of the important reforms adopted under the financial assistance programmes are safeguarded. Greece reiterated these commitments in the Eurogroup statement of 5 April 2019 ⁽³⁾. In that context, enhanced surveillance provides the basis for monitoring the implementation of specific commitments to complete key structural reforms started under the programme in six key areas by agreed deadlines up to mid-2022, namely: (i) fiscal and fiscal-structural policies, (ii) social welfare, (iii) financial stability, (iv) labour and product markets, (v) privatisation and (vi) the modernisation of public administration ⁽⁴⁾. Fifteen specific commitments have a deadline of mid-2019, progress on which is assessed in this report.

This is the third enhanced surveillance report for Greece. It is issued alongside the assessment of Greece's Stability Programme and the Commission Recommendation for country-specific recommendations to Greece under the European Semester. This report is based on the findings of a mission to Athens between 6 and 8 May 2019 conducted by the Commission in liaison with the ECB ⁽⁵⁾. The IMF participated in the context of its 2019 Article IV surveillance cycle, while the ESM participated in the context of its Early Warning System and in line with the Memorandum of Understanding of 27 April 2018 on working relations between the European Commission and ESM.

The Eurogroup on 22 June 2018 agreed that the package of debt relief measures for Greece should include incentives to ensure a strong and continuous implementation of the reform measures agreed in the programme. To this end, the implementation of some of the agreed debt measures will be made available to Greece subject to compliance with its commitments on reform continuity and completion, based on positive reports under enhanced surveillance, in semi-annual tranches up to mid-2022. Following the Eurogroup on 5 April 2019, the first tranche of policy-contingent debt measures was released, taking into account the assessment of the implementation of Greece's commitments for end-2018 in an updated enhanced surveillance report adopted by the Commission on 3 April 2019 ⁽⁶⁾.

ECONOMIC OUTLOOK

Greece's economic recovery is expected to continue in 2019. Following an annual growth rate of 1.9% in 2018, real GDP growth is forecast to reach 2.2% in both 2019 and 2020, supported primarily by domestic demand. Private consumption has been a steady contributor to the recovery and is forecast to perform well again

⁽¹⁾ Regulation (EU) No 472/2013 of the European Parliament and of the Council of 21 May 2013 on the strengthening of economic and budgetary surveillance of Member States in the euro area experiencing or threatened with serious difficulties with respect to their financial stability, OJ L 140, 27.5.2013, p. 1.

⁽²⁾ Commission Implementing Decision (EU) 2018/1192 of 11 July 2018 on the activation of enhanced surveillance for Greece, OJ L 211, 22.8.2018, p. 1, and Commission Implementing Decision (EU) 2019/338 of 20 February 2019 on the extension of enhanced surveillance for Greece.

⁽³⁾ <https://www.consilium.europa.eu/en/press/press-releases/2019/04/05/eurogroup-statement-on-greece-of-5-april-2019>.

⁽⁴⁾ https://www.consilium.europa.eu/media/35749/z-councils-council-configurations-ecofin-eurogroup-2018-180621-specific-commitments-to-ensure-the-continuity-and-completion-of-reforms-adopted-under-the-esm-programme_2.pdf.

⁽⁵⁾ ECB staff participated in the review mission in accordance with the ECB's competences and thus provided expertise on financial sector policies and macro-critical issues, such as headline fiscal targets and sustainability and financing needs. The review mission was preceded by a technical mission from 1 to 4 April.

⁽⁶⁾ Given that half of last year's and the full amount of this year's instalments of the interest step-up margin were eligible for a waiver, the policy-contingent debt measures exceptionally amounted to some EUR 970 million. <https://www.esm.europa.eu/press-releases/efsf-approves-reimbursement-and-reduction-step-interest-margin-greece>.

in 2019. Public consumption may support growth this year according to budgetary plans, though Greece's track record of underspending implies a downside risk. The same holds for public investment, while a rebound in residential investment suggests that the housing market is on a normalisation path against headwinds from the still shrinking supply of bank credit in this market segment. Buoyant export performance was a key growth driver in 2018, but is expected to moderate in 2019 amid a slowdown of the external environment. However, exports of goods and services are still forecast to increase by close to 5% in 2019 and close to 4% in 2020 in real terms.

The labour market shows further improvements, although the decline in unemployment halted in October 2018 at 18.6%, hovering around that level until February 2019. Employment still showed year-on-year growth of 2.4% in February, though this reflects earlier gains in employment rather than recent improvements. Detailed monitoring is foreseen to assess the impact of the recent increase of the minimum wage and the abolition of the sub-minimum wage on the pace of the recovery in the labour market. Inflation is expected to remain muted throughout 2019, and to pick up only beyond 2020 as the output gap closes.

Downside risks dominate the forecast in the short and medium term. The forecast is heavily reliant on technical assumptions regarding the full execution of the budget ceilings for investment and ordinary spending. Vulnerabilities in the banking sector and increasing wage costs might pose further challenges for the recovery of domestic demand and in particular of investment. In case of a stronger-than-expected deterioration in the external environment, or a higher pass-through to Greece, the recovery may prove to be more sluggish.

FISCAL POLICIES AND OUTLOOK

Greece over-achieved the agreed primary surplus target of 3.5% of GDP in 2018, largely due to continued under-execution of spending ceilings, notably on public investment. The general government headline balance recorded a surplus (1.1% of GDP) for the third year in a row, while the primary surplus monitored under enhanced surveillance reached 4.3% of GDP, well above target. The primary surplus would have been even larger, but the emerging fiscal space allowed the authorities to clear unforeseen liabilities following from a Court decision and pay a means-tested benefit to households at the end of 2018. For the most part, the under-execution of expenditure arises due to setting budget ceilings above the actual spending capacity of budgetary units and underlines the need for proper assessments of the state of play on major spending projects and realistic estimates of costs of new policies. These issues have occurred for a number of past years. The European institutions are supporting the authorities to address the reasons of the systematic underspending in order to improve budgetary practices and to fully utilise the resources available for public investment from both the EU and national sources to support growth.

The Commission 2019 spring forecast, published before the adoption of new fiscal measures on 15 May 2019, indicated that the primary surplus would reach 3.6% of GDP in 2019, which is considerably lower (by 0.5% of GDP) than the projection of the Greek authorities in their Stability Programme. The difference in the forecasts mainly arises due to the authorities' more favourable macroeconomic scenario and their approach to the allocation of the public investment budget between entities outside and inside general government. More specifically, this involves a re-assignment of part of the expenditure previously foreseen for investment to grants to state-owned enterprises, without the grants being used for additional spending by their recipients. This accounting operation has a balance-improving effect in the projection of the authorities (0.3% of GDP in 2019 and 0.2% of GDP in 2020). In the absence of adequate information on the nature or the specific recipients of the additional grants, this re-assignment of expenditure is not reflected in the projections of the European institutions. In contrast, the fiscal projections prepared by the European institutions assume full execution of the ceilings in line with standard practice.

In their Stability Programme, the Greek authorities announced their intention not to implement the pre-legislated income tax credit package, which was set to enter into force in January 2020. This means not proceeding with measures that broaden the tax base and create fiscal space of 1% of GDP for growth-enhancing reforms of the tax system.

On 15 May 2019, and thus after the submission of the Stability Programme, the authorities adopted a package of permanent fiscal measures which the European institutions estimate will have a fiscal cost of more than 1% of GDP in 2019 and beyond. The measures include new instalment schemes for debts on taxes

and to social security funds and municipalities, reductions in selected VAT rates, the introduction of a 13th pension, and a reversal of an earlier reform of survivors' pensions. Projections by the European institutions show that the adoption of the fiscal measures on 15 May 2019 poses a risk for the achievement of the agreed primary surplus target of 3.5% of GDP in 2019 and beyond. The magnitude will depend on the take up of the new instalment schemes and their impact on existing ones. Moreover, and as outlined in the assessment of the Greek Stability Programme, the measures also raise concerns on the achievement of the medium-term budgetary objective (MTO) in structural terms in 2020. A re-assessment of compliance with the requirements of the preventive arm of the Stability and Growth Pact will be carried out in autumn 2019, including a revision of the applicable benchmark for net expenditure growth in 2020.

The quality of the fiscal measures adopted on 15 May 2019 is of concern given the objective to make public finances more growth-friendly and to direct a higher share of social spending towards groups who face the highest incidence of poverty. For example, the duration of the new instalment schemes is very long (120 monthly payments), and the schemes contain only limited provisions to assess the ability to pay; it is recalled that a key reform enacted in 2013 replaced all former settlement schemes by a single 'basic' scheme accessible under strict eligibility criteria. Lower VAT rates for food products, restaurants and food services, electricity and gas contrast with an important measure adopted in July 2015, while leaving in place the very high 24% standard rate and further increase the VAT gap, which is already the 2nd highest in the EU. Furthermore, the introduction of a permanent 13th pension and relaxation of the eligibility criteria for survivors' pensions partially alter measures adopted in 2012 and 2016 respectively. These reforms will increase public spending on pensions, which is already the highest as a share of GDP in the EU, and is in contrast to measures adopted in the 2019 budget which directs a higher share of spending on social benefits towards the young people and working-age population who face much higher risks of poverty. Overall, the adopted measures on pensions and VAT are targeted at consumption and will absorb a considerable amount of fiscal space that was envisaged in legislation adopted in 2017 for growth-enhancing reductions in labour and corporate tax rates.

The Greek authorities announced their intention to adopt a set of additional expansionary fiscal measures for 2020 in autumn this year. These include reductions in tax rates, as well as the introduction of a series of exemptions and tax expenditures or subsidies. The authorities have provided only a partial estimate of the fiscal impact of these measures, totalling EUR 1.2 billion or 0.6% of GDP. For now, these announcements remain statements of future policy intention and an assessment on the quality of the measures and their impact on the achievement of the agreed fiscal targets would only be carried out if detailed proposals are actually tabled.

The Greek authorities have also announced their intention to revisit the agreement reached with European partners in June 2018 as regards the annual primary surplus targets of 3.5% of GDP up to 2022. Linked to this, the authorities are considering transferring part of the cash reserves generated by the 2016-2018 fiscal over-performance to an escrow account. Any proposal which alters the agreement reached with European partners in June 2018 would need to be discussed at the Eurogroup in the context of an updated debt sustainability analysis.

Greece's public finances continue to face important fiscal risks with respect to ongoing court cases and the possible broadening of exemptions from the unified wage grid. No new information on the pending case on pensions has become available since the publication of the second enhanced surveillance report, and the ruling by the Council of State on the constitutionality of the cuts in seasonal bonuses is yet to be published. In addition, risks to the integrity of the unified wage bill have already started to materialise and remain a source of concern. They stem mainly from the decision to exempt certain officials at the Ministry of Finance from the unified wage grid in October 2018, a decision that has been extended to other public entities since. While the cost of this measure is relatively contained, it increases the likelihood of legal challenges by other groups of public officials and/or of further discretionary extensions. Establishing a unified wage grid was one of the key reforms implemented under the financial assistance programmes. In the event of court rulings overturning key structural elements of reforms agreed under the programme, the recurrent fiscal implications of such rulings should be largely addressed by actions within the same policy area.

FISCAL STRUCTURAL POLICIES

Greece has made progress in the reform of the ENFIA property tax valuation framework, though preparations for a mid-2019 realignment of property values have not yet been completed. Considerable

progress has been made on the operational, IT and legal aspects of the valuation process, and there has been agreement that a new nationwide valuation exercise by valuers is not needed in mid-2019 (which had been a specific commitment). At the same time, work still needs to be completed for a partial realignment of property tax values in 2019, which the authorities have been working towards as an intermediate step towards fully aligning property tax zonal values with market prices by 2020.

Progress is underway on other smaller tax policy reforms. With the help of technical support, reviews are currently underway of the system of Stamp Duty and of the potential individual liability of corporate managers for tax offences.

The hiring of staff to the Independent Authority for Public Revenue (IAPR) remains slow. Only a marginal increase was observed during the first quarter of 2019: if the current hiring trend remains, there is a risk that the specific commitment for end-2019 may not be met. In addition, a number of complementary measures were adopted earlier in the year to ensure the continued strengthening of the IAPR's capacity and follow-up actions are expected for the next months, in particular related to Human Resource reform, implementation of the strategic Blueprint and IT arrangements.

Progress on other commitments and reform items is mixed. On customs, continued progress has been made in delivering on the anti-smuggling strategy and the fuel tank action plan. Work on promoting electronic payments is proceeding well, while on the other hand the planned asset registry has not been completed. Finally, a recent law amendment raises potential overlaps between the responsibilities of General Secretariat for IT Systems and the IAPR, and it is essential that a cooperation framework is agreed.

The results for the first quarter of 2019 on key performance indicators set by the IAPR present a mixed picture. Tax collection has been weaker than targeted, while key performance indicators in most other areas, including collection after audits, are being met. The Joint Centre for the Collection of Social Security Debt (KEAO) continues to meet its targets for the collection of social security debt, which are more ambitious than for the preceding year, though debt collection in April 2019 decreased year-on-year. IAPR and KEAO are working towards strengthening their co-operation within a coherent framework. In this context, the adoption of relevant legislation to allow KEAO to apply the IAPR's classification of the persons/entities considered to have 'uncollectable' debt should be adopted without further delays.

New instalment schemes were adopted for tax, social security and municipal debt with up to 120 monthly instalments. This alters a key reform enacted in 2013 that replaced former settlement schemes by a single 'basic' scheme accessible under strict eligibility criteria in a manner which reinstates design problems of earlier schemes. While the scope of the social security debt is more targeted, as its focus is on the self-employed and it links entitlements to contributions, the new instalment scheme on taxes does not include any specific prioritisation for eligibility or any prior viability assessment. In light of past experience, the announcement of new instalment schemes may have contributed to weakening revenue collection and can create risks to payment discipline.

Progress with arrears clearance remains disappointing. The Greek authorities have committed to clear the stock of arrears, avoid the accumulation of new arrears (a continuous action) and to complete the implementation of reforms identified by the Hellenic Court of Auditors by mid-2019. Despite the fact that the net stock of arrears has decreased since the end of the programme, the pace of reduction has significantly slowed and new arrears continue to be created in some sectors. The end-March 2019 stock of net arrears stood at EUR 1.4 billion, and while EUR 0.3 billion lower than the end of programme (August 2018), this is the same level as at end-December 2018. Of the total EUR 7 billion disbursed for arrears clearance during the programme, EUR 0.1 billion remain unused by end-April 2019.

The authorities are currently implementing structural measures to address the bottlenecks of arrears management, based on the recommendations of systemic nature issued by the Hellenic Court of Auditors. To this end, the authorities have made progress with the implementation of two action plans, in the fields of responsibility of General Accounting Office and the IAPR respectively. The overall implementation of the reforms in both action plans will be assessed by the Hellenic Court of Auditors in mid-2019 in the context of their follow-up audit.

A way forward was agreed on the abolition of *ex ante* audits performed by the Hellenic Court of Auditors for entities outside central government. The authorities have amended relevant legislation so as to ensure that hospitals and the social benefits agency are no longer subject to *ex ante* audits, while the abolition will take place at end-July 2019 for the remaining extra-budgetary funds and municipalities in light of capacity considerations. The authorities have committed to undertake a set of specific supplementary actions, with a view to ensuring that the abolition of *ex ante* audits, which brings Greece closer in line with international practice, runs smoothly. The authorities will need to stick with the full arrears clearance plan and implement complementary actions targeting the structural sources of arrears creation.

As regards other public financial management reforms, the authorities are moving forward with implementing a Treasury Single Account at the Bank of Greece and with setting up a Unified Chart of Accounts. Some progress on the Treasury Single Account has been made in the first months of 2019 though the most important measures still remain to be taken. An important intermediate step was the rollout of the Unified Chart of Accounts for the 2019 State budget, and the authorities will need to further build on this with a view to ensuring full implementation of the Unified Chart of Accounts by 2023.

SOCIAL WELFARE

The authorities have recently passed legislation that repeals important elements of the pension reforms adopted in 2012 and 2016 and leads to an increase in spending on pensions as a share of GDP. In May 2019, the authorities repealed the 2016 reform of the survivor's pensions that modernised and aligned the pension entitlements to standard practices of other Member States, loosening eligibility criteria and increasing entitlements. Furthermore, the authorities have reinstated a permanent 13th pension that had been eliminated in 2012. Both measures will decrease the relative share of social benefits benefiting the young and working age population where the risk of poverty is much higher than for pensioners.

The pace of collection of the health care clawbacks has seen a recent improvement, and collection of the clawback for 2018 is currently ongoing (mid-2019 specific commitment). Around one third of the clawback has been completed for outpatient pharmaceuticals and drugs circulated through pharmacies affiliated with the national health insurance fund, while for privately provided services the amount for 2018 has not been quantified yet. There are also still some backlogs in the clawbacks for previous years. Despite improvements in collection, the generation of new clawbacks is high and has been increasing over time to levels which may soon become unsustainable. This underlines the need for more sustained efforts to implement structural measures designed to curb supply-induced demand. In this respect, some recent measures, including changes to the repricing mechanism for pharmaceuticals, go in the wrong direction and may exacerbate the situation as regards the balance of burden sharing between the public sector and private companies.

The roll-out of primary health care is proceeding but at a slow pace and with marked disparities across the country. The authorities fulfilled the end-2018 commitment of opening at least 120 primary health care units, and have meanwhile exceeded the target with 124 openings. However, the broader roll-out of primary health care occurs at a slow pace and with uneven distribution across the country, partly due to challenges with the recruitment of general practitioners.

Progress on centralised health procurement continues at a slow pace, with staff constraints translating into still limited capacity to launch new tenders. Reaching the necessary minimum staffing level will be a key determinant of the capability of the centralised procurement body for healthcare to operate effectively and systematically to realise the potential savings coming from central procurement.

In the area of social welfare, a new housing benefit for renters has been introduced, further enhancing the effectiveness of the Greek social welfare system. The scheme addresses housing cost overburden by providing a means-tested subsidy to low-income households for paying the rent on their primary residence. As of end-April 2019, some 240,000 applications have been accepted, corresponding to some 630,000 individuals (close to 6% of the Greek population), a result in line with initial expectations.

The reform of the system of disability benefits is advancing but with significant delays. Upgraded and simplified procedures are being gradually introduced throughout the country. The new approach to determine disability status based on both medical and functional assessment (whose application is a mid-2019 specific

commitment) is to be developed on the basis of a pilot project that received technical support of the World Bank. In view of administrative delays, the evaluation of the pilot is only set to be completed by the end of the year, implying that the project can only be concluded in 2020. A revised timeline detailing the intermediate steps and a final deadline for adoption should be defined.

The Social Solidarity Income scheme is reaching its maturity. In the first four months of 2019, the scheme reached about 270,000 households (about 500,000 individuals), for an annual expenditure of around EUR 680 million. This is slightly lower than last year, likely reflecting a combination of more effective controls and eligibility checks and the general improvement of the economic and social situation. Meanwhile the implementation of the second and third pillars of the Social Solidarity Income (an end-2019 specific commitment), is progressing. With respect to the second pillar (social inclusion), a network of Community Centres has been established throughout the country with the support of the European Social Fund, expanding the provision of social services at local level in a coordinated way. For the third pillar (labour market integration), the authorities are shifting to a more systematic approach to the design and management of active labour market policies, which is currently tested in a pilot project.

FINANCIAL SECTOR POLICIES

The situation of the financial sector continues to be challenging with improvements occurring at a very slow pace and remaining significant vulnerabilities. On a positive note, the liquidity situation of Greek banks has further improved. Greek banks still rely primarily on their internal capacity to generate capital, which has been further weakened by their low profitability due to their poor asset quality. Although broadly adequate, the capital position of the banking system slightly deteriorated during 2018 in a context of low profitability and weak asset quality, while deferred tax credits continue to account for a sizeable part of core tier 1 capital. Non-performing loans (NPLs) have been gradually decreasing, but remain elevated, amounting to EUR 81.8 billion at end-2018 in comparison with a peak of EUR 107.2 billion in March 2016. This translates into a NPL ratio of 45.4%, which is 1.8 percentage points lower than the previous year. Despite the progress made to date, further major efforts are required to achieve a faster NPL reduction.

Work is ongoing on a range of initiatives to strengthen the NPL resolution framework, but the pace of implementation remains uneven, and additional efforts are warranted. More specifically:

- The conduct of electronic auctions is proceeding across the territory, though at a somewhat slowing pace. Still, a large share of auctions (approximately two-thirds in the first quarter of 2019 according to data provided by the Greek authorities) is cancelled, suspended or is unsuccessful. No action has been taken so far to address these issues. The issue of possible procedural abuses is under assessment by the authorities together with the Hellenic Bank Association (with a report due in September 2019), and mitigating actions should be taken in the context of the ongoing review of the implementation of the Greek Code of Civil Procedure.
- The process of the gradual elimination of the backlog of cases in the context of the household insolvency framework is significantly behind schedule. Collection and processing of data on the clearing of court backlogs in the household insolvency framework is ongoing; its completion should support the elaboration of a revised action plan by the authorities by end-June 2019, while the impact of the new mechanism for the protection of primary residences should be factored in later in the year. Preliminary data points to an increase of cases in the first quarter of 2019, whilst the authorities in their indicative trajectory envisaged a reduction. Therefore it is important to increase processing capacity to achieve the full elimination of the backlog of cases by 2021.
- Following the adoption of primary and secondary legislation establishing a new system for the protection of eligible primary residences in support of the restructuring of non-performing loans, technical work on the electronic platform is ongoing. The complexity of the process has led to a revision of the initial time frame, with the platform now scheduled to be operational by end-July 2019. This should not affect the planned expiry of the protective framework at the end of 2019; however, it might adversely affect the enforcement procedure in the second and third quarter of 2019. With respect to the required State aid approval of the protective framework by the Commission, the Greek authorities intend to submit the official request shortly. An important pending issue regarding the effectiveness of

the new framework in the context of NPL resolution is the required enactment of an extension of the tax treatment of write-offs that expired at the end of 2018, which should be undertaken in a timely manner.

- The Greek authorities committed in the context of the second enhanced surveillance report to harmonise and improve in the coming months in a holistic fashion the bankruptcy and insolvency regimes. The Greek authorities proposed to address the issue either through a law-drafting committee or by means of a working group. While no proposal has been received so far, they committed to present a more concrete proposal shortly.
- Work on the evaluation of the implementation record of the reformed Code of Civil Procedure is ongoing, and advancing towards completion of the data-gathering phase.
- The authorities reported further progress in the provision of financial training to judges, notably in the area of household insolvency. The authorities have also continued with the appointment of successful candidates of recently completed personnel selection competitions for court clerks.
- While the use of the out-of-court workout mechanism recorded modest increases up to the first quarter of 2019, recently adopted legislative amendments to the framework are of concern. These amendments have further extended its cut-off date regarding the time limit set to the inclusion of debt in the restructuring, for the second time since the adoption of the law. The stipulation of a firm cut-off date is an important feature of this mechanism because it discourages strategic default planning and thereby helps avert moral hazard.
- The large stock of called loan guarantees by the state is subject to a low processing rate and a high rejection rate. The action plan adopted by the authorities in March 2019 is so far on track, but does not allow for a full clearance of the guarantees called in a reasonable timeline. Some additional measures are considered to address the clearance process issue, notably the temporary recruitment of personnel.
- Well-designed systemic initiatives could be helpful elements in the toolkit of NPL resolution. Further efforts are needed in scrutinising all available policy options that could support all banks in a swift NPL reduction. The authorities are continuing their work on an Asset Protection Scheme, but to date there has been no progress in exploring whether the scheme can also be complemented through an Asset Management Company.

In line with Greece's Eurogroup commitments, the status of the Hellenic Financial Stability Fund will remain unchanged and it will continue its efforts to achieve its ultimate goal of reprivatizing its stakes in the systemic banks in the coming years. The potential involvement of the authorities in the final stage of implementing the Funds' divestment strategy is still under discussion. In early May 2019, the appointments to the vacant positions both in the Executive Board (including the Deputy Chief Executive Officer) and the General Council of the Fund have finally been enacted.

LABOUR MARKET

The Greek authorities continue monitoring labour market and wage developments and intend to conduct an ex-post assessment of the recent increase in the minimum wage. To this end, the Ministry of Labour has been developing a monitoring tool based on administrative data. According to preliminary data, employment growth in the private sector was robust in the first months following the increase in the minimum wage (February-April 2019), with a large increase in the number of registered contracts. The use and integration of additional data sources should enable a more robust estimation of the effects of recent policy changes, and technical support to this effect from the World Bank is expected to start in June 2019.

The action plan to fight undeclared work is progressing smoothly. A higher number of inspections was carried out in 2018 compared to the previous year, and data from inspection results show a positive picture, with a steady reduction in the incidence of undeclared work in high-risk sectors.

A new provision on the rules for dismissal (whereby a dismissal is not valid if it is not based on a 'valid reason'), was adopted in May 2019. According to the Greek authorities, this provision does not appear to

materially alter the current rules, as the right of employees not to be dismissed without a ‘valid reason’ had already been introduced in the Greek legal system with the ratification of the Revised European Social Charter in 2016. It remains to be seen to what extent the new provision, which the authorities argue aims at enhancing legal clarity will affect the overall number of dismissals, lead to an increase in litigation, with a higher number of dismissal decisions being challenged in court, and/or lead to an improved processing of such cases by the courts.

The Greek educational system faces long-standing challenges. These include inadequate allocation of resources, low autonomy, poor educational outcomes, skill mismatches, and weaknesses in the governance of higher education institutions. In the absence of a comprehensive prior evaluation, it is unclear how the current policy of upgrading technical education institutions to universities will improve the fragmented higher education landscape or the need to make tertiary education more relevant for the labour market. In this context, it is recalled that the 2018 OECD country review on Greece ⁽⁷⁾ made specific policy recommendations to improve the quality and efficiency of the system.

PRODUCT MARKETS AND COMPETITIVENESS

Notwithstanding progress over the last years, Greece still faces major challenges as regards competitiveness. This is illustrated in its stagnating or even slightly deteriorating performance in a range of widely used competitiveness metrics (such as the World Bank Doing Business ranking) ⁽⁸⁾. An improved business environment would also contribute to addressing the structural component of sluggish productivity growth by tackling the crisis-induced investment gap, the emigration of skilled labour and the still high long-term unemployment.

More needs to be done on export promotion to reach the authorities’ export/GDP target of 50% by 2025. The pace of implementation of two related action plans has been mixed. Efforts should focus on increasing the exporters’ base, as well as the export propensity of the Greek economy as a whole. Further work is also required on removing unnecessary procedural impediments to trade and increasing the openness of the economy, including through the further streamlining of customs procedures with the help of technical support provided through the Commission services.

On the investment licensing reform, significant work is underway. Despite delays in certain areas, the reform appears to be broadly on track with deadlines on specific investment licensing commitments for the outer years (ICT system, inspections framework law, extension of simplification, reform of nuisance classification). Whilst continued efforts to complete reform commitments are welcome, the adequacy of existing control mechanisms to contain the risk of potential policy reversal remains uncertain. Greater engagement of all stakeholders is needed to safeguard the integrity of reforms implemented thus far and ensure completion of the reform in the future.

It is important to assess the actual impact of product market reforms adopted in recent years so that they can be fine-tuned and strengthened where needed. An impact assessment conducted by the Centre of Planning and Economic Research on reforms in the areas of pharmacies, over-the-counter drugs and Sunday retail trading suggests that these reforms have already had a positive effect on competition and job creation. The Centre of Planning and Economic Research will provide an updated impact assessment of these reforms in September 2019 and further, undertake an impact assessment of prior reforms affecting engineers (including public engineers), lawyers, and private clinics.

The cadastre project has further progressed in the recent months. The Commission has taken the decision to co-finance with structural funds the last set of contracts (about EUR 84 million), and a technical support is made available ⁽⁹⁾. The current round of declaration of properties around the country is progressing satisfactorily, with an electronic platform in place and a sizeable number of cadastral offices operating across Greece. That said, progress with the establishment of the future institutional framework for the cadastre has been mixed, and the

⁽⁷⁾ Education for a Bright Future in Greece, OECD, April 2018.

⁽⁸⁾ The challenges facing the business environment in Greece were discussed in the context of the European Semester Conference organised by the European Commission in collaboration with the Foundation for Economic & Industrial Research (IOBE) in Athens, in March 2019. https://ec.europa.eu/info/events/integrating-greece-european-semester-policy-framework-2019-mar-20_en.

⁽⁹⁾ Commission Implementing Decision C(2019)299 of 23.1.2019 approving the financial contribution to the major project "Compilation of the preliminary cadastral base-maps and development of the cadastral database for public presentation in the areas of the 4th generation of cadastral surveys" selected as part of the operational programme "Competitiveness, Entrepreneurship and Innovation" in Greece.

government has committed to strengthen the team implementing the migration into the new Agency and to prepare a detailed plan for the integration of the mortgage offices to meet the deadlines set with the advice of the World Bank.

The preparation of the forest maps (a mid-2019 commitment) is expected to be on time. As of May 2019, forest maps for 55% of the territory have been uploaded for consultation, of which maps for 41% of the territory are already ratified; the maps for 98% of the territory are expected to be produced by July 2019. The remaining 2% of the country's forest maps have been contracted in May 2019 and will be finished by February 2020. A recent decision by the Council of State raised questions about the temporary exclusion of "building concentrations" from the forest maps. The authorities intend to adopt legislation swiftly in order to address the Council of State's concerns and avoid implications for the timely completion of the forest maps.

Progress with the implementation of energy market reforms has slowed notably during the past few months. The divestiture of PPC's lignite plants (a delayed end-2018 specific commitment) was relaunched after the first deadline resulted in no bids being accepted. A new timeline had been agreed which should close by the end of June 2019, which should include a fairness opinion on any offers. A unilateral decision extending the process deadline to 15 July 2019 was made by PPC following consultation with the Ministry of Energy and Environment, and as such, the closure will not be made within the agreed deadline. Whilst Greece has made some initial steps towards the introduction of the target model for the electricity market (mid-2019 specific commitment), it seems clear at this juncture that the go-live of the intraday, day-ahead and balancing markets, already delayed from the initial plan of April 2019, will not occur until 2020. These delays will have knock-on effects for Greece's coupling with the neighbouring markets of Italy and Bulgaria. Meanwhile the NOME electricity auctions continued with its allocated quantities, and the delays to the lignite divestiture meant that a planned correction mechanism was not triggered. On a positive note, PPC's market share has slowly receded to below 77% in March 2019, down from 80% at the time of the last enhanced surveillance report but still some way off the original programme objective of PPC's market share going to below 50% by 2020. The recently-released 2018 financial results for PPC show a strong decline in profitability and a worsening of cash flow issues, which calls for determined efforts to address structural issues, including pricing policy and arrears collection. Meanwhile, reforms in the gas market have advanced overall, with the completion of the sale of the transmission network operator DESFA and the split of the gas supply company DEPA into commercial and infrastructure parts, with a view to preparing the agreed privatisation transactions in line with unbundling requirements. The Renewable Energy Source (RES) account maintained its surplus, but cash flow issues remain, affecting RES producers.

HELLENIC CORPORATION OF ASSETS AND PARTICIPATIONS (HCAP) AND PRIVATISATIONS

Greece made commitments to European partners in June 2018 to continue and complete the important work of HCAP, which gathers under a single institutional structure a significant portfolio of assets and shareholdings in public enterprises. The Eurogroup statement of June 2018 foresees that the strategic plan of HCAP will be implemented on a continuous basis. In addition, the authorities committed to complete the review, and replacement if required, of Board members of all state-owned enterprises (SOEs) by mid-2019. The implementation of the strategic plan has proceeded as planned and the Board review is progressing well. Up to the present, HCAP has appointed 39 Board members (executive and non-executive) in its direct and other subsidiaries. That said, in order to ensure that the process can be sustained over time in an effective manner, it is necessary to ensure competitive remuneration of professional Board members.

Progress has also been made in improving corporate governance in the SOEs that form part of HCAP. The implementation of the coordination mechanism that governs the interaction between the authorities and HCAP regarding the mandates and objectives of the SOEs under HCAP has been launched and it is at an advanced stage for the first four SOEs. However, recent legislation and actions in certain sectors (e.g. regional airports) appear to potentially overlap with the function of the coordination mechanism, or to affect the HCAP's rights in respect of certain assets transferred to it, which should be rectified and avoided going forward.

Implementation of the Asset Development Plan is key to stimulate private investment, increase efficiency, and provide financing to the State. In June 2018, the authorities made a specific commitment to Eurogroup partners to implement the Asset Development Plan, which will be updated every six months, and in this context to complete the transactions on Hellenic Petroleum (HELPE) and the marina of Alimos by mid-2019. Further

commitments were taken for end-2019 and beyond. In addition, the transaction on Hellinikon (development of the site of the former Athens International Airport, end-2018 specific commitment) has remained pending despite good progress, taking into account the complexity of the project. On Hellinikon, the authorities have continued the efforts to complete the conditions precedent to allow the transfer of shares to the preferred investor. If the authorities continue the strong efforts, financial closing could be feasible in the coming months.

Progress on the transactions in the Asset Development Plan which are due to be completed in 2019 (mid and end-2019 specific commitments) is behind schedule, with progress in smaller transactions being offset by delays elsewhere. The state of play can be summarised as follows:

- Marina of Alimos: The preferred bidder was selected in an e-auction procedure of April 2019; progress is satisfactory although the financial closing is not expected before the fourth quarter of 2019.
- The Hellenic Petroleum (HELPE) transaction is subject to delays as no binding offers were submitted for the joint sale. Agreement has been reached with the Greek authorities so that the Hellenic Republic Asset Development Fund (TAIPED) is given the technical mandate to explore all options available towards proceeding with the transaction.
- The sale of 30% of Athens International Airport (AIA): the process remains stalled in view of disagreements between the Greek authorities and AviAlliance, shareholder of 40% stake in AIA, regarding the corporate governance rights accompanying the 30% stake post sale. The Greek authorities committed to seek an immediate resolution of the issue, with a view to launching the tender process for the sale of 30% of AIA by end-June 2019.
- DEPA - Public Gas Corporation: the invitation for the expression of interest for the sale of 50% plus one share of DEPA Commercial is expected to be published in the coming weeks and it should be in accordance with the term sheet agreed between the authorities and the European institutions.
- The Egnatia transaction entails the award of a long-term concession for the operation and maintenance of the motorway and its three vertical axes. In January 2019, the authorities agreed to a number of actions to deal with the recurrent obstacles to the concession. Most of the agreed actions due so far have been implemented in line with technical feasibility. It is imperative that the authorities complete all the outstanding actions needed to allow the submission of binding offers to take place.
- Regional Ports: There is significant investor interest to operate specific and/or combined port activities/services by means of sub-concession agreements in the ports of Alexandroupolis, Kavala, (end-2019 specific commitments), Igoumenitsa and Kerkyra (mid-2021 specific commitments). The Expression of Interest for the two ports, however, requires the prior issuance of a Joint Ministerial Decision that will include the specific activities subject to sub-concession as well as the fees to be paid by the sub-concessionaires to the relevant port authorities.

PUBLIC ADMINISTRATION AND JUSTICE

Overall, progress has been made with the specific mid-2019 commitments in the area of public sector reform. Regarding the preparation of an independent assessment of the delayed selection process of Administrative Secretaries, the authorities have requested technical support from the Commission and the final assessment is expected to be completed by June 2019, with follow-up actions due by September 2019; at the same time, the pace of appointments of Administrative Secretaries remains very slow. The selection process for all 90 Directors-General has been completed, while one third of Directors have been appointed (with the rest expected by end-July), and the recruitment of Heads of Division is expected to be launched by end-June and completed by October. The 3rd mobility cycle that was launched in August 2018 is progressing; while the process is subject to delays and impediments should be addressed, the gradual increase in the number of entities and applications for each cycle is a welcome signal that the public sector has embraced this public administration reform. The performance assessment cycle for 2018 is expected to be completed on time.

Continued progress has been made towards establishing an integrated Human Resource Management System, which should be on track to be completed by end of 2019. More specifically, 745 general

government entities (approximately half of the total) have completed their digital organigrams, with close to 135,000 job descriptions completed (i.e. for around 70% of all positions). Once this exercise has been successfully completed, it will provide the main elements for the integrated Human Resource Management System.

Progress with the streamlining of the existing job classification system, with a view to aligning it to the functions referred to in the generic job descriptions, has been limited. Whilst the first meeting of the inter-ministerial working group in May was a welcome first step, the authorities would need to speed up the implementation of its road map, also taking full advantage of the technical support provided.

Progress has been made in terms of legal codification with the adoption of a law that strengthens the mandate of the Central Codification Committee, but work on inter-ministerial coordination has stalled. It is important to clearly define the operational modalities of the legal codification process and the allocation of roles, including between the Central Codification Committee and the Ministries. Technical work for the preparation of a unified Labour Law Code and Code of Labour Regulatory Provisions (a mid-2020 specific commitment) has started but concrete progress is awaited. On inter-ministerial coordination, no concrete progress has been reported since the adoption of an inter-ministerial manual in June 2018, and an update on actions initiated and planning for actions to be launched is expected to be prepared by the General Secretariat for Coordination in time for the next enhanced surveillance report.

The European institutions continue to carefully monitor the scale of recruitments in the public sector. The hiring plan for 2019 as well as for 2020-2022, as included in the 2018 Medium-Term Fiscal Strategy, seems to be respecting the one-in-one-out hiring rule for recruitments of new permanent staff in the public sector, though the ceiling for temporary staff has not been respected in 2018. It is estimated that the number of temporary staff will need to be reduced by approximately 1 550 persons in 2019, in order for the overall size of the public sector to be maintained. Regarding effective monitoring, the agreed actions to improve the reporting of the census are still to be implemented, while updated staffing figures for 2019 are yet to be uploaded on the census' website.

Recently adopted salary provisions pose risks to the unified wage grid, and a number of decisions to complete this reform remain pending. Although the actual fiscal cost of recent decisions to expand the coverage of 'personal differences' for some Ministries is small, it raises structural problems and fiscal risk as other Ministries may seek similar salary provisions. If specific salary provisions and adjustments to the hiring process for permanent staff are being considered for independent authorities, it would be preferable if these provisions would be part of a systematic approach rather than *ad hoc* exceptions to the current legal framework.

The Greek authorities are proceeding with the preparatory stage of the second phase of the Integrated Judicial Case Management System, activated earlier this year and scheduled for finalisation by mid-2020. In this context, completion of the tendering procedure for the electronic filing of legal documents to the courts is a mid-2019 specific commitment, and the proceedings for the public consultation of the draft tender texts regarding the projects of the second phase are to be finalised shortly. Furthermore, the implementation of the electronic filing of court documents (legal writs), already available in a number of courts, is proceeding, supported by legal and technical work to facilitate its full roll-out.

In the area of anti-corruption, the authorities have continued their efforts, led by the General Secretariat for Anti-corruption. A number of legal initiatives promoted by the Secretariat are to be introduced to the Parliament, relating to whistleblowing, internal auditing and the Secretariat's mandate. In particular, the law on internal audit is expected to be adopted shortly and ahead of the newly elected local administrations assuming their function. The authorities also committed to accelerate work on the establishment of a coordination mechanism for corruption cases, although no concrete progress has been made during this reporting period.

The Commission has continued to monitor developments in relation to the legal proceedings against the members of the Committee of Experts of TAIPED and the former President and senior staff of the Hellenic Statistical Authority (ELSTAT). In the case against former ELSTAT President A. Georgiou related to charges filed in connection with fiscal statistics, the Athens Court of Appeal issued a ruling in his favour that was published on 8 March 2019. As the Supreme Court Prosecutor did not file an appeal, the ruling stands in force and the excessive deficit case has been irrevocably dismissed. This is a very welcome development. Regarding other pending cases, an appeal introduced by Mr Georgiou in a defamation lawsuit was scheduled to be heard in May 2019. Regarding the Committee of Experts, there has been a positive development since the last

enhanced surveillance report, in the form of the issuance of an exculpatory ruling by the chamber formation of the Athens Court of Appeal (not yet published). The Commission will continue to closely monitor developments in both procedures to report back in the context of enhanced surveillance.

OVERALL ASSESSMENT OF PROGRESS WITH REFORM COMMITMENTS

Greece is at an important juncture as regards policy choices needed to deliver a sustained and lasting economic recovery. Greece has made a reasonable start to the post programme environment since the expiry of the ESM programme in August 2018. Real growth and employment creation has been maintained, and Greece once again overachieved its primary surplus target in 2018. Albeit with some delay, the completion of specific reform commitments due for the end of 2018 allowed the implementation of additional debt measures worth EUR 970 million in April 2019. Greece has also started to regain market access and benefited from upgrades from rating agencies. However, significant legacy effects of the crisis remain as reflected in high levels of public debt, NPLs and unemployment. Reducing these imbalances will require many years of sustained implementation of institutional and structural reforms initiated in recent years to modernise the economy and the state, as well as many years of economic growth.

The pace of reform implementation has slowed in recent months and the consistency of some measures with commitments given to European partners is not assured. Whilst there are a few policy areas where reform implementation continues (e.g. some issues related to the cadastre, Hellinikon), there is a risk that most of the 15 specific commitments for mid-2019 will not be completed on schedule. In some cases, such as reforms in the field of social welfare (disability assessments), public administration (appointment of the Administrative Secretaries) and energy (implementation of the target model), these delays risk running to several months. The Commission also underlines the importance for the Greek authorities to take steps that will enable ongoing privatisation tenders (e.g. HELPE, Egnatia, Athens International Airport) to proceed smoothly in the second half of 2019.

Projections by the European institutions indicate that, following the adoption of fiscal measures in May 2019, there are risks to the achievement of the agreed primary surplus target of 3.5% of GDP in 2019 and beyond, as well as for the compliance with the medium-term budgetary objective in 2020. The quality of the recent fiscal measures is of concern given the objective to make public finances more growth-friendly and to direct a higher share of social spending towards groups who face the highest incidence of poverty.

SOVEREIGN FINANCING

After the successful bond issuance in January, Greece tapped the markets for a second time in March 2019. Taking advantage of the improving market environment and a ratings upgrade, the Public Debt Management Agency proceeded with the issuance of a 10-year government bond for the first time since 2010, raising EUR 2.5 billion at a re-offered yield of 3.9% amid strong demand. Greece's yield spreads have since improved further in April: the spread vis-à-vis the German Bund reached on average 340 percentage points on the 10-year tenure. However, in the more recent period, Greek bonds experienced pressure in particular after the announcements of new fiscal measures on 7 May. State cash reserves stood high at EUR 24.3 billion at the end of March; including the cash reserves of general government entities in the Treasury Single Account, the reserves reached EUR 33.7 billion.

A technical update of the debt sustainability analysis has been carried out and a full update will be undertaken in autumn 2019. The baseline scenario shows the debt remaining on a downward path, though it remains above 100% of GDP until 2048. Greece's gross financing needs will hover around 10% of GDP until 2032 and remain around 17% of GDP at the end of the forecast horizon. It is not yet possible to fully incorporate the recent fiscal measures into the DSA as further analysis is required on their impact on growth and more clarity needed on the orientation of policies over the medium-term. But policies that affect negatively the primary balance surplus and growth potential would have a negative impact on the trajectory of debt.

Commission Staff Working Document

1. INTRODUCTION

Economic developments and policies in Greece are monitored under the regular economic surveillance framework for euro-area Member States under the European Semester for economic policy co-ordination and under the enhanced surveillance framework according to Regulation (EU) No 472/2013 ⁽¹⁰⁾. The activation of enhanced surveillance for Greece ⁽¹¹⁾ acknowledges the fact that over the medium term, Greece needs to continue adopting measures to address the sources or potential sources of economic and financial difficulties, while implementing structural reforms to support a robust and sustainable economic growth.

Greece made a general commitment at the Eurogroup of 22 June 2018 to continue and complete reforms adopted under the ESM programme and to ensure that the objectives of the important reforms adopted under the financial assistance programmes are safeguarded. In addition, Greece made specific commitments to complete key structural reforms started under the programme in six key areas by agreed deadlines up to mid-2022, namely (i) fiscal and fiscal-structural policies, (ii) social welfare, (iii) financial stability, (iv) labour and product markets, (v) privatisation and (vi) the modernisation of public administration ⁽¹²⁾. Greece reiterated these commitments given to European partners in the Eurogroup statement of 5 April 2019 ⁽¹³⁾. In this context, 15 specific commitments were made with a deadline of mid-2019, progress on which is assessed in this report.

This report is based on the findings of a mission to Athens between 6 and 8 May 2019 and regular dialogue with the authorities ⁽¹⁴⁾. The mission was conducted by the Commission in liaison with the ECB ⁽¹⁵⁾; the IMF participated in the context of its 2019 Article IV surveillance cycle, while the ESM participated in the context of its Early Warning System and in line with the Memorandum of Understanding of 27 April 2018 on working relations between the European Commission and ESM.

Enhanced surveillance provides a comprehensive framework for monitoring economic developments and the pursuit of policies needed to ensure a sustainable economic recovery. To this end, this report includes an assessment of economic conditions in Greece (chapter 2); an assessment of implementation of reform commitments given by Greece to the European partners (chapters 3-8); and an update on sovereign financing conditions and debt repayment capacity (chapter 9). This report is issued alongside the 2019 spring Semester package that includes an assessment of Greece's Stability Programme and the Commission Recommendation for country-specific recommendations to Greece.

The Eurogroup on 22 June 2018 agreed that the package of debt relief measures for Greece should include incentives to ensure a strong and continuous implementation of the reform measures agreed in the programme. To this end, the implementation of some of the agreed debt measures (the abolition of the step-up interest rate margin related to the debt buy-back tranche of the European Financial Stability Facility (EFSF) programme as of 2018 and the restoration of the transfer of equivalent amounts to the income earned by euro-area national central banks on Greek government bonds held under the Agreement on Net Financial Assets (ANFA) and the Securities Market Programme (SMP) will be made available to Greece subject to compliance with its commitments on reform continuity and completion, based on

⁽¹⁰⁾ Regulation (EU) No 472/2013 of the European Parliament and of the Council of 21 May 2013 on the strengthening of economic and budgetary surveillance of Member States in the euro area experiencing or threatened with serious difficulties with respect to their financial stability, OJ L 140, 27.5.2013, p. 1.

⁽¹¹⁾ Commission Implementing Decision (EU) 2018/1192 of 11 July 2018 on the activation of enhanced surveillance for Greece, OJ L 211, 22.8.2018, p. 1, and Commission Implementing Decision (EU) 2019/338 of 20 February 2019 on the extension of enhanced surveillance for Greece.

⁽¹²⁾ https://www.consilium.europa.eu/media/35749/z-councils-council-configurations-ecofin-eurogroup-2018-180621-specific-commitments-to-ensure-the-continuity-and-completion-of-reforms-adopted-under-the-esm-programme_2.pdf.

⁽¹³⁾ <https://www.consilium.europa.eu/en/press/press-releases/2019/04/05/eurogroup-statement-on-greece-of-5-april-2019>.

⁽¹⁴⁾ This report is based on information available up to 28 May 2019.

⁽¹⁵⁾ ECB staff participated in the review mission in accordance with the ECB's competences and thus provided expertise on financial sector policies and macro-critical issues, such as headline fiscal targets and sustainability and financing needs. The review mission was preceded by a technical mission from 1 to 4 April.

positive reports under enhanced surveillance. The return of SMP-ANFA income equivalent amounts would be made available to Greece in semi-annual tranches of some EUR 640 million up to mid-2022. The waiver of the step-up interest rate margin, for part of the EFSF loans, would reduce interest payments by some EUR 220 million annually. It would be waived on a semi-annual basis until 2022 and permanently after 2022. Following the Eurogroup on 5 April 2019, the first tranche of policy-contingent debt measures has been completed, inter alia based on the assessment of the implementation of Greece's commitments for end-2018 in an updated enhanced surveillance report adopted by the Commission on 3 April 2019 ⁽¹⁶⁾. Given that last year's full amount and half of this year's instalments of the interest step-up margin were eligible for a waiver, the policy-contingent debt measures exceptionally amounted to some EUR 970 million ⁽¹⁷⁾.

⁽¹⁶⁾ https://ec.europa.eu/info/sites/info/files/economy-finance/enhanced_surveillance_report_-_greece_april_2019_en.pdf.

⁽¹⁷⁾ <https://www.esm.europa.eu/press-releases/efsf-approves-reimbursement-and-reduction-step-interest-margin-greece>.

2. MACROECONOMIC DEVELOPMENTS

Greece's economic recovery is expected to continue in 2019 ⁽¹⁸⁾. Although the last quarter of 2018 showed some deceleration in economic activity, with real GDP decreasing at 0.1% quarter-on-quarter (seasonally and working-day adjusted), this slight decrease came after strong growth in the third quarter. The annual growth rate in 2018 came in at 1.9%, which confirms that the recovery is gaining some momentum. Real GDP growth is forecast to reach 2.2% in both 2019 and 2020, supported primarily by domestic demand. This forecast does not take into account the possible effects of the fiscal measures announced in May, which will be assessed in the next fully fledged forecast in the autumn.

Private consumption is forecast to perform well in 2019. Private consumption has been a steady contributor to growth in both 2017 and 2018. The consumer sentiment indicator has been on a steady rise since mid-2018 and in the first five months of 2019 reached levels not seen since the beginning of the crisis. The increase in the statutory minimum wage and the abolishment of the sub-minimum wage is expected to provide an additional boost to private spending in the short term.

An increase in public consumption may support growth this year. A decrease of 2.5% in real public consumption put a drag on growth in 2018. This was the result of continued and large under-spending in intermediate consumption compared to the budgeted targets. The rule-based forecast for 2019 assumes that the budget targets will be respected and achieved in 2019, therefore public consumption is expected to rebound and grow by 3.1% in real terms this year: In practice, and as outlined in chapter 3.1, there are risks that intermediate consumption may once again fall short of budget targets in 2019, an outcome that would act as a drag on growth.

Investment is expected to rebound in 2019, but only if the public investment budget is executed in full, which is not assured. Real gross fixed capital formation declined by 12.2% in 2018, performing well below expectations. A large part of this decrease was due to the continued large under-execution of the public investment budget. Public investment in 2018 declined close to 29% in nominal terms. This had a negative multiplier effect on corporate investment as well, as many private investment projects are related to public investments. On a technical note, it is important to highlight that gross capital formation declined much less than gross fixed capital formation, i.e. the accumulation of inventories was substantial in 2018 whereas inventories declined in 2017. For 2019, the Commission projects double-digit growth in investment based on the assumption that the public investment budget will be executed fully and will support real investment activity: in practice, however, there are considerable risks that the structural bottlenecks to design and implement public investment projects of adequate quality will materialise again in 2019 notwithstanding the technical assistance provided by the European Commission to strengthen the project pipeline. The recovery of residential construction is also expected to strengthen, while corporate investments may gain momentum once there is more clarity in public policy intentions after the national parliamentary elections.

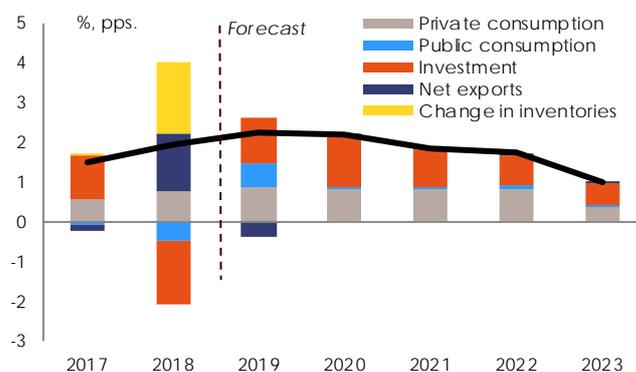
Exports may decelerate amid an external slowdown. The main success story in the macroeconomic picture of 2018 was the buoyant performance of the export sector. Exports of goods recorded 8.4% real growth, while exports of services increased by 9.3%. Export performance is expected to moderate in 2019 as the slowdown of the external environment curbs down foreign demand of goods, and the capacity reserves left for the volume of tourism to increase further are limited. At the same time, exports of goods and services are still expected to increase by close to 5% in 2019 and close to 4% in 2020 in real terms.

The labour market shows further improvements, although the decline in unemployment halted since October 2018. Unemployment has been declining from 20.9% in December 2017 to 18.6% in October 2018, and has been hovering around that level until February 2019. Employment grew by 1.7% in 2018 according to the national accounts definition, and by 2% according to the labour force survey.

⁽¹⁸⁾ The Commission's most recent forecast was published on 7 May 2019: European Economic Forecast, Spring 2019, Institutional Paper 102, May 2019. https://ec.europa.eu/info/publications/european-economic-forecast-spring-2019_en.

Employment still showed year-on-year growth of 2.4% in February, though this reflects earlier gains in employment rather than recent improvements, as the actual level of employment has been on a mildly decreasing path since mid-2018, as reported in the labour force survey. Detailed monitoring is foreseen to assess the impact of the recent increase of the minimum wage and the abolition of the sub-minimum wage on the pace of the recovery in the labour market.

Graph 2.1: Real GDP and growth contributions



Source: European Commission

Annual inflation reached 0.9% on average in the first four months of 2019. Price increases are expected to remain muted throughout the year. Inflation was driven primarily by non-core items, while core inflation (HICP excluding energy and unprocessed food) remained at 0.6% for this period. Energy inflation is expected to moderate in the rest of the year, while core inflation is set to increase mildly, partly due to the ongoing economic recovery and partly due to the inflationary effect of the minimum wage increase. Inflation is expected to pick up considerably only in the outer years, as the output gap closes.

Downside risks dominate the forecast in the short and medium term. The forecast is heavily reliant on technical assumptions regarding the execution of the general government budget ceilings for investment and ordinary spending. Should this assumption not hold, both public consumption and investment may turn out to be significantly lower. Also, the forecast assumes no reform reversals that may affect business sentiment. While expansionary fiscal measures adopted in May could provide an additional boost to domestic demand in the near term, there are also risks on the downside. Investment financing through the banking system may face challenges, should the level of non-performing loans remain high. Increased labour costs may weigh on firms' profit margins more than currently expected, which would further limit business investment. The marked slowdown in foreign demand is currently expected to have a moderate effect on Greece's export performance. In case of an even more pronounced deterioration in the external environment, or a stronger pass-through to Greece, the recovery may prove to be more sluggish.

Table 2.1: Summary of the main macroeconomic variables

	2018	2019	2020	2021	2022	2023
Real GDP	1.9	2.2	2.2	1.9	1.7	1.0
Employment growth	1.7	1.5	1.3	1.0	0.7	0.7
Unemployment rate	19.3	18.2	16.8	15.9	14.9	14.2
GDP deflator	0.5	1.1	1.2	1.5	1.6	2.0
Harmonised index of consumer prices	0.8	0.8	0.8	1.0	1.8	2.0

Source: European Commission

3. FISCAL AND FISCAL-STRUCTURAL POLICIES

3.1. FISCAL POLICY

Greece overachieved the agreed primary surplus target of 3.5% of GDP in 2018. The general government headline balance reached 1.1% of GDP in 2018, recording a surplus for the third year in a row. The primary balance, as per the definition monitored under enhanced surveillance, reached 4.3% of GDP, i.e. 0.8% above the fiscal target of 3.5% of GDP, after taking into account two large payments that made use of the fiscal space in 2018: refunds of wages to uniformed personnel and other public officials following a decision of the Council of State (materialisation of fiscal risks), and a payment of a means-tested cash transfer to low-income households ('social dividend'), neither of which was envisaged in the initial budget for 2018. The primary balance would have reached 5.2% of GDP in absence of these payments.

A large proportion of the overachievement is due to continued under-execution of spending ceilings, notably on public investment. As analysed in Box 3.1, the main drivers of the over-performance were lower-than-expected investment expenditure, consumption and social expenditure. For the most part, the under-execution of expenditure arises due to budget ceilings being set above the actual spending capacity of individual budgetary units and underlines the need for realistic estimates of costs of new policies and proper assessments of the state of play on major spending projects underpinning the ceilings. These issues have occurred for a number of years. The European institutions are supporting the authorities to address the reasons for the underspending by further improving the budget preparation process, enhancing the capacity of the General Accounting Office to properly scrutinise budget proposals of the main general government entities, and to establish a unified approach to budgetary planning by transferring responsibility for the setting of investment spending targets to the General Accounting Office.

Given the underlying causes, the over-achievement of the primary surplus target in 2018 is not carried over to 2019 in the fiscal projections of the European institutions. In line with standard practices applied to all Member States, the fiscal projections prepared by the European institutions traditionally assume full execution of the budget ceilings, for a number of reasons. As mentioned above, the underspending recorded in the past years is largely due to an overstatement of budget ceilings, rather than objective reasons outside the control of the authorities. Secondly, anticipating underspending and the resulting fiscal space in the projections could lead to double booking of expenditure. Such practice would decrease the transparency of the budgetary framework and pose risks to reaching the fiscal targets either because the initial budget ceilings are used fully or because the authorities adopt additional one-off or permanent fiscal measures throughout the year. For the reasons outlined above, and also given the need to take a balanced view of downside risks (see below), the projection of the European institutions is based on the assumption that budget ceilings are fully executed, with the risk of underspending treated as an upside 'risk' to the forecast.

The Commission 2019 spring forecast, published before Greece's adoption of a new package of fiscal measures on 15 May 2019, indicated that the primary surplus target of 3.5% of GDP is met throughout the forecast horizon. The projection included measures adopted in the context of the 2019 Budget, most notably the reduction in the ENFIA property tax in 2019; a reduction in social security contributions for the self-employed, independent professionals and farmers; a gradual decrease in the corporate income tax rate by 1 percentage point each year in 2020-2023; and the introduction of a new housing benefit. It also incorporated the cost of the subsidy for the protection of primary residences, which the authorities project at EUR 150 million in 2019 and EUR 200 million in 2020. The actual cost of the subsidy may turn out significantly lower both in view of the delays with initiating the scheme and the possible overestimation of its cost by the authorities. The projection also took into account the expiry of the current claw-back arrangement in 2022 (on current legislation), which constrains healthcare spending ensuring that it stays within the agreed ceiling. In terms of the underpinning measures, the

Commission 2019 spring forecast and the fiscal projection presented by the Greek authorities in their 2019 Stability Programme have similar assumptions.

Nevertheless, the primary surplus projected by the Commission in its 2019 spring forecast was considerably lower than that of the Greek authorities in their Stability Programme sent to the Commission at the end of April 2019 ⁽¹⁹⁾. In their Stability Programme, the authorities forecast a primary surplus reaching 4.1% of GDP in 2019 and 3.9% of GDP 2020, rising to 4.6% of GDP in 2022. As shown in Table 3.1, one third of the difference between the projections of the authorities and the European institutions in 2020 is due to a more favourable forecast of the macroeconomic environment by the authorities, and another 40% is due to a recent re-allocation of part of the public investment budget from entities outside general government to financial grants to state-owned enterprises (see below). Other differences are of smaller magnitude in 2020 and concern mainly the modelling of Greece’s contributions to the EU budget, which is currently under assessment.

Table 3.1: Differences in the Commission 2019 spring forecast and Greece’s Stability Programme (% of GDP)

	2019	2020	2021	2022	2023
Commission 2019 Spring Forecast	3.6	3.5	3.7	4.0	3.5
Greece’s Stability Programme (Greek authorities)	4.1	3.9	4.1	4.6	4.2
Differences	-0.5	-0.4	-0.4	-0.6	-0.7
<i>Of which:</i>					
Els more prudent macro scenario	-0.1	-0.1	-0.2	-0.3	-0.5
Reduction of GG investment	-0.3	-0.2	-0.2	-0.1	-0.1
Greece’s contribution to the EU: under assessment	0.0	-0.1	0.0	0.0	0.0
Military deliveries: risks in 2019	-0.1	0.0	0.0	0.0	0.1
Indexation of expenditure in medium term	0.0	0.0	-0.1	-0.3	-0.5
State revenues: 2nd round effects of measures	-0.1	0.0	0.0	0.0	0.1
Remaining differences	0.0	0.0	0.0	0.0	0.1

Source: European Commission

The Greek authorities incorporate the underspending observed in previous years in their fiscal projections with balance-improving effects of 0.3% and 0.2% of GDP in 2019 and 2020, respectively. In operational terms, this change was implemented through a re-assignment of part of the expenditure previously foreseen for investment outside general government to grants to state-owned enterprises, without adjusting the spending ceilings of the investment budget. Since the authorities assume these grants will not be used by the state-owned enterprises for additional investment, this accounting operation has a balance-improving effect in their projections. The European institutions have not received adequate information neither on the nature nor on the specific recipients of the additional grants, and have therefore not reflected this in their projection.

In their Stability Programme, the Greek authorities announced their intention not to implement the pre-legislated income tax credit package, which was set to enter into force in January 2020. This means not proceeding with measures that broaden the tax base and create fiscal space of 1% of GDP for growth-enhancing reforms of the tax system ⁽²⁰⁾. In line with standard practice for all Member States, the announcement was reflected in the Commission 2019 spring forecast, even if the changes to the respective tax laws are not yet legislated. As the income tax credit package was fiscally broadly neutral, the announcement has only a strictly limited impact in the forecast.

⁽¹⁹⁾ The Stability Programme represents Greece’s national medium-term fiscal plan under Article 4(1) of Regulation (EU) 473/2013 of the European Parliament and of the Council of 21 May 2013 on common provisions for monitoring and assessing draft budgetary plans and ensuring the correction of excessive deficit of the Member States in the euro area.

⁽²⁰⁾ See Box 3.1 in the second enhanced surveillance report of February 2019 for a comparative assessment of the structure and main issues in the Greek tax system. https://ec.europa.eu/info/publications/enhanced-surveillance-report-greece-february-2019_en.

Table 3.2: Measures legislated in May 2019 (% of GDP)

	European institutions		Greek authorities	
	2019	2020	2019	2020
Instalment schemes	<-0.3, -0.6>	<-0.3, -0.6>	0.2	0.3
Social security contributions debts	<-0.1, -0.2>	<-0.1, -0.2>	0.0	0.1
Tax debts	<-0.2, -0.4>	<-0.1, -0.3>	0.1	0.2
Debts to local governments	n.a.	n.a.	n.a.	n.a.
VAT rates cuts	-0.3	-0.4	-0.3	-0.4
Food products (except drinks) moved from 24% to 13%	-0.1	-0.1	-0.1	-0.1
Electricity and gas moved from 13% to 6%	-0.1	-0.1	-0.1	-0.1
Food services (except drinks) moved from 24% to 13%	-0.2	-0.2	-0.2	-0.2
Pensions	-0.5	-0.5	-0.5	-0.5
Extension of the survivor's pension	0.0	-0.1	0.0	-0.1
Permanent 13th pension	-0.4	-0.4	-0.4	-0.4
Total impact of measures	<-1.1, -1.4>	<-1.2, -1.5>	-0.6	-0.6

Source: European Commission

On 15 May 2019, and thus after the submission of the Stability Programme, the authorities adopted a package of permanent fiscal measures, which the European institutions estimate will have a fiscal cost of more than 1% of GDP in 2019 and beyond. The measures include new instalment schemes for debts on taxes and to social security funds and municipalities, reductions in selected VAT rates, introduction of a 13th pension and a reversal of an earlier reform of survivors' pensions. The European institutions' estimates of the fiscal cost of these measures vary depending on the take up of the new instalment schemes and their impact on the existing ones and are higher than that of the Greek authorities (see Table 3.2). No estimate of the potential fiscal impact of the new instalment scheme for taxes and local government revenues has been provided to the Greek Parliament. Given that the Commission 2019 spring forecast points to a primary balance of close to 3.5% of GDP up to 2021, the adoption of measures with a fiscal impact of this magnitude poses a risk for the achievement of the agreed primary surplus target. Moreover, and as outlined in the assessment of the Greek Stability Programme, the measures also raise concerns on the achievement of the medium-term budgetary objective (MTO) of a surplus of 0.25% of GDP in structural terms in 2020. A re-assessment of compliance with the requirements of the preventive arm of the Stability and Growth Pact will be carried out in autumn 2019, including a revision of the applicable benchmark for net expenditure growth in 2020.

The quality of the fiscal measures adopted on 15 May 2019 is of concern given the objective to make public finances more growth-friendly and to direct a higher share of social spending towards groups who face the highest incidence of poverty. The permanent fiscal cost of these measures also absorbs a considerable amount of fiscal space that was envisaged in legislation adopted in 2017 for growth-enhancing reductions in labour and corporate tax rates. In more detail, the adopted measures are as follows:

- **New instalment schemes to settle debts on taxes, social security contributions and payments to local governments (estimated fiscal cost ranging from 0.3-0.6% of GDP in 2019).** These schemes contrast a key reform enacted in 2013, which replaced all former settlement schemes by a single 'basic' scheme used for tax debt collection as well as for social security debt collection. The basic scheme is accessible only to viable and liquidity constrained taxpayers, with eligibility assessed prior to entering the scheme. For big debtors, the basic scheme requires a third party assessment of the viability of the debt schedule and collateral. It offers no reduction of past surcharges. The new schemes will provide the possibility to clear debts in up to 120 monthly instalments, instead of only 12 in the basic scheme, and largely without an assessment of the ability to pay. The opening of new schemes six years after the basic scheme was put in place creates legitimate expectations that new schemes will be opened again in the future, and thus raises critical concerns about payment

discipline ⁽²¹⁾. The European institutions' estimates are based upon the impact of previous instalment schemes; they take into account upfront losses expected due to a large proportion of persons and legal entities moving from existing instalment schemes to the new and more generous one, which are likely to be larger than the revenue generated by the inflow of persons and entities that have not started to clear their debts to the government yet. See section 3.2.2 for further analysis.

- **Lower VAT rates for food products, restaurants and food services, electricity and gas (estimated fiscal cost of 0.4% of GDP).** This measure alters an important reform of the VAT system adopted in July 2015 to secure the agreement on the ESM stability support programme for Greece. The reform aimed to reduce the VAT gap by eliminating VAT exemptions and limiting the application of reduced rates. The newly adopted measure leaves in place the very high 24% standard rate (5th highest in the EU) while further expanding the scope of the reduced rates. This will increase the VAT gap, which is already the 2nd highest in the EU. See section 3.2.1 for further analysis.
- **Introduction of a permanent 13th pension and relaxation of eligibility criteria for survivors' pensions (estimated fiscal cost of 0.5% of GDP).** These measures partially alter measures adopted in November 2012 and in 2016 respectively. The new 13th pension will be paid once a year at a level of 30%-100% of current pensions (the highest percentage for pensions below EUR 500 per month and the lowest for pensions above EUR 1,000 per month). Regarding the survivors' pensions, the reform increases the generosity of the pension to 70% (up from 50%) and eliminates the time limit for drawing on the pension (currently 3 years for persons below 50 years of age). Furthermore, the number of married years for eligibility is reduced from 5 to 3. See section 4.1 for further analysis. Overall, this reform will increase public spending on pensions – which is already the highest in the EU as a share of GDP – and is in contrast to measures adopted in the 2019 budget which direct a higher share of spending on social benefits towards young people and the working-age population who face much higher risks of poverty ⁽²²⁾.

In addition to the measures outlined above, the Greek authorities announced their intention to adopt a set of additional measures for 2020. These are policy intentions to be enacted in autumn 2019 in the context of the 2020 budget and will not be legislated now. These include reductions in tax rates, as well as the introduction of a series of exemptions and tax expenditures (see Table 3.3). The authorities have provided only a partial estimate of the fiscal impact of these measures, totalling EUR 1.2 billion or 0.6% of GDP. An assessment on the quality of the measures and their impact on the achievement of the agreed fiscal targets would only be carried out if detailed proposals are actually tabled.

The Greek authorities have also announced their intention to revisit the agreement reached with European partners in June 2018 as regards the annual primary surplus targets of 3.5% of GDP up to 2022. Linked to this, the authorities are considering transferring part of the cash reserves generated by the 2016-2018 fiscal over-performance to an escrow account. Any proposal which alters the agreement reached with European partners in June 2018 would need to be discussed at the Eurogroup in the context of an updated debt sustainability analysis.

⁽²¹⁾ Note that the authorities introduced in 2014 and 2015 (outside the programme framework) two new temporary schemes for both taxes and social security contributions, which are already closed for new inflows of debt but account for 40%-50% of debt under settlement. The experience after the introduction of the 2015 scheme supports the expectation that participants in earlier settlement schemes would transfer to the new more generous scheme.

⁽²²⁾ See box 3.1 in the first enhanced surveillance report of 21 November 2018. https://ec.europa.eu/info/publications/economy-finance/enhanced-surveillance-report-greece-november-2018_en.

Table 3.3: Policy intentions for measures to be adopted in late 2019 (% of GDP)

	Greek authorities	
	2019	2020
Cut in reduced VAT rate from 13% to 11%	0.0	-0.3
Reduction in Solidarity Contribution Contribution	0.0	-0.1
Deductability of mortgage interest for first residence from PIT	0.0	0.0
Lower PIT for islands with population below 3,100	0.0	0.0
Super-depreciation of investment	0.0	-0.1
Extension of subsidy to social contributions for young employees	0.0	-0.1
Extension of subsidy for heating oil for mountainous areas	0.0	n.a.
Reduction of income tax for partnerships to 10%	0.0	n.a.
Discount of 10% of taxable income for agricultural cooperatives	0.0	n.a.
Total impact of measures	0.0	-0.6

Source: European Commission

Greece’s public finances continue to face important fiscal risks with respect to ongoing court cases.

The Council of State, Greece’s highest court, is yet to issue final decisions on the constitutionality of the past pension reforms and the elimination of seasonal bonuses to civil servants. No new information on the pending case on pensions has become available since the publication of the second enhanced surveillance report, and the ruling by the Council of State on the constitutionality of the cuts in seasonal bonuses is yet to be published. The refunds of wage cuts to uniformed personnel made in 2018 following an earlier decision of the Council of State were covered by a reallocation of resources from unused expenditure appropriations at the end of 2018, once it was possible to quantify the expected size of underspending. Should risks materialise, covering them from under-executed spending ceilings will likely become difficult this year in view of the likely slippage against the fiscal target. In the event of court rulings overturning key structural elements of reforms agreed under the financial assistance programmes, the recurrent fiscal implications of such rulings should be largely addressed by actions within the same policy area.

Risks related to the broadening of the scope of exemptions from the unified wage grid have partly materialised and remain a source of concern.

Following the decision in October 2018 to exempt certain officials at the Ministry of Finance from the unified wage grid, the exemption was extended to the Ministry of Economy and Development in March 2019, with a retroactive application from September 2018. While the cost of this measure is relatively contained, it increases the likelihood of legal challenges by other groups of public officials on reason of equal treatment and/or of a unilateral decision of other general government entities to extend these exemptions on an ad hoc basis. Establishing a unified wage grid was one of the key reforms implemented under the financial assistance programmes. It thus forms part of the commitment to safeguard the objectives of such reforms that the authorities made to their European partners in June 2018. See section 8.1.4 for further analysis.

Box 3.1: Under-execution of spending ceilings in 2018

This box provides an assessment of the fiscal outcome of 2018 in comparison to the budget for that year adopted in December 2017.

The outcome for the primary surplus of 2018 was significantly higher than envisaged in the budget. While the budget targeted a primary surplus (in the definition monitored under enhanced surveillance) of 3.8% of GDP, the outcome calculated by the European institutions on the basis of data notified to Eurostat reached 4.3% of GDP, i.e. by 0.5% of GDP higher. However, the actual over-performance would have been even higher without two specific transactions not foreseen in the budget: refunds of wages to uniformed personnel and other public officials following a decision of the Council of State and a payment of a social dividend. The primary balance would have reached 5.2% of GDP in absence of these payments, giving rise to an over-achievement of 1.3% of GDP or EUR 2.5 billion.

As shown in Table 1 below, the main driver of the over-achievement was public expenditure falling well below initial plans – both for investment and ordinary spending. The overall contribution of general government revenue to the over-achievement was just about 0.1% of GDP, excluding the role of payments received from the EU on co-funded projects, which is netted from the spending on these projects on the expenditure side. More than 90% of the over-performance is therefore attributable to under-execution of general government expenditure. The single biggest contributor was investment that was expected to be carried out directly by ministries (as opposed to other subsectors of general government), where the ‘net’ size of underspending reached 800 million (0.4% of GDP). This is after removing the shortfall on projects co-funded by the EU, which was reflected in lower revenues received from the EU and is therefore neutral to the balance. Before this, the ‘gross’ underspending compared to initial plans reached EUR 2 billion, while revenues received from the EU were EUR 1.2 billion below expectations. Other main drivers of the underspending included ordinary expenditure of the state budget and pensions, mainly lump sum benefits.

Table 1: Differences between fiscal outcome and plan (+ = higher revenues or underspending) in 2018

	Budget		Outcome		Difference	
	m EUR	% GDP	m EUR	% GDP	m EUR	% GDP
Primary surplus	7 035	3.8	7 928	4.3	893	0.5
Fiscal space used before the end of the year	0	0.0	1 591	0.9	1 591	0.9
Social dividend	0	0.0	769	0.4	769	0.4
Wage refunds based on a court decision (net)	0	0.0	822	0.4	822	0.4
Primary surplus before use of fiscal space	7 035	3.8	9 519	5.2	2 484	1.3
<i>Of which:</i>						
Investment expenditure, net of EU funds revenue	3 435	1.9	2 319	1.3	1 116	0.6
State budget	1 066	0.6	258	0.1	808	0.4
Extrabudgetary funds, SOEs, municipalities etc.	2 369	1.3	2 061	1.1	308	0.2
Other expenditure	67 864	36.7	66 709	36.1	1 155	0.6
State budget	20 073	10.9	19 253	10.4	820	0.4
Operational exp., benefits, subsidies	19 073	10.3	18 583	10.1	490	0.3
Contingency reserve	1 000	0.5	670	0.4	330	0.2
Social security funds	38 239	20.7	37 723	20.4	516	0.3
Other subsectors	9 552	5.2	9 733	5.3	- 181	-0.1
Revenue, net of EU funds	78 334	42.4	78 547	42.5	213	0.1

Source: European Commission

The main underlying reasons for the expenditure shortfalls are as follows:

- **The investment budget, where most of the underspending arises, is separated from the budget for ordinary expenditure, a situation that has been remedied in most EU Member States, even if specific aspects of their integration differ across countries.** In practice, this ‘dual budgeting’ approach implies efficiency losses and redundancies, as the priorities for the two budgets are not sufficiently coordinated, and lack of external scrutiny on the realism of the plans underpinning the budget. The situation is made worse by the fact that the ‘investment’ budget includes many ordinary expenditures, on the basis of them being (potentially) eligible for co-funding from the EU.

(Continued on the next page)

Box (continued)

- **The budgeting for ordinary expenditure follows a transparent process envisaged in the Organic Budget Law (OBL) but the checks and balances envisaged in the OBL are performed rather in a formalistic manner.** The current resources and sectoral knowledge of the General Accounting Office, which is part of the Ministry of Finance and coordinates the budgeting process for ordinary expenditure, do not allow exercising proper scrutiny over the budgetary plans proposed by line ministries. For instance, the General Accounting Office is not providing independent estimates of the cost of their policy plans. Moreover, the budget includes ‘non-allocated’ appropriations on top of the contingency reserve that are allocated only during the year and often end up under-executed.
- **A related issue is the low precision of costing of new policy plans and mandatory expenditure.** A case in point is the subsidy for the protection of permanent residences, where the subsidy that existed until 2018 was repeatedly budgeted but never actually used. The cost of the new subsidy that is part of the revised framework seems to be overestimated again. Other examples include the ‘transport equivalent’ subsidy (funded from the investment budget) and the cost of new active labour market policies, both of which have been systematically overestimated. Regarding mandatory expenditure and more specifically pensions, well-founded models have been developed by the responsible ministry but these factor in sizeable buffers that could be identified to free up the fiscal space for growth-enhancing policies. While pockets of best practices regarding fiscal modelling exist in the public administration (e.g. the Council of Economic Advisors), a proper allocation of limited resources requires building up the capacity directly at the General Accounting Office, which has the responsibility over the budget preparation process.
- Under-execution of budget ceilings seems to be also supported by specific budgetary rules that were introduced in the past to fight over-spending. For instance, the budget for the next year is prepared on the basis of the budget adopted for the current year, without assessing whether the budget targets were met in the previous years (or in the first half of the current year) and without scrutinising the reasons for the underspending. It is to be noted that the forecast-related provisions of the 2011/85 Budgetary Frameworks Directive (Article 4, paragraph 1) call for basing budgetary planning on the most up-to-date information, which would imply, in principle, to include the within-the-year data on budgetary execution into the information set when drawing up expenditure plans for the next year.

The authorities are encouraged to tackle the root causes for the underspending. Mindful of the fact that improving a situation to a satisfactory level may take several years, the European institutions have invited the authorities to develop a scoping note for an ambitious action plan, which should mainly include the following elements: a) improving the budget preparation process, b) enhancing the capacity of the General Accounting Office (staffing, training, resources) to properly scrutinise budget proposals by main budgetary units, and c) establishing a unified approach to budgetary planning by transferring responsibility for the setting of investment spending budget to the General Accounting Office. Implementation of the plan will require close cooperation of a number of stakeholders most notably the General Accounting Office and the General Directorates for Financial Services of line ministries.

3.2. FISCAL STRUCTURAL POLICIES

3.2.1. Taxation

Whilst Greece has made progress in the reform of ENFIA property tax valuation, though preparations for a mid-2019 realignment of property values have not yet been completed. The valuation reform aims at fully aligning property tax zonal values with market prices by 2020, thus widening the tax base and improving the efficiency and fairness of the tax. Considerable progress has been made in staffing the newly set up valuation unit and in developing the tools for valuations. Two key IT projects have been initiated to map electronically zonal boundaries and to systemise the collection of real estate data. The legal framework for the new system of property valuation by professional real estate values was established by an amendment in Law 4587/2018. Following an independent quality assessment exercise of the results of the last year’s nationwide valuation exercise, it was agreed that a new nationwide valuation exercise by valuers was not needed in 2019. However, the results of the independent exercise highlighted the need to extend the market valuation system beyond the existing property value zones and also the need to improve the valuation of commercial properties.

As an intermediate step towards full alignment of property tax values with market prices in 2020, the authorities have been working towards a partial realignment in 2019. The aim would be to align property tax values by 50% of the remaining difference from market prices this year, in the context of a two-step approach. To this end, the authorities would still need to prepare the detailed timetable for the update to take place and the associated fiscal analysis of the realignment exercise that would allow the setting of revenue neutral tax rates and thresholds. The next ENFIA property tax bills will need to be sent out in July 2019.

The changes to VAT rates adopted in May 2019 alter ESM programme reforms of 2015 aimed at reducing the VAT gap by limiting the application of the reduced rates. The newly adopted measure leaves in place the very high 24% standard rate (5th highest in the EU) while further expanding the scope of the reduced and super-reduced rates. This will likely increase the VAT gap, which is already the 2nd highest in the EU. In addition, the parallel lower VAT rate structure still remains in force in a limited number of Aegean islands.

Progress is underway on other smaller tax policy reforms. With the help of technical support, reviews are currently underway of the system of Stamp Duty and of the potential individual liability of corporate managers for tax offences.

3.2.2. Revenue administration

The hiring of staff to the Independent Authority for Public Revenue (IAPR) remains slow, with only a marginal increase observed during the first quarter of 2019 (from 11,487 to 11,534) and significantly lower than the specific commitment for the end of 2019 (12,500). A positive development during this reporting period was the publication by the Supreme Council for Civil Personnel Selection (ASEP) of the final list with successful candidates for the recruitment of tax/customs officials (546 posts). Further, the complementary measures adopted in the context of the last enhanced surveillance round included legal provisions to facilitate the transfer of staff to the IAPR from the mobility scheme, which is expected to have a positive impact for the ongoing and future mobility cycles. The most recent hiring plan submitted by the IAPR expects that the staffing will have reached 12,396 by end of 2019, which would require a significant acceleration compared to the hiring trend of the previous 12 months.

A number of complementary measures were adopted earlier in the year to ensure the continued strengthening of the IAPR's capacity, and specific follow-up actions on these measures are expected to be completed during the next months. First, as concerns the reform of Human Resources, the IAPR is expected to submit a request the Legal Council of State on the planned supplementary wage grid and to adopt the secondary legislation required to establish a supplementary grading scale. Second, the IAPR is to establish an Executive Committee to oversee the implementation of the various actions/projects that are part of the IAPR's strategy document ("Blueprint", 2019-2022). Third, as concerns the 'IT envelope' agreement between the General Secretariat of Information Systems and the IAPR, while the budget has been established, the funds are yet to be secured.

Progress on other commitments and reform items is mixed. On customs, continued progress has been made in delivering on the anti-smuggling strategy and the fuel tank action plan, including proceeding with the preparations for the tender on fuel markers with the Expression of Interest published in May 2019. As concerns the Operational Coordination Centre that aims to coordinate the services involved in the fight of smuggling of excise goods, a law amendment relating to the Centre's internal rules (e.g. duration of secondment from the various services) would need to be adopted without delay, in order not to risk reducing its operational capacity. Continued progress is being made in promoting electronic payments, with the action plan being updated to include specific milestones to be achieved until mid-2020. On the other hand, the asset registry, a commitment included under Greece's growth strategy and expected to be adopted by end of 2018, has not been completed. Finally, a recently adopted law amendment⁽²³⁾ extending the General Secretariat of Information Systems' mandate to develop and manage IT systems relating amongst other to traceability of tobacco products raises potential overlaps of

⁽²³⁾ Article 233, Law 4610/2019 (OJ A 70/7.5.2019).

responsibilities with the IAPR. It is therefore essential that a cooperation framework is agreed to ensure that the IAPR has full and easy access to the needed information.

The results for the first quarter of 2019 on tax collection and other key performance indicators (KPIs) set by the IAPR presents a mixed picture. Overall the tax collection target has not been fully met, as EUR 923 million were collected compared to a target of EUR 970 million. Although the target for collection of debts by the Large Debtor Unit has been met (EUR 200 million collected compared to a target of EUR 185 million), actual collection during the same quarter of 2018 had been close to 15% higher (EUR 235.2 million). Possible reasons for the weaker than expected tax collection could include an extension granted by the Ministry of Finance concerning withheld income tax and the announcements of new instalment schemes adopted on 15 May 2019. On the other hand, KPIs in most other areas, including collection after audits, are being met, although, as concerns audits, improvements are needed to meet the target on the share of the so-called “fresh” tax audit cases, which is expected to increase in comparison to the overall number of audits carried out (see Table 3.4).

The single centre for the collection of social security debt (KEAO) continues to meet its targets for the collection of social security debt. The targets set for 2019 are more ambitious than for the preceding year and rather close to the actual collection achieved during 2018. For the first quarter of 2019, the target was an overall collection of EUR 299 million and the actual collection exceeded this target as EUR 312 million were collected. However, it is noteworthy that the debt collection in April 2019 was significantly lower than the corresponding month in 2018 (13.17%) and a plausible reason could be the announcement of a new instalment scheme concerning social security contribution debt. As concerns the strengthening of joint actions between the IAPR and the KEAO, secondary legislation that will allow the KEAO to consider directly applying the IAPR’s classification of the persons/entities considered to have ‘uncollectable’ debt remains pending and should be adopted without delays. Further, the KEAO is undertaking a re-organisation, mainly consolidating its regional offices, and is also taking steps to fill the vacant posts (currently 450 out of 700 posts are filled), in order to further enhance its capacity. Finally, the KEAO is currently reviewing the collection tools available, in particular how to more efficiently target strategic defaulters, in order to present concrete suggestions during the next months.

Finally, the authorities adopted three new instalment schemes for tax, social security and municipal debts with up to 120 monthly instalment schemes ⁽²⁴⁾. The scope of the social security debt ⁽²⁵⁾ was more targeted as its main focus was on the self-employed and also linked future contributions to amount paid. In contrast, the instalment scheme on taxation ⁽²⁶⁾ did not include any specific prioritisation for the physical persons with outstanding debt as of end of 2018 (e.g. include a maximum threshold for assets and/or differentiate number of instalments depending on type of debt owed). Also participation is not conditional on any viability assessment. The potential fiscal impact of the adopted schemes is analysed in section 3.1.

⁽²⁴⁾ Law 4611/2019 (OJ A 73/17.5.2019).

⁽²⁵⁾ Online platform through EFKA’s website was launched on 22 May 2019 and the deadline to submit applications is set for end of September 2019.

⁽²⁶⁾ Online platform through IAPR’s website was launched on 21 May 2019 and the deadline to submit applications is set for 28 June 2019.

Table 3.4: KPIs of the IAPR (2018-2019)

			Q1 2019		Q1 2018
			Target	Result	Results
Debt collection	KPI 1	Collection of tax debts as of the end of the previous year (EUR millions)	970	924	985
	KPI 2	Collection of new debts in the current year (percent of new debt in the year)	16.2%	15.2%	12.5%
	KPI 3	Collection of debts by Large Debtor Unit (EUR millions)	185	200	235
Audits of fresh tax cases by the whole IAPR	KPI 4	Percent of fresh tax audit cases in total completed audits	70.0%	54.7%	53.7%
Tax audits and collection of large tax payers	KPI 5	Collection after audits in the year (percent of assessed tax and penalties)	40.0%	104.0%	56.8%
Tax audits and collection of high wealth individuals	KPI 6	Collection after audits in the year (percent of assessed tax and penalties)	40.0%	1096.6%	140.6%
Tax refunds	KPI 7	Percent of VAT tax refund claims processed within 90 days	95.0%	94.1%	66.9%
Compliance and enforcement	KPI 8	Percentage of total tax paid on time for VAT, Income and Property taxes	81.5%	82.2%	79.7%
Percentage of total tax paid on time for VAT, Income and Property taxes	KPI 9	Percentage of debtors under enforcement measures	65.0%	66.0%	64.5%
Pre litigation phase	KPI 10	Percentage of cases closed by explicit decision of the DRU	70.0%	95.6%	96.6%
Prosecution audits by Mobile Units	KPI 11	Prosecution audits by Mobile Units (Customs Administration)	4 550	4 374	7 622

Source: IAPR

3.2.3. Public financial management

Arrears

The Greek authorities have committed to clear the stock of arrears, to avoid the accumulation of new arrears (continuous action) and to complete the implementation of reforms identified by the Hellenic Court of Auditors (HCA) by mid-2019. Despite the fact that the net stock of arrears has decreased since the end of the programme, the pace of reduction has significantly slowed and new arrears continue to be created in some sectors. The remaining stock of arrears as of end-March 2019 still needs to be cleared.

The arrears clearance process saw only limited progress since end-August 2018. The end-March 2019 ⁽²⁷⁾ stock of net arrears stood at EUR 1.4 billion; and while it is EUR 0.3 billion lower than the end of programme (August 2018), it is the same level as at end-December 2018. This indicates that despite the efforts to tackle structural weaknesses in the public financial management, new arrears continue to be created. Programme financing and own resources continue being used to clear arrears. Of the total EUR 7 billion disbursed for arrears clearance during the programme, EUR 0.1 billion remain unused by end-April 2019. In the same period, the authorities have used more than four times the disbursed amount to clear arrears from own resources, much of this amount allocated to the clearance of new arrears, which have continued to be created.

⁽²⁷⁾ Latest available data at the cut-off date of the report.

Box 3.2: The phasing out of ex ante audits performed by the HCA

The ex ante audit of the state expenditures constituted until recently a crucial component of the payment process, since no payment could be completed unless its legality and its regularity was validated by two independent bodies, Ministry of Finance (MoF) – GAO and the Hellenic Court of Auditors.

The abolition of ex ante audits in the Organic Budgetary Law (art 31) in 2015 under the ESM programme was designed to streamline the process with an overall objective of reducing the time required for payments to be processed and executed and alleviating administrative cost. This would act as a major contribution to arrears reduction.

The authorities carried out the first part of the reform for line Ministries successfully in January 2017. The creation of General Directorate for Financial Services allowed line Ministries to fully assume responsibility for the whole expenditure chain, from budgeting to commitment and then to payment.

GAO carried out the first part of the reform for line Ministries successfully in January 2017. The creation of General Directorates for Financial Services allowed line Ministries to fully assume responsibility for the whole expenditure chain, from budgeting to commitment and then to payment. Two additional years (until January 2019) were granted to hospitals, Extra Budgetary Funds (EBFs) and local government to make appropriate arrangements to phase out of ex ante audits. Nevertheless, the authorities were not fully ready to implement the phase-out reform even by the extended deadline and they initially postponed the implementation of the reform until the end of the year.

Following consultations with the institutions and the concerned entities, it was agreed to implement immediately the reform for hospitals and OPEKA (responsible for the payment of social benefits) and to implement the full phasing out of ex ante audits in local government and EBFs from 31 July 2019.

In addition, to remedy problems stemming from the abolition of ex-ante audits by the HCA and to streamline payment processes, some further important actions in local government, EBFs and hospitals were agreed to be undertaken.

- On the hospital side, the financial liability regime for accountants was amended⁽¹⁾ and an action plan is being developed to take specific actions in the hospitals in which serious increases in arrears have arisen. The full roll out of the central procurement system for public hospitals (EKAPY) would be another major step forward in the arrears creation process management. EKAPY has initiated the process to considerably enhance its capacity by hiring 23 additional permanent staff by the end of the year.
- On local governments, the Ministry of Interior has issued instructions on internal auditing procedures and resources since August 2018. However, not all local governments were prepared to abolish the ex-ante audits performed by HCA as of January 2019, mainly due to lack of resources in the smaller local governments. To this end, the Ministry of Interior has initiated a hiring process through the Supreme Council for Civil Personnel Selection (ASEP) of 118 permanent positions in small municipalities. The announcement of the preliminary list of appointees is expected by August while the final results are expected by the end of the year. In the meantime, local governments can hire the appointees under temporary contracts. Furthermore, staff will be provided with targeted training seminars aiming at enhancing their expertise on payment processes.

⁽¹⁾ (GG A' 70/7.5.2019 - Article 230)

(Continued on the next page)

Box (continued)

On EBFs, the authorities have identified the main weaknesses stemming from the abolition of ex-ante audits by HCA and developed a list of actions to tackle the problems. The main issues relate to insufficient resources, lack of expertise and in some cases the organisational structure of the entities. The actions focus on addressing the lack of staff through the mobility scheme, organising trainings and restructuring the entities' financial services and organisational charts.

The authorities are currently implementing structural measures to address the bottlenecks of arrears management. The measures are based on the recommendations issued by the Hellenic Court of Auditors (HCA) following its audit on arrears in May 2018, which are of a structural nature. To this end, two action plans were prepared, in the fields of responsibility of GAO and the IAPR respectively. According to the latest available information, around one third of the measures mentioned in the IAPR action plan are fully completed and about another one third are very close to be completed. Some of the actions mentioned in GAO's action plan are completed while some are under development or in the very first phase of implementation. The overall implementation of the reforms in both action plans will be assessed in mid-2019 in the context of a follow-up audit by the HCA.

The authorities committed to provide a full arrears clearance plan with complementary actions targeting the structural sources of arrears creation. The plan shows that the authorities would clear on average EUR 185 million per month between April and August 2019, leaving arrears of slightly below EUR 0.5 billion one year after the end of the ESM programme. The majority of the remaining arrears belong to social security funds, pension claims and local governments. Even though the remaining stock in August 2019 would be substantially lower, the authorities will need to continue clearance and avoid the creation of new arrears.

Table 3.5: Arrears clearance plan (actual data until March 2019, in million EUR)

	Aug-18	Dec-18	Jan-19	Feb-19	Mar-19	Apr-19	May-19	Jun-19	Jul-19	Aug-19
Total gross arrears	3 588	2 510	2 542	2 606	2 617					
o/w new accumulation (inflows)	1 285	948	671	772	837					
o/w clearance (outflows)	-1 039	-1 482	- 639	- 708	- 827					
with programme funds	- 177	- 303	- 12	- 58	- 105					
with own funds	- 862	-1 179	- 627	- 650	- 722					
Total adjustments	1 891	1 119	1 157	1 231	1 221					
Total net arrears	1 697	1 391	1 385	1 375	1 395	1 165	935	745	568	469
Monthly change in total net arrears	- 263	- 174	- 6	- 11	21	- 231	- 229	- 190	- 178	- 99
Breakdown of net arrears										
State	92	48	49	45	80	61	39	32	12	5
Local Government	263	200	203	217	247	215	140	103	103	103
EBFs	249	255	259	256	243	164	160	119	67	44
Hospitals	- 1	0	0	4	56	52	0	0	0	0
Social Security Funds	683	504	466	455	436	407	372	301	240	193
Pension claims	192	180	194	196	205	199	188	166	144	122
Tax refunds	219	204	215	202	128	66	37	24	2	2
Stuck ESM programme financing	1 190	237	225	130	70	57				
Monthly change in stuck financing	746	- 303	- 12	- 95	- 60	- 13				

Figures from April 2019 are the authorities' projections according to their clearance plan.

Source: European Commission

To further streamline payment processes and facilitate arrears clearance, the authorities are also working on the following measures:

- Although consignments can be opened at the Consignment Deposits these are not recognised by standing Organic Budgetary Law (OBL) provisions as a means of payment. An amendment will allow entities to open consignments for obligations they cannot repay for reasons beyond their powers (e.g. because the beneficiary has not responded to the entity's notifications) and delete these obligations from their books. It would indeed allow entities to pay their obligations while protecting the

beneficiaries' interests. As a result, large amounts of obligations will be deleted from the stock of arrears, hence allowing the entities to focus on the management of their remaining obligations. The authorities plan to issue primary and secondary legislation by September 2019, with the provisions implemented by November 2019.

- The provision of specific instructions to entities in order to clarify the process and the requirements for issuing settlement vouchers for cases where the amount corresponding to some obligation has already been seized from the entity's bank account as a result of a court ruling. The OBL already provides for such a treatment, but this possibility is rarely used by entities. The authorities plan to issue the relevant Ministerial Decisions following discussion with the entities by the end of the year, with the provisions implemented as of January 2020.
- A legal amendment whereby the mandatory upload of commitments' revocation and re-assumption in the "Diavgeia" website in the beginning of each fiscal year will be made *en masse* in order to streamline procedures and reduce the excessive administrative burden that leads to a slowdown in normal clearance and payment of obligations in the first months of the year. Currently, both processes have to take place for every single commitment, significantly increasing the administrative workload. The authorities plan to amend the Presidential Decree by September 2019, with the first implementation of the new provisions as of January 2020.
- A decision has been signed by the Governor of the IAPR to eliminate the need for a separate administrative process performed by a tax refund beneficiary before legal entities can clear arrears related to tax refund. This arrangement created additional administrative burden to the IAPR, while it also directly led to creation of arrears in cases where the beneficiaries would delay to submit their application.
- In order to address the administrative capacity problem in the clearance plan for lump sums (ETEAEF), the Ministry of Labour is going to amend the legal framework in the coming weeks in order to allow for the swift payment of arrears in the form of temporary lump sums, along the lines of the procedure that is already in place for pensions. This arrangement will allow for a fast reduction of ETEAEF's obligations. A legal provision is currently prepared by the Ministry of Labour and is expected to be submitted in the Parliament in the coming weeks, since its implementation is a necessary condition for reaching the reduction targets set out in the plan.

Treasury Single Account

The Greek authorities are moving forward with implementing a Treasury Single Account (TSA) at the Bank of Greece to achieve an end-2019 specific commitment. The main objective of this reform is to allow the Hellenic Republic to access liquidity held throughout the general government sector and to benefit from a more effective liquidity management. Some progress has been made in the first months of 2019 though the most important measures still remain to be taken.

Two Ministerial Decisions were issued regarding the general cash planning framework for general government entities. By 31 July 2019, general government entities are required to open a cash management account in the Bank of Greece and to transfer their surplus cash from the commercial banking system to the cash management accounts in Bank of Greece ⁽²⁸⁾. As of mid-May, 588 general government entities (i.e. approximately one third of the total) had a cash management account in the Bank of Greece. A 15 days liquidity buffer can be held in the commercial bank with an exception targeted for financial stability purpose. Besides, a new Directorate in the Ministry of Finance is on the point of being created and will have to monitor general government entities' cash flows projections based on their approved annual budget. The General Accounting Office will launch a pilot phase with the participation of 29 general government entities when the Ministerial Decision enters into force in July. Other steps to be undertaken quickly as they are lagging behind at this stage are the elaboration on the general

⁽²⁸⁾ This objective enshrined in the Decisions 2/6748/21-01-2019 and 2/16606/21-02-2.

government entities' 15 days liquidity buffer calculation and assessment as well as the mandatory payment of their wages and pensions through the cash management accounts.

On the Bank of Greece side, after some technical difficulties earlier in the year, the central bank is now able to provide the service of electronic transfer of funds between cash management accounts and commercial bank accounts. The pilot phase for the use of the web platform run by the Bank of Greece as well as the seminar organised by the central bank for General Government entities are on track.

Chart of Accounts

The Unified Chart of Accounts (UCoA) is one of the key elements of the public financial management reforms in Greece, as it is a necessary step forward for improvements in fiscal analysis, decisions and reporting, and a crucial element for transparency and reliability of fiscal data. The Greek authorities committed to fully implement the UCoA in all General Government entities by 2023.

Though limited to some entities⁽²⁹⁾ and to a rather simple economical classification structure, a major step forward was undertaken for the 2019 Budget with the rollout of an UCoA in the State. The 2019 Budget preparation indeed took place under the new UCoA and transactions were recorded against these new rules on January 2019. The authorities are processing with ELSTAT to tackle remaining issues on the new economic and administrative accounting classifications. The crucial compliance of the Public Investment Budget with the budget and accounting classifications, which is one of the objectives of a January Presidential Decree⁽³⁰⁾, remains under discussion between the General Accounting Office and the Ministry of Economy. Besides, acting as a precondition for further accounting reforms, it would be warranted to reinforce the governance structure with the appointment of an ad hoc Steering Committee fully dedicated to the UCoA reform. By mid-2020, Greece will need to complete the UCoA rules with deeper economical and administrative classifications and with other segments such as the functional one. Deepening the reform by broadening the scope to include all general government entities will also be a step forward as the medium-term goals are, on the one hand, the implementation of the new UCoA to the whole general government and, on the other hand, the migration to accrual accounting by January 2023. These objectives were enshrined in a Presidential Decree⁽⁹⁾ in June 2018.

The implementation of the UCoA and accounting reforms are closely linked with other public financial management reforms such as the development of the Treasury Single Account and the avoidance of the creation of new arrears. Incorporating the recording of all workflows will facilitate accrual accounting and will allow for a better monitoring of accounts and consequently, arrears.

⁽²⁹⁾ Up to the 2nd level of the administrative classification, and to the 3rd level for the regional units of central administration (Ministry of Finance, Ministry of Education and IAPR).

⁽³⁰⁾ June 2018, Presidential Decree 54.

4. SOCIAL WELFARE

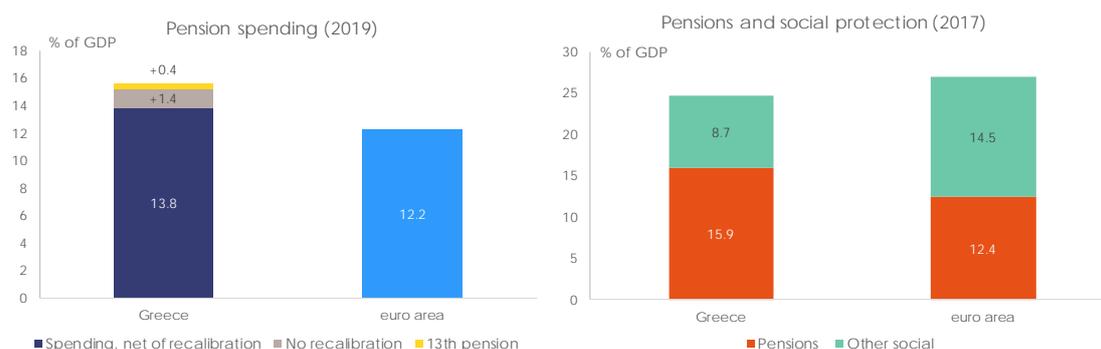
4.1. PENSIONS

The authorities have recently passed legislation that repeals important elements of the pension reforms adopted in 2012 and 2016 and leads to an increase in spending on pensions as a share of GDP. In May 2019, the authorities have repealed the 2016 reform of the survivors' pensions that had modernised and aligned the pension entitlements to standard practices of other EU Member States. In particular, the measure has increased the amount of pension bringing it back to 70% (from 50%); eliminated the limitation on duration (previously 3 years for those below 55 years of age) for those of active age, who can now receive a survivor pension of 50% even if employed; and reduced the number years of marriage needed to trigger eligibility (from 5 to 3). The changes to the rules on survivors' pensions risk to negatively affect female labour participation, which is already low in Greece (activity rate of 64.8% in 2018 compared to 72.4% for the EU).

Furthermore, the authorities have reinstated a permanent 13th pension, which had been eliminated in 2012. It will be paid once a year at a level of 30%-100% of current pensions (the highest percentage for pensions below EUR 500 per month and the lowest for pensions above EUR 1,000 per month) and will cost as much as EUR 0.8 billion. These measures will decrease the relative share of social benefits spent on the young and working age population where the risk of poverty is much higher. See section 3.1 for the overall assessment of the fiscal cost.

As regards the implementation of the action plan for the completion of the setup of the unified main pension fund EFKA, which is a mid-2020 commitment, the authorities are making good progress, with the technical support from the Commission. The launching of the public tender for new EFKA information and innovation technology services is still pending. The authorities have continued publishing detailed statistical information on pensions (monthly Helios reports).

Graph 4.1: Pensions and social spending



Source: 2018 Ageing Report, Greek National Actuarial Authority, Eurostat

4.2. HEALTH CARE

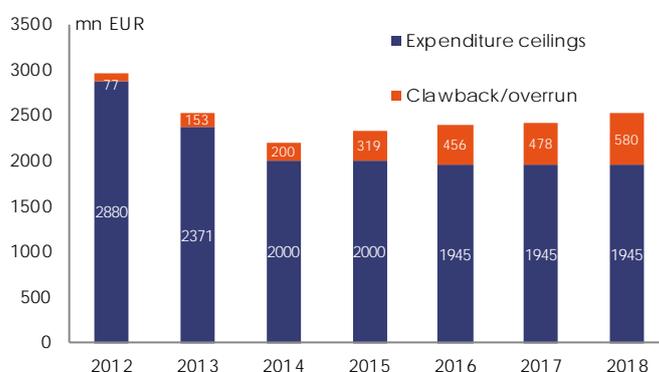
The pace of collection of the clawbacks has seen a recent improvement, and collection of the clawback for 2018 is currently ongoing (specific commitment for mid-2019). The Greek authorities committed to the Eurogroup to complete the full offsetting and collection of the clawback (i.e. the excess public spending beyond the legislated ceilings that providers need to pay back into the public purse), by June every year for the previous calendar year. Based on reports obtained during the May post-programme mission, the procedure for the collection/offsetting of the clawback has already started for 2018. In brief:

- approximately one third of the outpatient pharmaceutical clawback has been recovered by May 2019;
- a similar rate applies to the collection of the clawback for drugs circulated through pharmacies affiliated with the national health insurance body, EOPYY;
- as for privately provided services reimbursed by EOPYY, the amount to be paid back for 2018 has not been quantified yet. Prior to the start of the collection, the authorities need to complete the quantification and inform providers of the due amount. The necessary documents and communications have not been shared by the authorities so far.

There are still some backlogs in the clawbacks for previous years, especially for private providers, for whom more than half of the clawback of 2017 has not yet been collected. Some backlog applies to pharmaceuticals too, although at this stage only one fifth of the total amount remains to be collected. In general, residual clawback amounts still date back to 2012 for pharmaceuticals and to 2013 for providers (and to 2016 for EOPYY pharmacies clawback), but these mostly do not represent large amounts.

Despite improvements in collection, the generation of new clawbacks is quite high and has been increasing over time to levels, which may soon become not sustainable. The pace of collection of clawbacks has seen an improvement in the last years, however recent measures to dilute the repayment by providers (increase in the maximum number of instalments to repay the clawback from 24 to 48) raise concerns as to the future evolution of clawback collection and thus the liquidity of EOPYY and the deterrent to providers of facing high repayments. Indeed, Greece still faces significant challenges in containing the creation of new clawbacks. The clawback for pharmaceuticals, especially outpatient, has been continuously increasing year by year, with the level in 2018 exceeding 550 million, from 79 million in 2012, which is also increasingly linked to the reimbursement of high-cost drugs.

Graph 4.2: Evolution of outpatient pharmaceuticals clawback



Source: European Commission

The size of the excess spending through the clawback underlines the need for more sustained efforts to implement structural measures designed to curb supply-induced demand, and indeed some recent measures may exacerbate the situation. The need for more sustained and effective implementation applies in many areas including therapeutic protocols, negotiating committee, centralised procurement, patient registers for high cost drugs, monitoring and control of prescription patterns by doctors and dispensing by pharmacists. The recent modification of the pricing procedure for pharmaceuticals, replacing the previous well-established one that so far was amongst the most successful tools to contain pharmaceutical spending, contains several features that do not support the reduction of the clawbacks, amongst which the introduction of price floors and the transition to a euro area (as

opposed to EU) basket of comparators for reference pricing. These and other features ⁽³¹⁾ will likely result in an increase in pharmaceutical expenditure in 2019.

Enforcing existing measures to rationalise spending and adopting new ones will be necessary given the level of the current and future expenditure ceilings. The emerging increasing trend in spending, which may be aggravated by the future incoming wave of high-cost drugs, can also be indicative of an underlying distortion of incentives. Unless the clawback mechanism is reviewed to ensure that its incentive structure limits moral hazard also on the public payer's side and improves the balance of burden sharing between the public sector and private companies, this distortion might contribute to delaying the implementation of structural measures.

The roll-out of primary health care is proceeding but at a slow pace and with marked disparities across the territory. The authorities fulfilled the commitment of opening at least 120 TOMYs (primary health care units), and have meanwhile exceeded the target with 124 openings thus far, with the support of the European Social Fund. However, based on the latest reports a rather static picture emerges concerning progress with the broader roll-out of primary health care. The registered population so far only counts around 2 million people. Notably, the obstacles with the recruitment of general practitioners persist, which may constitute a bottleneck in view of opening additional TOMYs, due to the minimum staffing requirements to ensure proper functioning. In order to meet the Eurogroup commitment of opening 240 TOMYs by mid-2020, the roll-out pace of the network should gain greater momentum. This is paired with a currently uneven distribution of TOMYs over the territory. To this date, less than thirty TOMYs are available in the area of Attica, which includes 50 municipalities and around half of the Greek population, i.e. 5 million.

Progress on centralised health procurement continues at a slow pace, with staff constraints translating into still limited capacity to launch new tenders. The newly established health care centralised procurement body EKAPY is not yet fully staffed: the appointment of the permanent board has not yet been completed, which may result in future disruptions in operations; recruitment of regular staff is also still slow, with less than half of the available positions currently filled (including both permanent and temporary staff). With a view to acquiring the autonomy to launch new tenders, recruitment of staff with legal background is of the essence and it is thus far proving challenging. This is *de facto* constraining activity mostly to the completion of tenders launched in the past. Reaching the necessary minimum staffing level will be a key determinant of the capability of EKAPY to operate effectively and systematically to realise the potential savings coming from central procurement.

4.3. SAFETY NETS

A new housing benefit for renters has been introduced, further enhancing the effectiveness of the Greek social welfare system. The scheme addresses housing cost overburden by providing a means-tested subsidy to low-income households for paying the rent on their primary residence. The amount of the monthly benefit ranges from EUR 70 to EUR 210, depending on the household size, which corresponds to 30-50% of average rental costs in Greece. As of 30 April 2019, 272,179 applications had been submitted, and 237,701 of these had been accepted (87% approval rate), corresponding to 633,888 individuals (about 5.8% of the Greek population), a result in line with initial expectations. The vast majority of applications (92%) have been submitted through the on-line platform and eligibility is verified automatically thanks to the inter-linkage between different administrative databases providing the necessary information (such as income, rental contract, etc.).

The reform of the system of disability benefits is advancing but with significant delays. One element of this reform process is the upgrading and simplification of the administrative processes to determine

⁽³¹⁾ The main new features of the system include the maximum reduction of 10% for each repricing; generics allowed to be priced at 75%, instead of 65%, of the price of the relative off patent if the price decrease with the new pricing exceeds 10% (thus generating some price increases); the loss of the automatic 50% decrease of off-patents following expiry of the exclusivity period; prices set with respect to a euro area basket are higher than the previous ones based on the EU; the introduction of a price floor.

disability status. After having been successfully piloted, these new procedures are being gradually introduced throughout the country. The second element of this reform is the adoption of a new approach to determine disability status based on both medical and functional assessment (specific commitment for mid-2019). The new methodology for a functional assessment of disability (which would complement the current purely medical assessment) is to be developed on the basis of the evaluation of the results of a completed pilot project that received technical support of the World Bank. Originally, the evaluation of the pilot project should have been completed by end-2018. However, a slower-than-expected processing of applications due to bottlenecks in the administrative procedures severely delayed the initial data collection phase. As a consequence, the evaluation of the pilot is only set to begin in September 2019, to be completed by the end of the year. The authorities are therefore not in a position to endorse and formally adopt a new methodology for disability assessment before 2020. A revised timeline detailing the intermediate steps and a final deadline for adoption should be defined.

The Social Solidarity Income (SSI) scheme is reaching its maturity. It guarantees a minimum level of income to households with very low disposable incomes, and has become a well-established element of the Greek social welfare system. In the first four months of 2019, the scheme reached about 270,000 households (corresponding to about 500,000 individuals), for an annual expenditure of around EUR 680 million. This is a lower number of beneficiaries compared to the previous year, where the scheme had about 300,000 beneficiary households (corresponding to more than 600,000 individuals), for an annual expenditure of around EUR 750 million. The reduction can be attributed partly to improvements in the system of automatic eligibility checks and intensification of controls, and partly to the general improvement of the economic and social situation, with a reduction in the number of potential beneficiaries.

The implementation of the social inclusion and labour market (re-)integration elements of the SSI, to be achieved by end-2019 (specific commitment), is progressing. Since its inception, the SSI scheme has been designed around three pillars, which are being built progressively: (i) income support; (ii) social inclusion; and, (iii) labour market reintegration. With respect to the second pillar, a network of Community Centres has been established throughout the country with the support of the European Social Fund, expanding the provision of social services at local level in a coordinated way. The third pillar relies on the provision of active labour market services to help SSI recipients (re-)enter the labour market. To achieve this, the authorities are shifting from an ad-hoc and irregular to a more systematic approach to the design and management of active labour market programmes. Concretely, this entails: i) a shift to a new delivery model for active labour market programmes, whereby a menu of options and programmes is continuously made available to the unemployed; ii) a strengthened provision of counselling services; and, iii) a better mapping of the needs of the labour market which in turn informs the design of new programmes. The new system is currently being tested – so far successfully – in a pilot project launched in June 2018 in one local office of the public employment service (Elefsina) covering three municipalities (with a population of about 10,000 registered unemployed), and is going to be gradually expanded to the entire country by the end of 2019.

The authorities committed to review the system of subsidies for local public transport (specific commitment end-2019). Different categories of people such as students, persons over 65, the unemployed, the disabled and members of large families, currently benefit from subsidised fares for local public transport. Thanks to the recent introduction of electronic ticketing on the public transport network of Athens, data on actual transport usage by each category of beneficiaries has become available, allowing a more precise costing of these policies in the Attica region. The Greek authorities are expected to carry out a study to assess the appropriateness of the current system of subsidised fares for local public transport across Greece. The study should be concluded by June 2019 and contain recommendations for possible improvements to the system.

5. FINANCIAL SECTOR

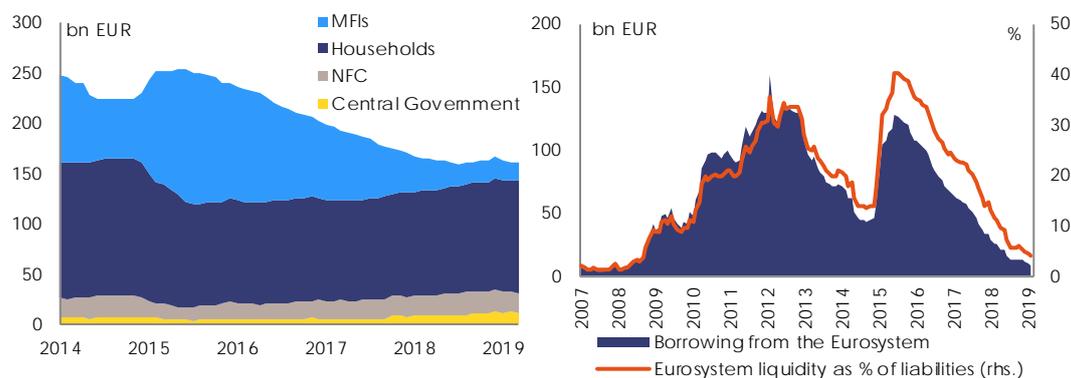
5.1. FINANCIAL SECTOR DEVELOPMENTS

5.1.1. Financial sector overview and financial stability assessment

The situation of the financial sector continues to be challenging with improvements at a very slow pace; significant vulnerabilities remain, such as the high volumes of non-performing loans (NPLs) and the strong sovereign-bank nexus. On a positive note, the liquidity situation of Greek banks has further improved. Greek banks continue relying primarily on their internal capacity to generate capital, which has been further weakened by their low profitability due to their poor asset quality.

Banks' private sector deposits have slightly increased since the end of the ESM programme and reliance on central bank funding has significantly decreased (see graph 5.1) with all banks having completely repaid emergency liquidity assistance (ELA). The improving liquidity situation of Greek banks and increased confidence of depositors gave room for a further loosening of capital controls as of 1 October 2018. If financial stability considerations allow, only one or two final steps of capital control relaxation are needed to put an end to the restrictions still in place. This would normalise the functioning of the Greek economy within the Economic and Monetary Union (EMU) and would reduce the economic costs attached to it.

Graph 5.1: Bank deposits (left panel) and total borrowing from the Eurosystem (right panel)



Source: Bank of Greece

Although broadly adequate, the capital position of the banking system slightly deteriorated during 2018 in a context of low profitability and weak asset quality, while deferred tax credits (DTCs) continue to account for a sizeable part of CET1 capital. According to Bank of Greece data as of the end of 2018, the Greek banking system had a Common Equity Tier 1 (CET1) of 15.3% on a consolidated basis, which is comparable with the EU average. Data from the European Banking Authority (EBA) indicate a similar capital position for December 2018 (15.3%), though the data also point to a fully loaded CET 1 ratio below the EU average (12.1% vs. 14.4%). In addition, the high level of DTCs in CET1 raises concerns regarding capital quality and contributes to the strong sovereign-bank nexus in Greece. The share of DTCs in the banks' capital has increased over 2018 due to the decrease in total capital and exceeded 60% of the CET1 capital on average for the four systemic banks as of end 2018⁽³²⁾. Another aspect that warrants further monitoring in the medium term is the need of Greek banks to issue bail-inable

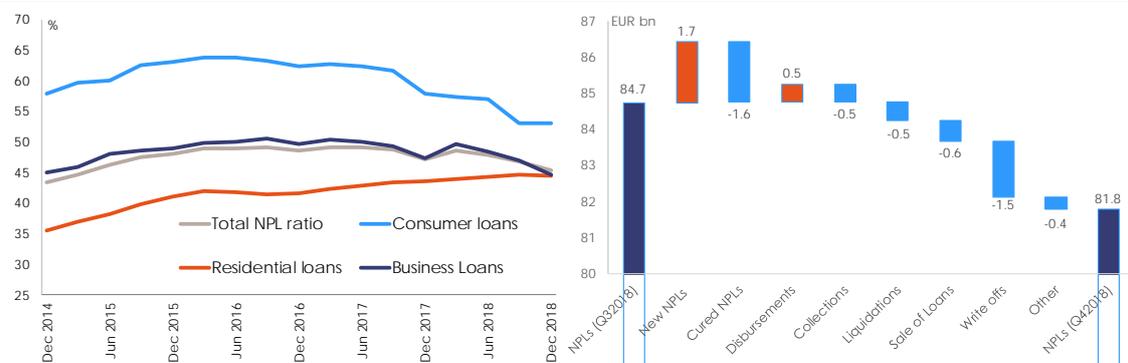
⁽³²⁾ Deferred tax credits for the four systemic banks amount to EUR 15.7 billion whereas their aggregate common equity tier 1 capital is EUR 25.9 billion as of end-2018. Therefore, the share of DTCs over CET 1 capital reaches 60.8% end 2018, 2 pps more than in the third quarter of 2018.

debt in the following years in order to meet the minimum requirement for own funds and eligible liabilities (MREL) ⁽³³⁾ as per the EU legislation.

Profitability remains a source of concern for the Greek banking sector. During the first nine months of 2018, operating profits declined and the proportion taken up by provisions reached 95%. Despite the gradual improvement of the economic situation in Greece, the 2018 financial results of the four systemic banks indicate lower profitability in 2018 compared to 2017 and, overall, the Greek banking system closed the financial year 2018 with minor net losses. Going forward, the still high level of NPLs coupled with the decline in pre-provisioning profits creates challenges for Greek banks especially due to the need to swiftly reduce NPL levels and comply with the forthcoming provisioning calendar, in line with the ECB Banking Supervision Guidance and also in view of the application of the prudential backstop in the coming years ⁽³⁴⁾.

NPL resolution continues to be the most important challenge for the banking sector in Greece. NPLs have been gradually decreasing, but remain elevated, amounting to EUR 81.8 billion at end-2018 in comparison with the peak of EUR 107.2 billion of March 2016. This translates into a NPL ratio of 45.4%, which is 1.8 pps lower than the previous year and 0.7 pps below the previous quarter (see graph 5.2), indicating an accelerated rate of NPL reduction in the last quarter. During the fourth quarter of 2018, the reduction in NPLs has been mainly led by cured loans and write-offs (circa EUR 1.6 billion each), followed by sale of loans, collections and liquidations (circa EUR 0.5 billion each) (see graph 5.3). The latter could gain more relevance in the upcoming quarters once e-auctions and other initiatives show more clearly their results. By segments, the share of non-performing residential loans increased during 2018 by 1 percentage point, while consumer credit and business loans saw a reduction in their respective NPL ratios in the same period ⁽³⁵⁾. According to EBA data, the NPL ratio in Greece on a consolidated basis for the four systemic banks remained the highest in the EU at end-2018, being more than twelve times bigger than the EU average (41.2% vs. 3.2%). Despite the progress made to date, these figures show that further major efforts are required to achieve a faster NPL reduction.

Graph 5.2: Evolution of NPL ratio (left) and NPL stock (right)



Source: Bank of Greece

Substantial further efforts to reduce the level of NPLs in the Greek banking system are essential in order to ensure stability of the Greek banking sector and to safeguard reform momentum. This will underpin credibility over the medium term and reassure markets and interested stakeholders that sound

⁽³³⁾ MREL targets are established by the resolution authorities on a bank-by-bank basis at a sufficiently prudent level to allow the two following components: (i) a default loss-absorbing amount (LAA), which reflects the losses that the bank would incur in a potential resolution, and (ii) a recapitalisation amount (RCA), which would reflect the capital needed to meet ongoing prudential requirements after resolution. The latter component is complemented by a market confidence charge (MCC), necessary to ensure market confidence post-resolution.

⁽³⁴⁾ Regulation (EU) 2019/630 amending Regulation (EU) No 575/2013 as regards minimum loss coverage for non-performing exposures aims to accelerate the reduction of NPLs in the banking sector by providing for a statutory prudential backstop against any excessive future build-up of NPLs without sufficient loss coverage on banks' balance sheets. It establishes common minimum levels for the amount of money banks need to set aside to cover losses caused by future loans that turn non-performing. In case a bank does not meet the applicable minimum level, deductions from own funds would apply.

⁽³⁵⁾ Data extracted from Bank of Greece: <https://www.bankofgreece.gr/Pages/en/Statistics/loans.aspx>.

financial practices will be sustained. To this end, the various important reforms enacted to facilitate NPL resolution should be implemented in a determined manner. This relates to the insolvency framework for households and corporations, the enforceability of collateral through electronic auctions, the out-of-court debt workout mechanism, as well as an active secondary market for non-performing loans as further discussed in Section 5.1.2. Reforms should be supportive of reducing the legacy NPLs, but also improve the incentive system to limit the inflow of new NPLs.

In addition to enacted reforms, NPL resolution could be supported by well-designed systemic initiatives. While some analysis and preparations have taken place with the support of the Bank of Greece and HFSF in late 2018, it would be advisable that the Greek authorities increase their efforts to scrutinise all available policy options that could support a swift NPL reduction. The Greek authorities sent a draft proposal to the Commission services for a type of asset protection scheme (APS), based on the initiative and preparations of the HFSF, which are being assessed from a State aid perspective. This initiative would consist of the granting of state guarantees on NPL securitisation transactions in order to facilitate the removal of NPLs from banks' balance sheets, similarly to the scheme already introduced in Italy (GACS). At the same time, there has been no progress in exploring whether an APS can be complemented by establishing an Asset Management Company (AMC), based on the initiative and preparations of the Bank of Greece. The proposal would entail a transfer of NPLs currently held by Greek banks along with part of their DTCs to a special purpose vehicle, thus addressing the main weaknesses of the Greek banks.

Such initiatives could be helpful additions to the NPL resolution toolkit, provided they are designed to benefit the whole banking system and are based on thorough technical preparation, inter alia on scope, regulatory and supervisory treatment, governance, funding, compatibility with EU competition and State aid rules and impact on bank and sovereign balance sheets. In January 2019, the Ministry of Finance announced that it established a working group with the Bank of Greece and the HFSF, which is supporting the coordinated assessment of the respective schemes, including through improved cooperation. However, the lack of deliverables raises the question whether the working group is fully operational. It is important that the preparations of the respective schemes progress in an expedited manner, in order to allow for the swift implementation of the schemes, which may benefit from elements of state support subject to State aid and other regulatory approval and taking into account relevant supervisory considerations.

Table 5.1: Main financial stability indicators

	2014Q4	2015Q4	2016Q4	2017Q1	2017Q2	2017Q3	2017Q4	2018Q1	2018Q2	2018Q3
Non-performing loans	39.7	46.8	46.3	46.6	46.9	46.7	45.0	45.4	44.9	43.5
o/w NFC & HH sectors	41.8	49.5	50.4	50.3	50.6	50.4	49.4	49.2	48.4	47.3
o/w NFC sector	44.7	52.5	53.9	53.4	53.3	52.6	51.4	51.1	49.4	47.9
o/w HH sector	38.5	45.9	46.3	46.8	47.5	47.9	47.1	47.0	47.3	46.6
Coverage ratio	43.5	48.5	48.2	48.1	47.4	47.2	46.7	49.5	49.0	47.8
Return on equity(1)	-10.6	-24.2	-7.5	1.3	-0.4	-0.3	-1.3	0.7	-2.4	-0.8
Return on assets(1)	-1.0	-2.8	-0.9	0.1	-0.1	0.0	-0.2	0.1	-0.3	-0.1
Total capital ratio	14.1	16.5	17.0	16.8	17.2	17.2	17.1	16.4	16.4	16.3
CET 1 ratio	13.8	16.3	16.9	16.7	17.1	17.2	17.0	15.8	15.8	15.7
Tier 1 ratio	13.8	16.3	16.9	16.7	17.1	17.2	17.0	15.8	15.8	15.7
Loan to deposit ratio	79.1	72.3	75.9	77.2	78.2	81.8	83.5	78.8	78.4	76.0

(1) Annualised data

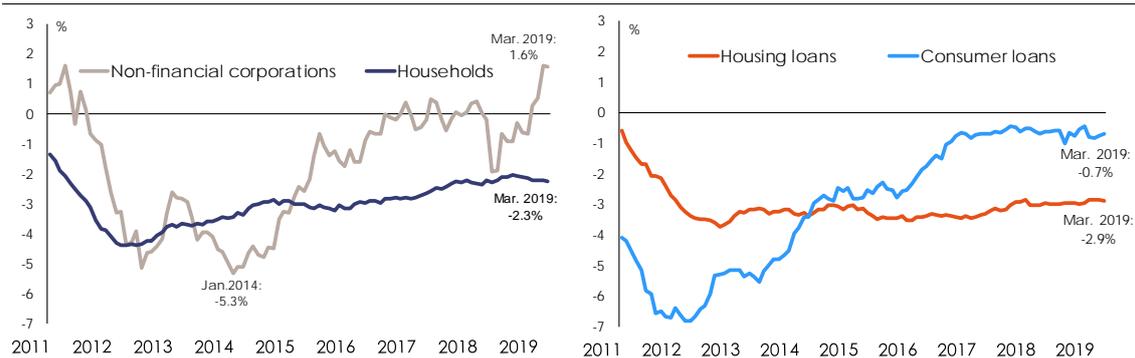
Source: ECB – CBD2 – Consolidated Banking data; own calculations

5.1.2. Financing of the economy

In the first quarter of 2019, bank lending to non-financial corporations turned slightly positive, while credit to households continued to contract. From 2011 until late 2018, the annual growth rate of loans extended to non-financial corporations either hovered in negative territory, or was close to zero (Graph 5.3). Most recently, the gradual recovery in lending to non-financial corporations that started in December 2018 has picked up further. Credit to non-financial corporations recorded four consecutive months of positive growth and reached 1.6% year-on-year in February and March 2019, a growth rate last observed in early 2011. The growth rate of loans to households has been very slowly recovering since July 2016, but as of the end of the first quarter of 2019 remained in clearly negative territory and even

decreased slightly further. Growth in consumer loans has remained broadly unchanged since late 2016 at close to zero. In the second half of 2018, some temporary easing in credit standards for all types of loans took place for the first time in many years; however, credit standards remained unchanged thereafter. Survey data suggests that demand has been growing for all categories of credit throughout 2018 and in the first quarter of 2019. In particular, demand for housing loans benefits from better housing market prospects, while demand for consumer loans is supported by improved consumer confidence and by increasing expenditures for consumer durables. Increased demand for corporate credit has been motivated by fixed investment and debt restructuring needs.

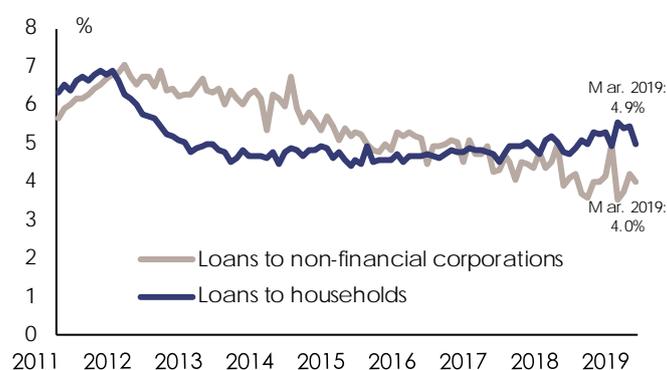
Graph 5.3: Bank credit to non-financial corporations and households



Source: Bank of Greece

Lending rates to non-financial corporations have broadly stabilised, while interest rates for credit to households continue to rise (Graph 5.4). The bank lending rate for non-financial corporations has been on a downward trend since the end of 2011 and has stabilised at around 4% in recent months, reflecting diminished risk perceptions. By contrast, lending rates to households generally followed an upward trend during the past four years. In the first quarter of 2019, the average lending rate for households were around 100 basis points above the corresponding rate for corporations, mainly reflecting credit risk developments, as the NPL ratio for consumer loans is particularly high and the NPL ratio for mortgage loans has been deteriorating recently as compared to other loan categories. In this context, any government policies (e.g. aimed at supporting vulnerable or other groups in society) affecting the banks' loan portfolios imply a cost to the banks that cannot seize the collateral and have to agree to loan restructurings and therefore could be expected to exert upward pressure on average lending rates in the economy.

Graph 5.4: Bank interest rates on new loans



Source: Bank of Greece

Small and medium-size enterprises (SMEs) in Greece continue to be adversely affected by constraints to access to finance. The demand for external financing in Greece continues to be strong. Surveys show that there has been an ongoing improvement in the willingness of banks to provide credit in

Greece since the beginning of 2017, but overall SMEs are still disproportionately affected by limited access to bank financing. This is also reflected in the spread between the interest rate on small bank loans (up to EUR 250,000) and on larger bank loans (above EUR 1 million) to non-financial corporations, which has been widening since mid-2014.

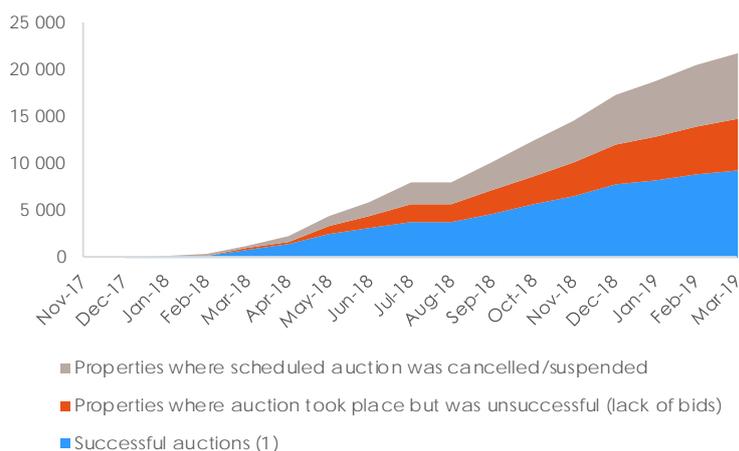
5.2. FINANCIAL SECTOR POLICIES

Work is ongoing on a range of initiatives to strengthen the NPL resolution framework, but the pace of implementation remains uneven, and additional efforts are warranted. The implementation of the actions outlined below is monitored and assessed under enhanced surveillance as part of the continuous specific commitment to “*continue to implement reforms aimed at restoring the health of the banking system, including NPL resolution efforts*”.

Electronic auctions

The conduct of electronic auctions is proceeding across the territory, though at a somewhat slowing pace. Still, a large share of auctions (approximately two-thirds in the first quarter of 2019 according to data provided by the Greek authorities) is cancelled, suspended or is unsuccessful.

Graph 5.5: Cumulative number of e-auctions conducted since 29 November 2017



(1) According to stakeholders' reports, 70-80% of the auctioned properties are repossessed by banks.
Source: Ministry of Justice

One identified impediment seems to derive from procedural abuses, which are currently under assessment. The Greek authorities shared the latest progress report on e-auctions detailing developments up to the end of the first quarter of 2019, showing a downward trend in the number of auctions launched on the initiative of creditors; otherwise, the mechanism continues to operate across the territory of Greece (with the exception of Corfu, where the local notarial association continues to abstain from the conduct of e-auctions). The main impediments identified by the Hellenic Banking Association relate to the strategic behaviour of debtors to resort to filings under the household insolvency law after the launch of enforcement proceedings and shortly before the conduct of the auction in an effort to block the process and from the submission of petitions by the debtor to revise the minimum bid prices upward with a similar motivation. The Hellenic Banking Association presented supporting data on these two impediments during the 3rd enhanced surveillance mission. No action has been taken so far to address these issues. The Greek authorities, together with the Hellenic Banking Association, established a working group, which is currently still assessing the data, in order to define and take the necessary mitigating actions soon as indicated in the context of the second enhanced surveillance report, including in the context of the ongoing review of the implementation of the Greek Code of Civil Procedure. The working group will prepare a report by September 2019.

Clearing of the household insolvency backlog

The process of the gradual elimination of the backlog of pending cases in the context of the household insolvency framework is significantly behind schedule. A revised action plan by the authorities is expected to be prepared by end-June 2019, while the impact of the new mechanism for the protection of primary residences (which is yet uncertain) could be factored in later in the year. The Greek authorities reported that they are in the process of collecting data from magistrate courts and optimising the processing procedure, including the use of new improved templates covering variants not available in past reports, aiming at the provision of more reliable, standardised and granular court statistics. The European institutions received the preliminary aggregated data for 2018 and the first quarter of 2019 on 17 May 2019. Based on the data received, the number of pending cases remained broadly stable in 2018 and increased again in December 2018 and up to end-February 2019, due to the projected (end-December 2018) expiry of the foregoing primary residence protection framework⁽³⁶⁾ and its subsequent extension until end-February 2019. The level of processed cases remained broadly stable in the first quarter of 2019. Overall, the number of pending cases at the end of the first quarter of 2019 (89,498 pending cases against a target of 85,130) is above the trajectory which would lead to the elimination of the backlog of cases by 2021. Since the elimination of the backlog is a specific commitment undertaken by the Greek authorities to the Eurogroup⁽³⁷⁾ it seems to be necessary to increase the processing capacity to achieve the elimination of the backlog by 2021. At the same time, the level of processed cases over the same period exceeded the targets set by the June 2018 action plan in conjunction with its “statistical update” by the Greek authorities in March 2019, with an average monthly processing rate of 3,504 cases against a target of 2,580 cases. Going forward, it will be important to include in the monitoring the implementation data pertaining to the newly adopted primary residence protection scheme, taking account of reschedulings achieved either under the electronic platform procedure or pursuant to litigation resulting from non-productive platform procedures.

Primary residence protection

Following the adoption of primary legislation establishing a new system for the protection of eligible primary residences in support of the restructuring of non-performing loans⁽³⁸⁾, the Greek authorities proceeded to the adoption of the requisite secondary legislation and the technical work for the electronic platform for its implementation is ongoing. Due to a number of delays, the law could not be implemented by 30 April 2019 as envisaged and the platform may be fully operating no sooner than end-July 2019. More specifically:

- The adopted secondary legislation consists of three Joint Ministerial Decisions laying down the specifications of the electronic platform⁽³⁹⁾, the procedure for the provision of the state subsidy⁽⁴⁰⁾ and the manner of valuation of certain assets included in the wealth criteria pertaining to the eligibility assessment⁽⁴¹⁾.
- Regarding the technical work, the authorities set up a steering committee to supervise the creation and functioning of the electronic platform⁽⁴²⁾; the committee is composed of state agencies, stakeholders and a technical advisor. Work on the platform started immediately upon enactment of the primary legislation and is progressing but, according to the Greek authorities, the complexity of the tasks involved and technical challenges encountered so far have led to a revision of the initial time frame for the completion of the project (end-April 2019), with the platform now scheduled to be fully operational by end-July 2019, including the interconnection between the module that will be added for

⁽³⁶⁾ Under the household insolvency law 3869/2010.

⁽³⁷⁾ Annex to Eurogroup statement of 22.6.2018.

⁽³⁸⁾ Law 4605/2019 (OJ A-52/1.4.2019, articles 68-84).

⁽³⁹⁾ Joint Ministerial Decision No. 47158/2.5.2019 of the Ministers of Finance, Economy and Development, Labour, Social Security and Social Solidarity (OJ B-1498/3.5.2019).

⁽⁴⁰⁾ Joint Ministerial Decision No. 39100/8.4.2019 of the Ministers of Finance, Economy and Development, Labour, Social Security and Social Solidarity (OJ B-1167/8.4.2019).

⁽⁴¹⁾ Joint Ministerial Decision No. 39095/8.4.2019 of the Ministers of Finance and Economy and Development (OJ B-1165/8.4.2019).

⁽⁴²⁾ Decision of the Government Council for economic policy, protocol no. 99/1.4.2019.

that purpose to the Social Security Electronic Governance e-platform of the Greek Single Social Security Entity that is required for the provision of the state subsidy. Until then, no applications can be filed by borrowers. This should not affect the planned expiry of the protection framework at the end of 2019; however, it might adversely affect the enforcement procedure in the second and third quarter of 2019.

With respect to the required State aid approval of the protective framework by the Commission, the Greek authorities intend to submit the official request shortly.

An important pending issue regarding the effectiveness of the new framework in the context of NPL resolution is the required enactment of a provision extending the tax treatment of write-offs that expired at the end of 2018⁽⁴³⁾, which should be undertaken in a timely manner. The tax regime in question stipulated that the amount of the write-off is not considered as an income of the debtor or a donation by the bank. Therefore, following the expiry of said regime at the end of 2018, write-offs are currently subject to income tax, which represents a disincentive to restructurings. The extension should be enacted prior to the end of 2019 so as to cover debt restructurings under the law.

Harmonisation of the personal insolvency framework

The Greek authorities committed in the context of the second enhanced surveillance report to harmonise and improve in the coming months in a holistic fashion the bankruptcy and insolvency regimes. The multiplicity of frameworks makes their monitoring harder and increases the risk of either an erroneous choice of framework or even procedural abuse, by means of parallel or consecutive recourses to several mechanisms. Having expressly stated their intent to establish a single personal insolvency framework in the near future, the Greek authorities proposed to address the issue either through a law-drafting committee or by means of a working group. While no proposal has been received so far, they committed to reverting on the issue with a more concrete proposal shortly.

Evaluation of the implementation record of the reformed Code of Civil Procedure

Following the formation of a working group in February 2019⁽⁴⁴⁾ and the dispatch of an initial round of questionnaires to stakeholders, work on the evaluation of the implementation record of the reformed Code of Civil Procedure is ongoing, and advancing towards completion of the data-gathering phase. The completion of that phase will allow for the conduct of a comprehensive evaluation of the reform, the quantification of its influence on the achievement of targets and the elaboration of new proposals. The working group consists of judges, academics, legal professionals such as lawyers, notaries, bailiffs and representatives of stakeholders. The current work concentrates on refining the contents of questionnaires. In parallel to this work stream, the working group is engaged in the collection and assessment of relevant legal precedent that will inform the final stage of its work, i.e. the formulation of proposals for potentially needed legislative amendments. The completion of the first draft of the report has been tentatively set by the Greek authorities on mid-October 2019, contingent upon observance of intermediate timelines by the above-mentioned third parties.

Training of judges and appointment of court clerks

The authorities reported further progress in the provision of financial training to judges, notably in the area of household insolvency (a specific end-2018 commitment). Two Presidential Decrees have been drafted by the Ministry of Justice, Transparency and Human Rights and should shortly be submitted to the Council of State for a constitutionality assessment⁽⁴⁵⁾, regarding: (a) the setting up of a department within the National School of Judges for the formation of magistrate's court judges, who will be

⁽⁴³⁾ Article 62 para. 4 of Law 4389/2016 (OJ A-94/27.5.2016).

⁽⁴⁴⁾ Ministerial Decision No. 5542/φ.325/24.1.2019, of the Minister of Justice, Transparency and Human Rights (OJ YODD-56/11.22019).

⁽⁴⁵⁾ Document under protocol number 22557/1.4.2009 regarding the submission of the two draft Presidential Decrees by the relevant working group to the Minister of Justice, Transparency and Human Rights and to the Department for Legislative work of the Ministry.

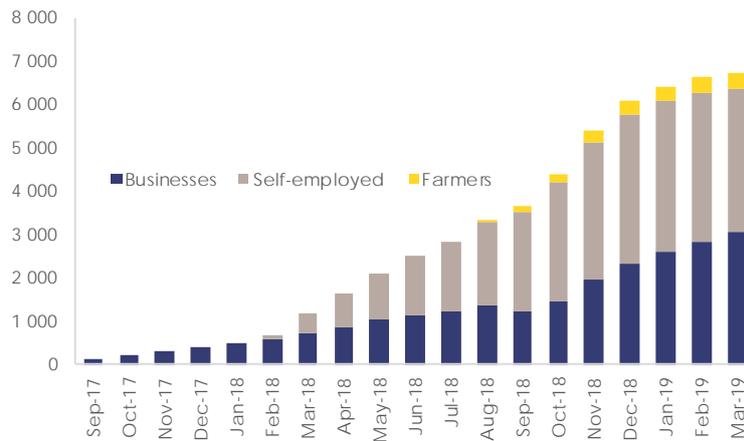
henceforth enrolled in the School and (b) the syllabus that will include courses on financial and accounting matters and on the methodology of judicial work.

Regarding the appointment of clerical court staff, the authorities have also continued with the appointment of successful candidates of recently completed Supreme Council for Civil Personnel Selection competitions ⁽⁴⁶⁾. More specifically, since the publication of the February 2019 Enhanced Surveillance Report, 107 successful candidates were appointed as clerks in courts and court services throughout the territory of Greece ⁽⁴⁷⁾. Also, the Greek authorities reported that a replacement procedure has been engaged by the Supreme Council for Civil Personnel Selection with respect to 72 vacant IT posts.

Out-of-court workout framework

While the use of the out-of-court workout mechanism recorded modest increases up to the first quarter of 2019, recently adopted legislative amendments to the framework are of concern. Successful multilateral business negotiations score low, while bilateral business negotiations and restructurings of self-employed professionals’ and farmers’ debt fare markedly better; some recent legislative initiatives raise concerns. Based on the latest data provided by the Greek authorities and extending to the end of the first quarter of 2019, the previously noted continuous increase in the number of submitted applications (from 497 to 6,077 in 2018) seems to be levelling off, with 6,733 submitted applications submitted up to end-March 2019.

Graph 5.6: Submitted business applications



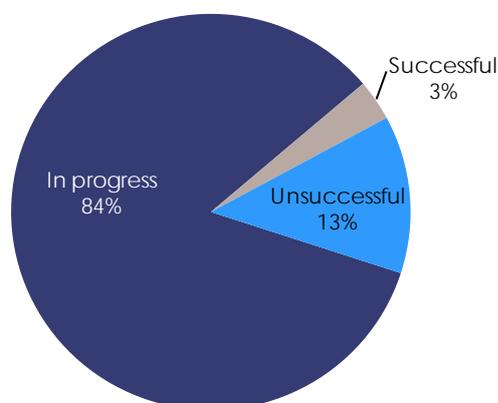
Source: Special Secretariat for Private Debt Management Ministry of Justice

The number of successfully resolved business cases involving multilateral negotiations remains small: approximately 83.8% of multilateral negotiations are reported as pending (total debt amount EUR 845.4 million), with 3.3% of them successfully resolved (total debt amount EUR 7.0 million) and the rest rejected.

⁽⁴⁶⁾ OJ 1579-C/2018, OJ 68-C/2019.

⁽⁴⁷⁾ Ministerial Decision 26327/11.4.2019 of the Minister of Justice, Transparency and Human Rights (OJ C-635/22.4.2019).

Graph 5.7: Outcome of multilateral negotiations - businesses



Source: Special Secretariat for Private Debt Management Governmental council for private debt management

The situation looks better regarding bilateral negotiations, with 46.0% pending (total debt amount EUR 186.4 million), 26.8% of them successful (total debt amount EUR 53.2 million) and the rest rejected. With respect to restructurings in cases involving self-employed professionals and farmers, the percentage of successful outcomes is higher (33.8% and 45.6% respectively), while pending proceedings account for 28.8% and 21.3% respectively and unsuccessful negotiations for 37.4% and 33.1% respectively.

It should be noted that the distinction between bi- and multilateral negotiations is not material regarding the self-employed individuals and farmers, given that in 97.2% of all cases the creditor is the public sector, either in the form of the tax authority (40.7% of all cases) or social security entities (56.5% of all cases).

In conclusion, notwithstanding the fact that the OCW is a mechanism that was conceived and designed predominantly for serving as a conduit for multilateral negotiations with a view to preserving viable businesses, it ensues from results reported up to date that it has not emerged as the preferred choice for that category of restructurings.

A recent development that gives grounds for concern is the enactment, on 16 May 2019⁽⁴⁸⁾, of an amendment to the law on the OCW⁽⁴⁹⁾ extending the cut-off date regarding the time limit set to the inclusion of debt in the restructuring for the second time since its adoption⁽⁵⁰⁾, to 31 December 2018. The stipulation of a firm cut-off date is an important feature of this mechanism, because it discourages strategic default planning and thereby helps avert moral hazard.

This marks the second time the out-of-court workout framework has been amended in the last five months, without consultation or information-sharing with relevant stakeholders. Given the need for a stable and predictable framework, careful and long-term planning by the authorities is warranted before changes are introduced to its setup. If the authorities are inclined to make the OCW legislation a more permanent feature, due care should be given to properly structured incentives, ensuring efficient restructurings without inciting strategic defaults.

⁽⁴⁸⁾ Cf. minutes of the plenary session of the Greek Parliament, under reference RKST/16.5.2019, article 5 of the Ministry of Health bill adopted on that date.

⁽⁴⁹⁾ Law 4469/2017 (OJ A-62/3.5.2017), as subsequently amended by laws 4549/2018, (OJ A-105/14.6.2018) and 4587/2018 (OJ 218/A/24.12.2018).

⁽⁵⁰⁾ The first extension, from 31.12.2016 to 31.12.2017, was enacted by virtue of articles 45&ff. of law 4549/2018, (OJ A-105/14.6.2018).

State guarantees

The large stock of called loan guarantees by the state is subject to a low processing rate and a high rejection rate. Over the past seven years, the state has accumulated about EUR 1.5 billion backlog in payment of called standardised guarantees. Such guarantees were granted by the state on loans to private companies and individuals, mainly by virtue of Ministerial Decisions issued for social and humanitarian reasons. As of end-March 2019, the total number of claims submitted by the financial institutions is 575,908 for a total of EUR 1.8 billion. The processing rate of such guarantees is very low with an average of 8% over 2013-2018, also because of limited capacity of the Ministry of Finance to face such a workload. The slow path of clearance entails a significant burden for the banks due to the non-payment of primary obligors and the guarantor, which does not help the Greek banks in their effort to reduce the exceptionally high level of NPLs. Besides, the fiscal impact of the clearance of the called guarantees remains unclear as the eligibility of the guarantees claimed is uncertain and the total stock of claims is not known fully accurately. Therefore, the issue of the called guarantees and its slow processing rate remains to be addressed.

In early March 2019, the authorities provided an action plan to improve the clearance of state guarantees but more ambitious measures also of structural nature are necessary to allow for a full clearance of the guarantees called in a reasonable timeline. Consequently, some additional measures are considered by the Greek authorities. The temporary recruitment of external personnel is under survey and a new clearance method that would entail further cooperation between the General Accounting Office and commercial banks is envisaged. A working group has been formed mid-May with the General Accounting Office and the banks to address technical issues, and the authorities are expected to communicate concrete proposals to the banks shortly.

5.3. HELLENIC FINANCIAL STABILITY FUND

In line with Greece's Eurogroup commitments, the status of the Hellenic Financial Stability Fund (HFSF) will remain unchanged and it will continue its efforts to achieve its ultimate goal of reprivatizing its stakes in the systemic banks in the coming years. The restructuring plans implemented by the four systemic banks may necessitate certain changes in the operational framework of the HFSF and the systemic banks, including through amendments in both the HFSF Law and the Relationship Framework Agreements ⁽⁵¹⁾. The discussions between the HFSF and the Ministry of Finance and between the HFSF and the respective banks on these issues are still ongoing.

The HFSF General Council has approved a divestment strategy in November 2018. Although the document makes it clear that the strategy, design, structure and execution of sale transactions regarding HFSF stakes in Greek banks are the sole responsibility of the HFSF as an independent institution, the potential involvement of the authorities in the final stage of the divestment and the legal protection for the HFSF governing bodies is still subject to discussions between the HFSF and the Ministry of Finance.

The authorities have clarified that the mandate of the HFSF Selection Panel as a body was in alignment with the recently extended mandate of the HFSF; this has been confirmed by the Legal Council of State. In early May 2019, the appointments to the vacant positions both in the Executive Board (including the Deputy CEO) and in the General Council of the HFSF have been enacted.

⁽⁵¹⁾ The Relationship Framework Agreements are mandatorily concluded bilateral agreements between the HFSF and each of the four systemic banks that received State aid, regulating – among others – the significant obligations and the monitoring of the implementation of the restructuring plans and the HFSF's consent rights.

6. LABOUR AND PRODUCT MARKETS

6.1. LABOUR MARKET

The Greek authorities continue monitoring labour market and wage developments and intend to conduct an ex-post assessment of the recent increase in the minimum wage. The statutory minimum wage was increased by 10.9%, as of 1 February 2019, and the sub-minimum wage for persons aged under 25 was abolished (implying an increase of 27% for this group). As a result, around 600,000 employees are estimated to have benefitted from a direct increase in their salaries. In view of the concerns raised by the increase of the minimum wage as regards its potential impact on undeclared work, on the wider wage distribution and on competitiveness, the government has been encouraged to conduct an ex-post assessment of its impact, as well as to continue monitoring labour market developments, including with respect to collective bargaining outcomes ⁽⁵²⁾. To this end, the Ministry of Labour has been developing a monitoring tool based on administrative data (ERGANI database of registered employment contracts). According to preliminary data, employment growth was robust in the first three months following the increase in the minimum wage (period February-April 2019), with a large increase in the number of registered contracts in the private sector (about 182,000 representing a 9% increase). In order to be able to carry out a proper assessment, the authorities are planning to use and integrate additional data sources (namely social insurance records) which should allow a more robust estimation of the effects of recent policy changes. For this purpose, a request for technical support has been submitted to the Commission concerning the appropriate collection and treatment of data from different existing administrative sources.

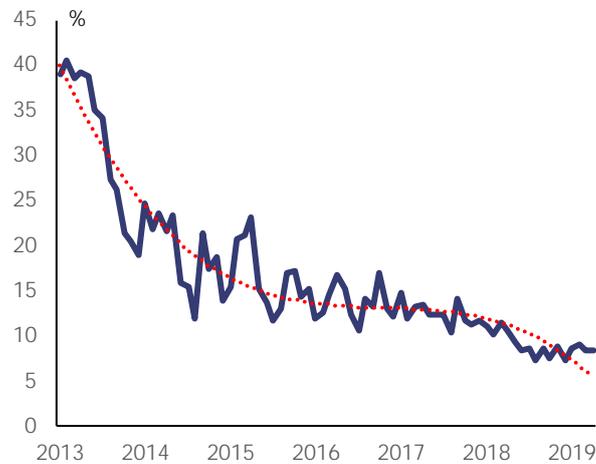
The action plan to fight undeclared work is progressing (a specific end-2019 commitment). A detailed action plan to fight undeclared work was adopted in May 2017, promoting an integrated approach to undeclared work by reinforcing the cooperation among different institutions, improving the capacity to detect the phenomenon, reviewing the system of incentives and strengthening the capacity of the labour inspectorate. So far, the implementation of the action plan has progressed smoothly. Recently completed actions include: the delivery of an assessment report regarding labour inspections in agriculture; the completion of an ad-hoc business survey aimed at identifying the obstacles to the creation of formal jobs; and, the delivery of a diagnostic report on bogus self-employment. A higher number of inspections was carried out in 2018 compared to the previous year (3.8% increase), and data from inspection results show a positive picture, with a steady reduction in the incidence of undeclared work in high risk sectors, which stood at 8.4% in April 2019, down from 10.7% in April 2018 (see Graph 6.1).

A new provision on the rules for dismissal (whereby a dismissal is not valid if it is not based on a ‘valid reason’), was adopted in May 2019. According to the Greek authorities, this provision does not appear to materially alter the current rules, as the right of employees not to be dismissed without a ‘valid reason’ had already been introduced in the Greek legal system in 2016 with the ratification by Greece of the Revised European Social Charter (which establishes such a right under its Article 24). Therefore, while in the past employers in Greece were not explicitly required to provide a justification for a dismissal, since the ratification of the Charter this is now the case: an employer can legally resolve an employment relationship for reasons connected with the capacity or conduct of the employee, or for reasons based on the operational requirements of the enterprise (economic reasons). In case a dismissal is challenged in court and the employer is unable to prove the existence of such a ‘valid reason’, the dismissal is considered to be unlawful and the employee has the right to be reinstated and is entitled to compensation of financial losses incurred since the date of the unlawful dismissal. According to the Greek authorities, the purpose of the new provision is to improve legal clarity, by listing under the same article of legislation all the requirements that must be met in order for a dismissal to be considered as valid. It remains to be seen to what extent such improved clarity will affect the overall number of dismissals, lead to an increase

⁽⁵²⁾ Following the end of the economic adjustment programme, the favourability principle and the principle of extension of collective agreements have been restored. To date, 12 sectoral or local collective agreements have been extended to apply to the entire sector, covering in total more than 200,000 workers.

in litigation with a higher number of dismissal decisions being challenged in court, and/or lead to an improved processing of such cases by the courts.

Graph 6.1: Share of uninsured workers found in high-risk sectors. January 2013 - April 2019



Source: Greek labour inspectorate

Education

The Greek educational system faces long-standing challenges, including inadequate allocation of resources, low autonomy, poor educational outcomes, skill mismatches, and weaknesses in the governance of higher education institutions. These challenges are identified and discussed in the 2019 Country Report for Greece under the European Semester. The 2018 OECD country review on Greece ⁽⁵³⁾ also makes specific policy recommendations to improve the quality and efficiency of the system. In contrast, some measures taken in recent months raise questions of consistency with the spirit of reforms made in past years. Mergers between technical education institutions (TEIs), which focus on applied sciences, technology and art and universities commenced in 2018 and were completed in 2019. Rationalising the higher education system, which consisted of 36 independent institutions before the mergers, is in principle warranted. However, the current policy which integrates the TEIs into the existing universities, expands the system by establishing new departments, and maintains their regional fragmentation across different cities. In the absence of a comprehensive prior evaluation, it is unclear how the upgrading of TEIs will serve to improve the fragmented higher education landscape or the need to make tertiary education more relevant for the labour market. This complements a particularly low participation and completion rates of students in secondary vocational education. Mismatches of the education system and labour market needs risk leading the emigration of recent graduates to other countries to continue, contributing to the ageing of the country's labour force.

6.2. PRODUCT MARKETS AND COMPETITIVENESS

While significant and wide-ranging reforms have been delivered in recent years to improve the business environment, much remains to be done in this area to stimulate economic activity and job creation, and to support the shift towards a more export- and investment-led growth model. Over the last years, the authorities have taken positive steps with respect to alleviating the administrative burden on start-ups and businesses through the establishment of one-stop shops and the rationalisation of licensing, inspection and customs procedures. In parallel, improvements in the regulation of network industries and the removal of barriers to competition in specific sectors of the economy have been achieved, along with improvements in the spatial planning framework for industrial and business sites, and advances in cadastral and forest mapping. Nonetheless, the administrative burden on firms remains a

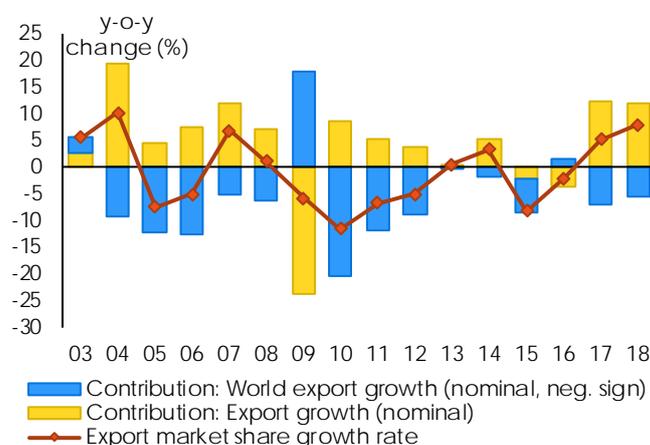
⁽⁵³⁾ Education for a Bright Future in Greece, OECD, April 2018.

major issue, while there is greater scope for openness in specific markets to create further economic opportunities and jobs, given the still high unemployment rate ⁽⁵⁴⁾.

Positive results are being recorded on the export and investment side, reflecting an improvement in framework conditions, with nonetheless significant challenges laying ahead. Exports of goods and services reached 36% of GDP in 2018, climbing up from 33% in 2017, and recording an annual growth rate in real terms of 8.7% compared to 6.8% in 2017. Moreover, Greece's export performance in relation to the rest of the world has improved, as reflected in export market shares gains recorded over the last two years (see Graph 6.2), largely due to improvements in cost-competitiveness. Nonetheless, according to the Commission 2019 spring forecast, export growth is expected to decelerate in the coming years, partly in response to the slowdown in the global economy, and especially in the euro area, which is a major destination of Greek goods exports and the main source of tourism inflows. Further, despite a fall in overall gross fixed capital formation (-12.2% in 2018), foreign direct investment (FDI) inflows resumed their upward trend in 2018 following the gains recorded in 2016 and 2017. FDI inflows in 2018 amounted to close to 2% of GDP, attributable to a large extent to privatisations (21% of the total FDI inflow for 2018). Yet, this is still half the euro area average, reflecting Greece's poor track record in attracting FDI, partly due to shortcomings in the investment environment.

Non-price competitiveness still remains at a relatively low level, and has even slightly retreated over the past two years according to a number of indicators. Greece ranks 72nd among 190 countries (down from 67th in 2017 and 61st in 2016), according to the 2019 Doing Business Report of the World Bank, and 57th among 140 countries (four places down from the previous year) according to the 2017-2018 Global Competitiveness Index of the World Economic Forum. Greece's performance according to the 2018 World Competitiveness Rankings of the Swiss-based International Institute for Management Development was broadly stable between 2016 and 2018, positioning Greece on the 57th place out of 63 countries assessed in 2018, after having deteriorated quite markedly in 2016 (six places down from the previous year).

Graph 6.2: Evolution of Greece's export market share



Source: European Commission

Overall, it will be key to focus reform efforts on further rationalising and digitising administrative procedures for firms, improving the regulatory and legislative framework in key sectors, and facilitating access to finance. An improved business environment would also contribute to addressing the structural component of sluggish productivity growth by tackling the crisis-induced investment gap, the emigration of skilled labour and the still high long-term unemployment.

⁽⁵⁴⁾ The challenges facing the business environment in Greece were discussed among the European Commission, World Bank, OECD, experts from Member States, local policy makers, social partners, journalists, think-tanks and academics in the context of the European Semester Conference that was organised by the European Commission in collaboration with the Foundation for Economic & Industrial Research (IOBE) in Athens, in March 2019. https://ec.europa.eu/info/events/integrating-greece-european-semester-policy-framework-2019-mar-20_en.

6.2.1. Business environment

With a further increase of 14% of GDP still needed to be achieved within a 6-year horizon, more needs to be done on export promotion to reach the export/GDP target of 50% by 2025, as set out by the Growth Strategy adopted by the authorities in July 2018. The pace of implementation of the two related action plans, namely the Export Promotion Action Plan and the Trade Facilitation Roadmap, drawn during the ESM stability support programme, has been mixed. Particular concerns relate to the implementation of an integrated Single Window ICT system, which aims to speed up procedures for traders and customs officers, as significant delays in both the tendering procedure and the preparatory work are observed with respect to the end-2020 target. Further, given the interplay between several services, greater complementarity and synergies between projects and actions in overlapping domains is necessary to maximise the effectiveness of these actions in terms of increasing the exporters' base, which remains highly concentrated, as well as the export propensity of the Greek economy as a whole. In doing so, there is a need to develop better export business skills and diversify the export strategy to non-traditional markets, also focusing on the development of smart specialisation strategies in order to gain from untapped sectoral and export market opportunities. Registering comparatively larger increases in exports would also be necessary to keep the current account balance in check as demand for imports picks up.

In the context of the ongoing technical assistance project for customs authorities provided through the Commission Services, further work is expected on removing unnecessary procedural impediments to trade and increasing the openness of the economy. Specifically, further rationalisation of cumbersome customs procedures, which entail a significant cost to both businesses and customs authorities, would be important. To this end, it would be warranted for the authorities to work towards the promotion of a better-targeted ex-ante control strategy based on a risk analysis approach, whilst developing and formalising ex-post controls in line with EU best practices. Moreover, resources should be devoted towards the implementation of a rigorous outreach activity programme to promote the use of privileged trader status both within the customs network and towards businesses, such as that of Authorised Economic Operator (AEO). This essentially constitutes a quality label based on reliability, solvency, trust and internal security criteria that allows for less control and swifter customs procedures, as well as adhering significant branding benefits in export markets both in the EU and third countries. Whilst there has been an increase in the number of AEOs in Greece in recent years, the current figure of 148 still accounts for a low percentage of the trading firms, in comparison with other EU countries.

Investment licensing

On the investment licensing reform, which is part of the specific reform commitments given to the Eurogroup, significant work is underway by the authorities. Despite delays in certain areas, the reform appears to be broadly on track with deadlines on specific investment licensing commitments for the outer years. Whilst continued efforts to complete reform commitments are welcome, the adequacy of control mechanisms to contain the risk of potential policy reversal should be ensured. This calls for the creation of an effective institutional mechanism to safeguard the integrity of critical reform gains achieved thus far. In particular, progress has been achieved on the following:

- The tendering procedure on the relevant ICT system (ILIMS), due to be completed by end-2019, is progressing again, following the conclusion of an appeal review procedure in April. The authorities have envisaged to complete the technical evaluation process by the end of May and to proceed with the financial evaluation of the five eligible offers in June, with a view to signing the contract with the successful tenderer by September 2019. The first deliverable of the contractor, i.e. the implementation study, should be made available within six months from the awarding of the contract.
- Work on the implementation of the inspections framework law has proceeded in accordance with the agreed action plan, with the development of relevant horizontal and sector-specific actions, in line with the objective to finalise the inspection legislation by mid-2020. Further work on the development of sector-specific tools in certain sectors (food safety and environmental protection) continues with the support of European Commission technical assistance provided through the World Bank.

- Regarding the extension of simplification, by mid-2020, of the investment licencing procedures in the 24 remaining sectors, work on the primary production sector (livestock installations, fish farming, forestry and veterinary clinics installations) is underway. Whilst progress has been achieved in some areas, some delays are anticipated in the passing of primary and secondary legislation.
- As regards the revision of the nuisance classification, to be completed by mid-2021, the authorities issued, in February 2019, an inter-ministerial decision setting up a Steering Committee for the project as well as a Secretary General decision to define the composition and functions of the corresponding Working Group, in line with the agreed roadmap. Following the operationalisation of these structures, work is currently underway on the initial definition of nuisance parameters and criteria, with the participation of the private sector. The authorities are also preparing a contract to secure technical support for the project through EU funds.

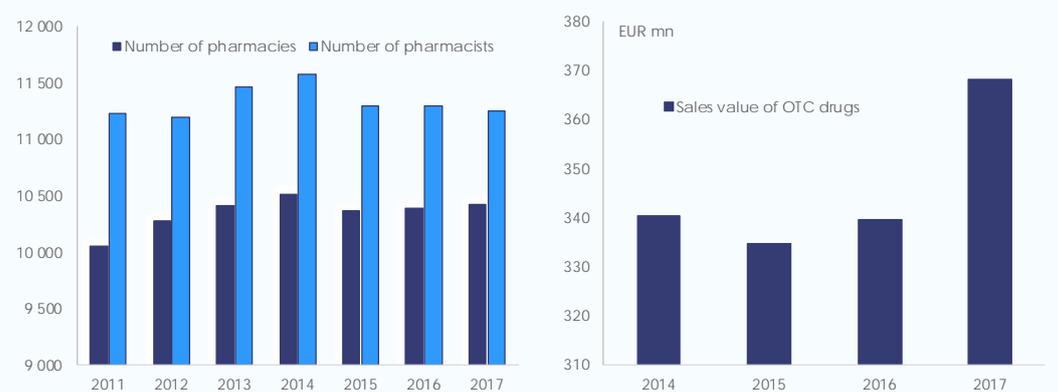
It is important to assess the actual impact of product market reforms adopted in recent years so that they can be fine-tuned and strengthened where needed. As part of Greece's reporting obligations under enhanced surveillance, the Centre of Planning and Economic Research (KEPE) completed in January 2019 an impact assessment of reforms enacted since 2011 in Greece in the areas of pharmacies, over-the-counter (OTC) drugs, and Sunday retail trading. Overall, despite a number of constraints, including data limitations, the interplay of other factors and the relatively short implementation period in some cases, the analysis suggests that these reforms have already had a positive effect on competition and job creation, based on indicators such as commodity prices, number of new products or market entrants, business turnover and employment (see Boxes 6.1 and 6.2). KEPE will provide an updated impact assessment of these reforms in September 2019, which should shed more light on the quantification of their potential impact, and further, undertake an impact assessment of prior reforms affecting engineers (including public engineers), lawyers, and private clinics.

The authorities have resumed work on completing key reforms that could foster product market competition in the area of health. Following the completion of the reform of day clinics in June 2018, the Greek authorities enacted, on 9 March 2019, a law on private clinics (4600/2019, FEK A'43), which had been pending since July 2018. The law aims to modernise and reform the regulatory framework of private clinics in a single piece of legislation by revising entry and conduct requirements. Some of its provisions, including the obligation of private clinics to have a publicly available price list (online and on site) of the services that they provide, could potentially increase competition in this particular market. In addition, the new framework introduces greater flexibility by relaxing requirements in a number of areas. These concern the minimum number of beds per clinic, the maximum permissible period for temporary suspension of operation, and the ability, under certain conditions, to make conversions to the beds capacity in clinic departments with a notification to the supervising authority, instead of obtaining a new license. Moreover, the law introduces some exceptions to previous provisions (presidential decree 247/1991) concerning the need for clinics to operate in separate and autonomous buildings, allowing for some specific cases of business activity to co-exist within the building. Nevertheless, whilst the autonomous building requirement has been in place since 1991, approximately 70% of existing clinics do not meet this requirement, due to lack of legal clarity in the old framework. Whilst the transitional provisions allow for such clinics to operate on the basis of the license acquired under the previous legislative framework, all new private clinics, or those that wish to renew or amend their licence have to adhere to the stricter autonomous building requirement. As a result, the new framework does not address this dual licensing system. More information about the economic impact of this reform will become available in September 2019 by the Centre of Planning and Economic Research (KEPE) in the context of its biannual assessment of key reforms. Beyond private clinics, law 4600/2019 also introduces provisions about health professions (dentists and physiotherapists) setting, among others, fines for individuals who exercise the profession without a license, but, there is no particular provision directly affecting the liberalisation of these professions.

Box 6.1: Assessment of the economic impact of selected product market reforms in pharmacies and over-the-counter (OTC) drugs

Regulatory changes in the sector of pharmacies took place in 2011, 2014 and 2018 and aimed at revising market entry and operation requirements, mainly by relaxing ownership and population-related criteria, by lifting minimum-distance restrictions and by extending opening hours. Based on the analysis of the Centre of Planning and Economic Research (KEPE) that was completed in January 2019, these reforms appear to have had an initially positive effect, as reflected in the increased number of market entrants and the higher employment observed during the period 2011-14 (4.5% more pharmacies and 3.1% more pharmacists in 2014 compared to 2011). This positive trend was reverted somehow in subsequent years, as both the number of pharmacies and that of pharmacists decreased by 0.8% and 2.8% respectively during the period 2014-17 (Graph 1, left side). According to the analysis, however, this reversal is associated, in part, to the interplay of other factors. In particular, while there has been a positive net inflow of pharmacies over the whole reform period, a significant number of pharmacies exited the sector, notably during the years 2013-15, in response to announced pension reforms. In terms of turnover of pharmacies, there has been a sharp decrease over the whole reform period, which is, nevertheless, mostly attributed to price setting adjustments that took place during the same period to contain public health expenditure. On the other hand, the sales of pharmacies in volumes have recorded a slight increase since 2011.

Graph 1: Evolution of pharmacies and pharmacists (left), sales of over-the-counter (OTC) drugs (right)



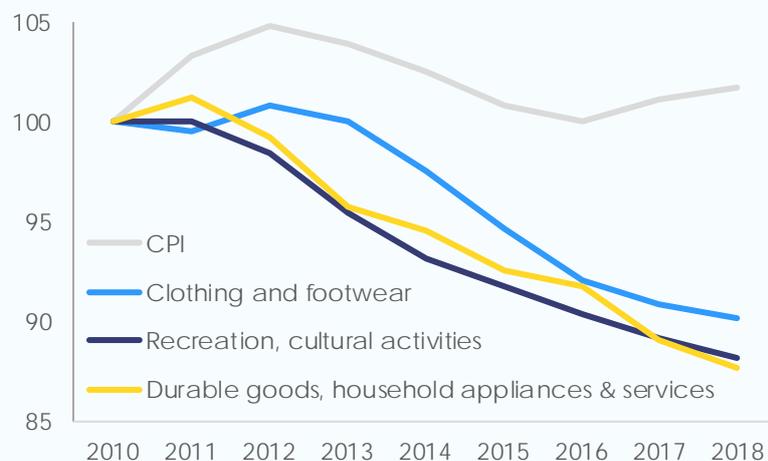
Source: ELSTAT, AESGP, 2018 (calculations by KEPE)

In the market of over-the-counter (OTC) drugs, reforms were enacted in 2014, 2016 and 2017. These led to changes in the classification of drugs in the OTC category (including the introduction of a subcategory of OTC drugs and the liberalisation of the distribution network for the latter), the establishment of an indicative retail price and a maximum price for hospitals, and the abolition of profit margin ceilings for wholesalers and pharmacies. In particular, the reforms resulted in an increase in the number of products that fall under the OTC category (408 new products in 2014). Moreover, they led to an increase in the number of products classified under the new OTC drugs subcategory (4 new product codes), which could also be sold by other retailers (e.g. supermarkets) under specific conditions, increasing consumer options somewhat. In terms of retail price effects, the impact assessment by KEPE is based on a sample of 69 OTC drugs out of a total 602 drugs, for which the Ministry of Health provided indicative prices in July 2018 and which, following the 2017 reform, were computed based on the three lowest prices in the EU (as opposed to five in the past). During the period from 15 January 2018 to 15 January 2019, 74% of these 69 drugs were sold at a price that was higher than the indicative retail price in pharmacies all over Greece, but with small variations across pharmacies and products of the same category. Total sales value (in terms of producer prices) increased by 8% between 2014 and 2017, possibly owing to the increase in the number of OTC drugs and to greater accessibility due to the liberalisation of the distribution network for some of these products (Graph 1, right side). The updated assessment by KEPE in September 2019 is expected to shed more light on price developments, as well as to the entry of new products into the market.

Box 6.2: Assessment of the economic impact of reforms affecting Sunday retail trading

Expanding the shopping opening hours to Sundays in selected areas has been identified as a key reform area by the institutions and the OECD. Several changes to the regulatory framework of Sunday retail trading were introduced in 2014, but most of them were suspended by the Council of State. The main reform in this area took place in May 2017 (Law 4472, FEK A' 74/19-5-2017) and allowed for Sunday trading in four regions (including the touristic areas of Attica and Thessaloniki), as well as the possibility to undertake retail trading on Sundays in any other region in Greece under specific conditions, while also lifting prior shop size and ownership criteria. The effectiveness of this reform was analysed by a study conducted by the Centre of Planning and Economic Research (KEPE) in January 2019. Despite data availability constraints, the short implementation period of the reform and the fact that it coincided with the general economic upturn, there are some signs that point to higher competition (new market entrants, a higher share of the sector to total employment, continued low commodity prices and higher demand). In terms of market dynamism, in 2018 there was a positive net inflow of new businesses (+867 businesses) in the retail sector as a whole, as opposed to the negative trend observed over the period 2009-2017. Notably, retail trade sectors that are traditionally affected by Sunday trade (clothing, sports equipment, toys, IT software/hardware, cosmetics/beauty products, and telecommunication equipment) contributed to this upturn through a net inflow of 320 businesses (with the former four sectors registering positive net inflows for the first time in 2018 since 2010). In terms of prices, KEPE notes that the price of three categories of products and services that may have been affected by Sunday trading (clothes/shoes, durable goods/household appliances and entertainment/cultural activities) continued to decrease in 2017 and 2018, as opposed to the general consumer price index that had already started increasing in 2017 (Graph 1). Moreover, the increase in the value of transactions made with electronic cards on Sundays in areas affected by the reform (+711%) was, during the whole 2016-18 period, much higher than the increase in the total value of electronic card transactions observed in the same areas (+175%). The share of transactions conducted with foreign cards on Sundays also increased (reaching 38.1% of total purchases in 2018 compared to 24.5% in 2017 and 23.3% in 2016).

Graph 1: Evolution of prices levels (2010 = 100)



Source: ELSTAT

Cadastre and land policy

The establishment of a full cadastre in Greece remain a key policy priority for the business environment. As part of the June 2018 specific commitments now enshrined under the enhanced surveillance framework, the Greek authorities committed to complete the cadastre project by mid-2021. As intermediate steps, they also committed to complete the remaining forest maps by mid-2019 and to

fully establish the cadastral agency and complete 45% of the cadastral mapping by mid-2020. The authorities have adopted a comprehensive road map in order to achieve these objectives.

The cadastre project has further progressed in recent months. The Commission has taken the decision to co-finance with structural funds the last set of contracts (about EUR 84 million). A two-year technical support contract has also been signed between the Commission and the World Bank in November 2018 and is under implementation. The staffing of the agency assigned to the management of the contracts is satisfactory with the exception of IT staff, where it proved difficult to attract a sufficient number of highly qualified experts. A custom-made monitoring tool (Project Management Information System) is operational. The declaration of properties for 62% of property rights around the country (phase IV) is progressing satisfactorily. Hellenic Cadastre has launched an electronic application for property declaration and payment. Overall, 42 cadastral offices are operating throughout the country to serve persons that are unable to declare their properties electronically and a major cadastral office has opened in Athens to facilitate the process.

The preparation of the forest maps (mid-2019 commitment) is on time. Fifteen contracts are proceeding according to schedule. As of May 2019, forest maps for 55 % of the territory have been uploaded, of which maps for 41% of the territory are ratified and the rest is in the public consultation phase. Forest maps for 43% of the country are under preparation, with the projection that all maps will be produced by July 2019. The remaining 2% of the country's forest maps have been contracted in May 2019 and will be finished by February 2020. To strengthen the local forestry offices, 100 specialists (forestry and agronomists) were recruited for 8-month contracts, and the committees on objections are proceeding with their work.

In order to accelerate the ratification of the maps, some areas with building settlements within forest land were temporarily excluded from the maps. The rationale was to cover the vast majority of the country with permanent and definitive maps, while the State would decide on how to proceed with the more controversial areas, where whole settlements were built within forest land at a later stage. However, a decision of the Council of State in March 2019, after an appeal launched by WWF Greece, states that these areas of “building concentrations” cannot be excluded from the maps. The authorities have prepared draft legislation to be urgently introduced in Parliament to address the concerns of the Council of State. Until then it is not clear if this decision will have an implication on the intermediary commitment to complete the drawing of the remaining forest maps by mid-2019.

Progress with the establishment of the new institutional framework for the cadastre has been mixed. The appointment of the new management team and Board of Directors has progressed somewhat. A transitional management was appointed a year ago. A migration team was appointed to carry out the task of integrating the mortgage offices into the new structure, but its capacity remains weak. Regarding the integration of the mortgage offices into the new structure, two new regional cadastre offices have been established on 19 April and 14 May (Veria and Karditsa) and are functional replacing the corresponding mortgage offices. The government is preparing legislation aiming at strengthening the migration team with sufficient full-time dedicated staff and a detailed plan for the integration of the mortgage offices to meet the deadlines set with the advice of the World Bank. The next three months will be critical for the implementation of these actions.

On spatial planning, most of the secondary legislation necessary for the application of the spatial planning law is completed. There is no pending legislation that would prevent the completion of spatial planning in Greece, but the adoption of remaining legislation (Presidential Decree to harmonise older legislation with Law 4447/2016, and Ministerial Decision with the technical specifications for town plans) is substantially delayed. More specifically, the Presidential Decree to harmonise older legislation with Law 4447/2016 has been retained in order to harmonise it with a new legislative framework under discussion on urban re-development. The technical specifications for town plans are also delayed.

An important issue regards the Local Spatial Plans (LSP). Currently, no Local Spatial Plan is completed, two are underway and 353 remain to be executed. A Joint Ministerial Decision for the

financing the LPS by a European Investment Bank loan is in the process of receiving signatures and an algorithm for the calculation of the cost of studies has been produced.

Finally, a study with support from the Commission has been signed for the systematisation of environmental legislation. This is a complementary action to the cadastre and spatial planning aiming at better enabling citizens and investors to access and understand environmental legislation.

6.2.2. Network industries

Energy

The second quarter of 2019 saw a wide-ranging energy law passed ⁽⁵⁵⁾, covering several key reform topics. In particular, the law set up the framework for the restructuring of the gas company DEPA, established conditions for the lignite divestiture of the Public Power Company (PPC) and contained provisions for dealing with extra electricity generation in Crete by facilitating transfer, installation and operation of specific units to address energy security concerns. However, regarding the Eurogroup commitments, there was only limited progress.

A key reform underpinning the evolution of the energy markets, the divestiture of PPC's lignite plants, was relaunched after the first deadline resulted in no bids being accepted. A new timeline had been agreed which should close by the end of June 2019. Given that the last bid failed due to offers being below the valuation, the terms of this round state that a fairness opinion on any offers should be included, and that the first valuation should not be taken into account, given some of the assumptions it was based on. Several companies expressed interest in the latest round, though it remains to be seen whether bids will be made and accepted. A unilateral decision extending the process deadline to 15 July was made by PPC following consultation with the Ministry of Energy and Environment. As such, the closure will not be made within the agreed deadline.

Progress with the implementation of the target model for the electricity market has been slow. Whilst Greece has made some steps forward, such as stakeholder workshops and English-language translations of the rulebooks, it seems clear at this juncture that the go-live of the intraday, day-ahead and balancing markets, already delayed from the initial plan of April 2019, will not occur until 2020, *inter alia* due to delays from contractors. Some groundwork for coupling with the Bulgarian and Italian markets has been prepared, but will not go live at least until 2020 due to the domestic delays. Its eventual implementation will give Greece access to the pan-European electricity market, bringing many benefits for the security of the system and electricity prices. Related to consumer markets, a planned smart meters project appears to have stalled; such technology will be helpful in the future should the markets develop to the point that consumers can respond to pricing movements.

The NOME electricity auctions continued with its allocated quantities, and the delays to the lignite divestiture meant that a planned correction mechanism was not triggered. The latest auction of 355 MWh saw higher prices than the previous events. After some concerns about single market rules, a proposed clause to limit exports was accepted by the Commission, though its impact is not clear. Further reductions of quantities will follow the successful completion of the lignite plants divestiture. On the retail side, PPC's market share was reduced to some 76.6% in March 2019, down from around 78% in January, and below the 80.3% at the time of the last report. The market share varies between high, medium and low voltage customers. Whilst this does reflect progress, the market conditions are still some way off the goal of PPC's market share going to below 50% by end-2019. Consumer prices are still highly distorted, through the application of social tariffs, which are established to address Greece's energy poverty concerns. PPC's decisions to reduce the discount for early-paying consumers from 15% to 10% is a positive step in recuperating market price, as well as increasing PPC's revenue base. The Greek authorities recently announced a proposal to reduce the VAT on energy to 6%, from the current level of 13%. In another market development, the second flexibility auction, planned for May, did not go ahead.

⁽⁵⁵⁾ Law 4602/2019 (OJ 95-A/9.3.2019).

Progress with the implementation of energy market reforms has slowed notably during the past few months. It is key that the reform of the market stays on course, and important to note that the main developments are interconnected. It is evident that the deadlines for all the major commitments have been significantly delayed so far and there is still uncertainty about the direction Greece is heading in.

Taking a wider perspective, the date for the 3rd renewable energy (RES) auction has not been set yet. Quantities have been established at 300 MW for both solar and wind projects. The RES Account is still in surplus, but cash flow issues, including its reporting, remain. The surplus is driven by high EU Emissions Trading System (ETS) CO₂ prices. Ongoing/ public consultations carried out by the national regulator (RAE) are good opportunities to increase the confidence of RES producers in the system, and to strengthen DAPEEP's ability to manage this important account. One is on the return to the suppliers of the 2018 surplus following the abolition of the supplier surcharge, and the other on the calculation and collection of ETMEAR (Special Duty for Reduction of Gas Emissions) by the RES market operator (DAPEEP). Beyond the RES Account and auctions, a major factor in the development of renewable energy sources is licensing. Many stakeholders raise concerns that RES projects have complicated, long-procedures, which detracts investors. Greece has started work to update its spatial planning, which could be an opportunity to streamline the process.

Fundamental steps to reform the gas market have been undertaken, both in terms of the transmission grid and distribution, and efforts should continue. DESFA, the transmission network, was sold to private investors at the end of 2018, however adjustments to the final certification by the energy regulator (RAE) raised concerns. At this stage it appears that these issues have been resolved, and RAE have passed their final decision that is expected to be officially published shortly, allowing the investors to move forward with developing new market opportunities. As far as DEPA is concerned, the splitting of the Commercial and Infrastructure parts of the business took place, in accordance with the terms of Greece's new corporate law on mergers. Effective unbundling of network and supply is a fundamental element of the restructuring so it is important the future ownership of these new ventures respects this. A liquid and well-functioning gas market remains an opportunity for Greece to play an international strategic role across various suppliers and routes through both pipelines and liquefied natural gas, and for the Greek gas market to grow.

Whilst the progress made with the implementation of Crete's interconnection to the Peloponnese is positive news, the uncertainty about the status of the Attica-Crete interconnection continued. The overall project, linking Attica, Crete, Cyprus and Israel, remains on the list of Projects of Common Interest (PCI) for now; thus being eligible for EU funding (approximately EUR 300 million to be allocated to this project), until the formal adoption of the 4th PCI list. However, the electricity transmission operator (ADMIE) decided to start implementing the Attica-Crete segment as a national competitive project and Greece did not support the inclusion of the project in the 4th PCI list, therefore rendering it ineligible for grants under the Connecting Europe Facility. Continued support by the authorities of the PCI status of the project beyond 2019 could allow taking full advantage of the benefits deriving from the TEN-E Regulation, such as eligibility for applying for grants under the Connecting Europe Facility.

The recently-released financial results of PPC for 2018 show a strong decline in profitability and worsening cash-flow issues. Higher CO₂ prices, a loss of retail market share and the NOME auctions were identified by PPC and the authorities as the key drivers of the negative results. The lignite plants subject to the ongoing divestiture further contributed to losses. Whilst results of 2018 are very different from 2017, when PPC made profits, it seems clear that structural issues remain, and it raises questions about the size PPC is able to maintain, and about its pricing policy. Whilst higher prices will allow for PPC to improve its cost recovery, equally important is that it should facilitate the overall competitiveness of the electricity markets, thereby leading to an increase in the much-needed investments in the sector. PPC is clearly going to remain the cornerstone of the Greek energy market, but its current path is worrying, something which is increasingly recognised by PPC's senior management. The current quarter did see some positive news for PPC, with an upgrade of its bonds and securing loans from national and international financial institutions. It also appears that PPC is seeking an agreement with the authorities

regarding payments from previous years for Public Service Obligations (PSO), with a decisions expected by RAE on this matter. Arrears collection showed some improvement, but some structural issues remain which will be challenging to resolve and will require determined efforts, including regulatory intervention to address the issue concerning the so-called inactive users (generally low voltage category customers who have swapped suppliers) that has seen a 20% increase in outstanding payments during 2018.

A fundamental requirement for successful reform of the energy market will be the ability and willingness of RAE to oversee the market and make the necessary regulatory decisions in a timely and transparent manner. The authorities are discussing provisions to increase the independence of its decision-making (e.g. through liability provisions for its members and staff) as well as to increase its overall capacity through hiring of new permanent staff. It is important that the adopted provisions will be fully aligned with EU legislation and practices while also being consistent with and respecting the overall principles of key public administration reforms adopted during the programme period in Greece. As recent developments have demonstrated, such as with the NOME auctions and exports, a cooperative effort between RAE and the European and Greek authorities can deliver results, and it is recommended such an approach is continued.

Water

In the water sector, an information system has been set up in January 2019 to monitor the performance of water companies throughout the country through the regular collection of information. The functioning and objective of the system is to ensure the sustainability, quality and affordability of water provision in Greece, which is currently suffering from a lack of transparency, accountability and coordination across different actors in the sector. The Special Secretariat for Water (SSW) has dedicated staff to support this system of data collection and analysis. Initial statistics on the performance of the system covering information for the year 2017 are expected shortly. The system will include information on cost recovery, infrastructural investments and planned human resources, drinking water quantity, quality and water losses across the country, among others. The SSW intends to finalise a strategic and operational plan by the end of June 2019 to streamline its supervisory activities.

Transport and Logistics

A Strategic Transport Master Plan for Greece to identify future policies and investments in the transport sector is being prepared by the Ministry of Transport. The plan which is now almost ready covers all transport modes for the years 2027 and 2037, the necessary supporting planning tools as well as accompanying capacity building activities. A major problem in the transport sector is that contracts for new projects are delayed (Athens metro line 4, Patra-Pyrgos motorway, Amvrakia – Aktio highway). Among the reasons for the delays are low prices and appeals procedures launched by non-selected bidders. Regarding urban transport, the elaboration of sustainable urban mobility plans will be the condition for investment in the sector.

On logistics, little progress has been made in the “Thriasio logistics complex” which remains unutilised. Once fully operational, this investment – co-financed with EU funds – could give a big boost to rail freight and the overall competitiveness of the country. However, the concession contract for the private freight centre has not been activated and the tender for the exploitation and operation of the park of 1,450 hectares is severely delayed. Urgent measures to expedite these contracts are warranted.

Regarding the transport company of Thessaloniki, OASTH, the legislation in place⁽⁵⁶⁾ foresees the liquidation of the company by the end of 2019 and its replacement with a new entity. A business plan needs to be prepared as soon as the new entity is established, given also that the Thessaloniki metro will start operating in 2020 (by a separate company), which will require a new planning of the public buses network. Preliminary balance-sheet information on 2018 operations, still to be validated by the general accounting office, show positive signs with an increase in revenues and a reduction in operation costs and public transfers. Until the new entity is established, the authorities should continue reporting on

⁽⁵⁶⁾ Law 4482/2017.

the management of the company, including its revenues, operation costs and public transfers. The results of the first semester of 2018 will be published in July 2019.

7. HELLENIC CORPORATION OF ASSETS AND PARTICIPATIONS (HCAP) AND PRIVATISATION

7.1. HCAP

Greece made commitments to European partners in June 2018 to continue and complete the important work of HCAP, which gathers under a single institutional structure a significant portfolio of assets and shareholdings in public enterprises. The Eurogroup statement of June 2018 foresees that the strategic plan of HCAP will be implemented on a continuous basis. In addition, the authorities committed to complete the review, and replacement if required of Board members, of all SOE Boards by mid-2019. The implementation of the strategic plan has proceeded as planned and the Board review is progressing. Furthermore, the authorities committed to the transfer of the Olympic Athletic Centre (OAKA) to HCAP but the transfer of OAKA will be delayed due to practical complexities. Since the publication of the second enhanced surveillance report in February 2019, progress has also been made in improving corporate governance in the State-Owned Enterprises (SOEs) and in the implementation of the coordination mechanism that governs the interaction between the authorities and HCAP regarding the mandates and objectives of the SOEs under HCAP.

HCAP is continuing with the implementation of its strategic plan (continuous specific commitment), which incorporates its overall approach for better management and use of the assets of the Greek State that became part of its portfolio. HCAP proceeded in December 2018 to the preparation of its business plan for 2019-2021, implementing the strategic plan and setting key performance indicators (KPIs) for its direct subsidiaries and the non-listed other subsidiaries (SOEs with majority participations). The KPIs include the following areas: enhancement of economic and public value, improvement of financial performance, corporate governance, improvement of quality of services offered to customers, operational efficiency and innovation. HCAP has also elaborated the framework for monitoring the KPIs, and it is following up on the KPIs set for each SOE in which it has majority participation (and which is not listed) through regular meetings.

HCAP's real estate portfolio is managed by its subsidiary ETAD, which was restructured during 2018 (end 2018 specific commitment) with a view to increasing its effectiveness in the management of real estate assets. The completion of the restructuring, the arrival of new management executives, and clearer guidance on short and medium-term objectives, are expected to deliver an improving operational performance of ETAD in 2019, and to lay the ground for significant value creation over the medium term. Achieving the full potential of the real estate portfolio will remain a key challenge for HCAP and should be a primary source of value creation. Given the importance of the real estate portfolio, a thorough set of performance targets have been set for ETAD in 2019 in order to consolidate and test the effectiveness of the restructuring. These targets include exploitation, portfolio management and revenue enhancement objectives and will be quarterly monitored by HCAP. If necessary, corrective actions will be taken in order to achieve the expected operational performance.

HCAP continues its work on SOEs governance, in particular regarding the review (and replacement, if needed) of the boards of the SOEs (mid-2019 specific commitment), and improving internal and external audit capabilities. The HCAP Board, following the completion of the review of the Board of Directors of the Athens Urban Transport Organization (OASA) in June 2018, selected the candidates for the posts of CEO, Chair and three non-executive members in OASA. The General Assembly of OASA appointed those candidates on 6 May 2019. The HCAP Board further reviewed the Board of Corinth Canal (AEDIK) and proceeded to the selection of new members, in the cases deemed necessary. The General Assembly of AEDIK appointed those candidates on 6 May 2019. Candidates for the post of Chair of the Audit Committee have been selected for almost all SOEs and on-boarding is gradually taking place in parallel with the process of assessing and staffing the new Board of Directors as a whole. Up to the present, HCAP has appointed 39 Board members (executive and non-executive) in its

direct and other subsidiaries. HCAP has also focused on improving compliance functions and it is implementing a standardised method for monitoring reporting financial information within the SOE group with the purpose of preparing the consolidated financial statements as well as performance on the specific KPIs set by HCAP.

However, appointing professional members in the Boards of Directors (BoD) in the bigger non-listed SOEs – in particular executive members – proved to be challenging for HCAP due to legislative caps on the remuneration of SOE board members (both executive and non-executive). The caps limit the remuneration that can be offered to prospective members of SOE boards to uncompetitive levels, considering the level of responsibility and the business activity of some of the SOEs. To date, this has been a serious issue affecting HCAP's ability to sustainably attract new BoD members for SOEs, with implications for the improvement of SOEs' operations and performance, and long delays in finding competent candidates, as manifest for example in the difficulties to renew the board of OASA. It would be warranted to address this shortcoming through a legal amendment, as had been planned in 2018 but postponed.

In addition to the extensive work on governance, HCAP is increasing its focus on operational improvements at SOEs following the development of new business plans in 2018. A key upcoming challenge will be to effectively address significant operational and financial issues in Hellenic Post (ELTA), which faces a number of challenges common to postal service operators in many European countries. A restructuring proposal has been prepared by ELTA's new management and it is under consultation and review by HCAP and key stakeholders regarding its main parameters.

The implementation of the Coordination Mechanism, which is a key focus area and challenge in 2019, has been launched. The Coordination Mechanism sets out the procedures and deliverables for coordination between the State, the HCAP and SOEs, in relation to (i) the SOEs' mandates, which will define the main activities of each public enterprise (ii) a statement of commitments for each SOE, which will include the operational and financial objectives that each SOE must adopt to achieve its strategic goals, and (iii) a performance contract that will clearly reflect the objectives and financing of any special obligations required by the State.

Effective implementation of the Coordination Mechanism requires the cooperative engagement of the authorities across all parts of the government. The Greek authorities have proceeded to establishing the Cabinet Committee provided for in the Coordination Mechanism and HCAP law, and to operationalise the mechanism. Representatives of the Cabinet Committee of the Ministry of Finance and of HCAP met in February 2019 and agreed on the agenda, the schedule and the prioritisation for dealing with the SOEs for the prompt implementation of the Coordination Mechanism. The implementation of the Coordination Mechanism was launched with a meeting of the Cabinet Committee with HCAP on 21 February 2019, discussing issues related to the SOEs under the surveillance of the Ministry of Economy and Development. The implementation of the coordination mechanism for four SOEs, namely the central markets of Athens and Thessaloniki, the Corinth Canal and Helexpo is at an advanced stage, expected to be finalised soon. So far, the process runs smoothly. With the setting up of the Cabinet Committee, it should be possible for the government to 'speak with one voice' to avoid a difficult situation in which different parts of the government have contrasting priorities regarding activities of SOEs under the Coordination Mechanism.

Recent legislation and actions in certain sectors appear to potentially overlap with the function of the coordination mechanism, or to affect HCAP's rights in respect of certain assets transferred to it. Any inconsistencies would need to be addressed. The Greek authorities have agreed to avoid such actions in the future. Possible overlaps may also emerge more clearly in the process of implementing the Coordination Mechanism. Overlaps would need to be removed, in order to give effect to the intent and balance of the coordination mechanism, along with acts that impinge on the exercise of rights transferred to the HCAP. In the case of the 23 regional airports, in particular, overlaps should be avoided in the phase of implementation of any exploitation plans and actions for these airports, since the rights for utilisation and concession were transferred to HCAP on the basis of article 198 of Law 4389/2016.

The transfer of the Olympic Athletic Centre OAKA, which was an end-2018 specific commitment, proves to be very complex, involving multiple stakeholders as well as a series of administrative and procurement steps. These include procurement for the repair or overhaul of significant facilities, in order to ensure that the asset is provided in a satisfactory condition. Given the complexities and involvement of third parties, an adjusted timetable for the transfer by end-2020 appears reasonable, while the process needs to be pursued as diligently as possible.

7.2. IMPLEMENTATION OF THE ASSET DEVELOPMENT PLAN

Implementation of the Asset Development Plan (ADP) of the Hellenic Republic Asset Development Fund (TAIPED) is key to stimulate private investment, increase efficiency, and provide financing to the State. In June 2018, the authorities made a specific commitment to Eurogroup partners to implement the ADP, which will be updated every six months, and in this context to complete the transactions on Hellenic Petroleum (HELPE) and the marina of Alimos by mid-2019. Further commitments were taken for end-2019 and beyond. In addition, the transaction on Hellinikon (development of the site of the former Athens International airport, end-2018 specific commitment) has remained pending despite good progress, in view of the complexity of the project.

On Hellinikon, the authorities have continued the efforts to complete the conditions precedent to allow the transfer of shares to the preferred investor, Lamda. If the authorities continue the strong efforts, financial closing could be feasible in the coming months. The current state of play on key elements is as follows:

- The tender process for awarding the casino license is ongoing. The deadline for submission of offers has been further extended to the end of June.
- The public consultation of the Integrated Environmental Impact Assessment Study was launched on 21 March 2019 and it has been concluded on 14 May 2019. The conclusion of the public consultation is a necessary precondition prior to the issuance of the Joint Ministerial Decisions for the Metropolitan Park, development zones and the urban planning zones. Within the framework of the required work, on 17 May 2019, the first meeting of the Central Administration Council for the discussion of the Joint Ministerial Decisions for the Metropolitan Park, development zones and urban planning zones was held.
- Preparatory work regarding the partition of the Hellinikon site is ongoing (pending issues with the Cadastre are expected to be resolved).

Progress on other transactions in the Asset Development Plan which are due to be completed in 2019 is behind schedule, with progress in smaller transactions, but delays elsewhere. On a positive note, challenges related to the regional ports were resolved, and there was some progress in removing obstacles to the Egnatia motorway concession project. In contrast, outcome of the transaction for the sale of 50.1% of Hellenic Petroleum was unsuccessful, while complications have arisen on the sale of 30% of AIA and no progress was made on the sale of 11% of EYDAP and 24% of EYATH. The state of play can be summarised as follows:

Marina of Alimos (a mid-2019 specific commitment): the marina of Alimos is one of the largest marinas in the South-Eastern Mediterranean, located on the South-Eastern waterfront of Athens. Three consortia participated in an e-auction procedure that took place on 16 April 2019. The preferred bidder (AKTOR Concessions SA) won the tender by offering EUR 57.5 million in NPV terms (a nominal offer of EUR 177 million in total). Thus, satisfactory progress is being made in the tender for the long-term concession of the marina of Alimos, however the financial closing is not expected before the fourth quarter of 2019.

Hellenic Petroleum (HELPE, a mid-2019 specific commitment): No binding offers were submitted for the joint sale (along with the other strategic shareholder of HELPE, PanEuropean Oil and Industrial Holdings S.A. (POIH) of a majority stake (50.1%) and thus there was no positive outcome of the specific transaction. The financial closure is thus inevitably subject to significant delays. Within the framework of the third enhanced surveillance round and with a view to minimising the time delays, an agreement was reached between the Greek authorities and the institutions that TAIPED is given the technical mandate to explore all options available towards proceeding with the transaction. A discussion on the structure of the tender between the Greek authorities and the institutions is expected in the context of the 4th enhanced surveillance cycle.

Sale of 30% of AIA: According to the Airport Development Agreement (ADA) in place, any transfer of shares exceeding 25% of AIA's share capital requires the consent of all existing shareholders. In this context, complications arose from a decision of the Greek authorities, more specifically the Governmental Council for Economic Policy (KYSOIP) in February 2019, which instructed TAIPED to proceed with the execution of a new waiver agreement, with provisions substituting the independent member of the nine-member Board with a member appointed by the Hellenic Republic, thus increasing the number of Board members appointed by the State. This new agreement request was rejected by AviAlliance, shareholder of 40% stake in AIA, as it considers the independent Board member as a key element of the balanced governance of the company. In the context of the mission of 6-8 May 2019, the Greek authorities agreed to seek an immediate resolution of the issue, so that the signing of the waiver agreement would be possible by mid-June and the launching of the tender process for the sale of 30% of AIA by 30 June 2019, day of expiration, proposed by the private shareholders of AIA, of the Initial Waiver agreement. To date, this action is still pending.

DEPA – Public Gas Corporation: The law on DEPA's corporate restructuring (Law 4602/2019 which amended Law 4001/11, the "Energy Law") enabling the split of DEPA's commercial and infrastructure (networks and international projects) activities was enacted on 9 March 2019. According to article 80I of the Energy Law, a partial demerger of DEPA's gas distribution branch shall take place, by which all distribution gas activities of DEPA, along with the international projects in which DEPA participates, will be transferred to a separate legal entity ("DEPA Infrastructure"), the shares of which will be transferred proportionately to the DEPA current shareholders (TAIPED 65% - HELPE 35%). All current wholesale and retail gas activities of DEPA, including any existing or future commercial commitments deriving from the international projects in which DEPA participates, will remain under DEPA, which will be renamed to "DEPA Commercial SA". On 22 April, DEPA's BoD approved the partial demerger of DEPA's Infrastructure activities from DEPA. It is essential that the status of the contracting staff to be allocated between the two entities will be clarified as a matter of urgency in order to avoid this to be an area of uncertainty/risk for the tender. Further, pursuant to article 80II paragraph 1 of the Energy Law, and in line with the agreement reached between the Greek authorities and the institutions, TAIPED will issue an invitation for the expression of interest for the sale of 50% plus one share of the share capital of DEPA Commercial even prior to the completion of DEPA's partial demerger. It should be also noted that Hellenic Petroleum, DEPA's co-shareholder, is in the process of formulating its strategic role in the imminent sale process (buyer or seller), that has to be compliant with term sheet agreed on DEPA's transformation and privatisation, in particular concerning unbundling.

Egnatia: The privatisation process for the Egnatia motorway entails the award of a long-term concession for the operation and maintenance of the motorway and its three vertical axes. The transaction has been characterised by systematic delays and problems, whereas over the last months of 2018 the transaction had been effectively blocked. In January 2019, within the framework of the second enhanced surveillance round, the authorities had agreed to a number of actions to be swiftly implemented in order to deal with the recurrent obstacles to the concession. Most of the agreed actions due so far have been implemented in line with technical feasibility. This includes notably the adoption of Egnatia's budget, the completion of the parliamentary procedure for the appointment of the CEO of Egnatia, the submission by Egnatia of all pending files to the Tunnel Licencing Authority and the submission of necessary information on the toll pricing policy to the Commission.

A number of actions are still needed before the submission of binding offers:

- Launch and completion of the construction of all remaining frontal and lateral toll stations. The relevant contracts were signed on 2 May 2019.
- Specification by the Tunnel Licencing Authority (based on Egnatia's submissions) of the measures that need to be implemented in order for the tunnels to be licensed. Once this is done and the cost of necessary works is calculated the concession agreement will specify who will implement the works and who will assume the relevant risk.
- Obtaining a clear picture on what works needs to be done for bridges to be classified as safe. Very recently (March 2019) some of the motorway's bridges were classified by Egnatia S.A. as "potentially dangerous", although there has been no apparent change in the state of the bridges. Egnatia needs to clearly define the measures that must be taken as well as the cost for the bridges to be completely safe. Once this is done, the concession agreement will specify the allocation of risk between the Concessionaire and the State.
- Clearance of the new toll pricing policy by the Commission.
- Resolution of the open issues related to the motor service stations contracts re. Eleftherochori, Oraiokastros, Ardanio and Sostis, that have been inactive since 2011, by Egnatia S.A..
- Egnatia needs to proceed to the necessary actions (tender for advisor appointment) for all the preparatory work necessary for the remaining expropriations. While the completion of the expropriation process with issuance of Ministerial Decisions is not a prerequisite for binding offers or for Concession Commencement Date, and it is handled accordingly in the Concession Agreement, the process should be initiated promptly.

The above actions need to be completed before the submission of binding offers in order for the Concession Agreement to be adequately balanced without any of the two parties (Concessionaire or State) assuming excessive risks.

Regional Ports: There is significant investor interest to operate specific and/or combined port activities/services by means of sub-concession agreements in the ports of Alexandroupolis, Kavala, (end-2019 specific commitments) Igoumenitsa and Kerkyra (mid-2021 specific commitments). Following a lengthy process, as reported in the second enhanced surveillance report, an agreement on the final text of the required legislative changes was reached on 21 January 2019. Following the enactment of the agreed legal amendments on 21 February, TAIPED elaborated proposals for the sub-concessions of the ports of Alexandroupolis and Kavala. The Expression of Interest for the two ports, however can only be launched following the issuance of a Joint Ministerial Decision by the ministries of Shipping and Finance that will define the specific activities to be subject to the sub-concession as well as the fees to be paid by the sub-concessionaires to the relevant port authorities. The issuance of the relevant Joint Ministerial Decision is pending.

8. PUBLIC ADMINISTRATION AND JUSTICE

8.1. PUBLIC ADMINISTRATION

8.1.1. Appointments of senior management positions

A specific commitment for mid-2019 is for an independent assessment of the selection process of Administrative Secretaries, with follow-up measures to be adopted by September 2019. As noted in the last enhanced surveillance report, the selection process has been subject to significant delays, which the authorities attributed to several reasons, including the importance and high visibility of this appointment cycle, which is carried out for the first time. Given the difficulties faced, including the re-launching of 22 calls in June 2018 due to a lack of clearly defined minimum eligibility criteria, the independent assessment is expected to take stock of the selection process and to identify scope for improvements. The authorities have requested technical support from the Commission and the assessment is planned to be completed by June 2019. The authorities intend to establish a high-level working group, involving officials from the Ministry of Administrative Reform (MAR) and the Supreme Council for Civil Personnel Selection (ASEP), that will review the results of the assessment and also decide on the follow-up measures to be adopted by September 2019 in order to improve the selection process for the next appointment cycle.

The state of play on the various appointment cycles for public sector managers at the end of May 2019 was as follows: (i) Administrative Secretaries – one appointment out of 69 completed (expected to be completed by end of 2019); (ii) Directors-General – completed (90 posts in total); (iii) Directors – 101 appointments out of 395 completed (expected to be completed by July 2019); and (iv) Heads of Division – expected to be launched in June 2019 and completed by October 2019. Although progress has been made during this reporting period, in particular as concerns appointments of Directors, overall significant delays are observed vis-à-vis the initial completion targets and it is highly doubtful if the revised target of completing all selection decisions by end-2019 for the Administrative Secretaries will be met.

8.1.2. Improving the human resource management in the public administration

A second specific commitment for mid-2019 is completion of the third mobility cycle that was launched in August 2018. The implementation of the mobility scheme is progressing. This cycle saw a continued gradual increase in the number of entities seeking transfers of staff (165) as well as the number of published vacant posts (5,440). To date, 223 transfers (out of 744 selection decisions) and 12 secondments (out of 48 selection decisions) have been completed. Although compared to the previous two cycles, which are yet to be completed, the time needed from publication of post to selection decision and then the actual appointment taking place has been significantly shortened, there is a risk that a significant part of the expected transfers (and secondments) will not be completed by the end of June 2019. As concerns the fourth cycle (published in February 2019) the number of entities taking part (351) and positions (7,962) continue to increase. This reporting period also saw a number of legal amendments adopted that allow specific general government entities to be exempted from the mobility scheme. The authorities argue that most of these exemptions are time restricted, in order to avoid causing operational difficulties until all entities are in a position to take part in the mobility scheme. In summary, although there is a risk that the third mobility cycle will not be completed by mid-2019, the gradual increase of number of entities and applications for each cycle is encouraging and a clear signal that the public sector has embraced this public administration reform. At the same time, it is warranted to continue closely monitoring and addressing specific issues identified that are currently delaying the process.

A third specific commitment concerns the completion of the performance assessments for 2018 by mid-2019. The assessment round was launched in March 2019 and is expected to be completed by end of June 2019 as per the circular issued by MAR.

Continued progress has been made towards establishing an integrated human resources management system, which should be on track to be completed by end of 2019. More specifically, 745 general government entities (approximately half of the total) have completed their digital organigrams, with close to 135,000 job descriptions completed (i.e. for around 70% of all positions). Given the importance of completing this exercise, it will be important to continue monitoring its progress, in particular as concerns (i) ensuring that entities that have completed their digital organigrams also proceeds to complete all job descriptions; and (ii) providing timely support to entities (e.g. small municipalities) that are struggling to complete the exercise for capacity reasons. Once this exercise has been successfully completed, it will provide the main elements for the integrated human resources management system, as it will allow for each job holder to have a position and specific job description assigned to them as well as setting out the entity/unit the job holder currently works for.

Progress with the streamlining of the existing job classification system (*'klados'*), with a view to aligning it to the functions referred to in the generic job descriptions, has been limited. The authorities have committed to a specific 'road map', and some progress has been made on specific actions, including holding the first meeting of an inter-ministerial pilot working group to update/validate the linking of *'klados'* with the functional domains of the job description template. The authorities are urged to speed up the implementation of the various actions during the next months, also taking full advantage of the technical support provided.

8.1.3. Better regulation and coordination

Progress has been made in terms of legal codification, including with the adoption of a law that strengthens the mandate of the Central Codification Committee (KEK). Two manuals on legal and administrative codification were prepared. Steps to ensure close and efficient coordination between the two codification strands (led by KEK and MAR respectively) have been undertaken, particularly in the context of the national codification strategy, and it will be essential to ensure close coordination also at the operational level, in order to avoid duplication of work and take full advantage of potential synergies. The adopted legal provisions for KEK⁽⁵⁷⁾, includes the legal codifications that KEK has currently committed to oversee following agreement with respective Ministries⁽⁵⁸⁾. As the actual codifications might be done by a third party (e.g. through a project funded by the National Strategic Reference Framework), it is essential that such legal codification projects are implemented applying the overall approach and methodology set out by KEK. The authorities are therefore urged during the next reporting period to adopt a standard agreement template between KEK and the Ministries, which will set out in detail KEK's role, including reviewing the output. With solid progress being made in establishing a coherent process for the conduct of the legal codification process, it will also important to ensure that sufficient resources are allocated at the General Secretariat of the Government, including its Central Legislative Committee, as well as the legal services of each Ministry. Finally, the approval decision that will allow the tender for the flagship project to set up a digital codification portal was taken in March 2019, and the tender is expected to be launched by June.

A specific commitment for mid-2020 is for the legal codification of a unified Labour Law Code and Code of Labour Regulatory Provisions. The Ministry of Labour has proceeded to establish a specific committee to take the lead in preparing these legal codifications, on the basis of the drafts already prepared through technical support provided by Commission services. At the same time, exchanges have been taking place also with KEK on how to align these specific codifications with the overall approach/methodology overseen by KEK. An updated timeline is expected to be presented in the coming months and following successful conclusion of the ongoing exchanges between the Ministry of Labour and KEK.

On inter-ministerial coordination no concrete progress on actions has been reported by the authorities following the adoption of an inter-ministerial manual in June 2018. An update on actions

⁽⁵⁷⁾ Law 4606/2019 (OJ A-57/11.4.2019).

⁽⁵⁸⁾ Article 8, Law 4606/2019 (OJ A-57/11.4.2019).

initiated and for actions to be launched is expected to be prepared by the General Secretariat for Coordination, in order to be reported in the next enhanced surveillance round.

8.1.4. Controlling the size and cost of public sector

The hiring plan for 2019 as well as for 2020-2022, as included in the 2018 Medium-Term Fiscal Strategy (MTFS), seems to be respecting the one-in-one out hiring rule currently in place for recruitments of new permanent staff in the public sector. Following the adoption of the MAR law ⁽⁵⁹⁾, which introduced provisions for a more strategic recruitment planning, MAR is in the process of consolidating the first four-year recruitment plan that will be coupled with the MTFS and the budget allocated for new hirings, while updated annual plans will be consolidated and submitted by MAR each year. As the law was adopted in early 2019, the initial exercise is taking place during the spring, but as concerns the next cycle it would be important, as foreseen in the law, to link the four-year and annual plans with the budget cycle. The next enhanced surveillance report is expected to include an overview of the key elements of the four-year plan.

The ceiling for temporary staff set for 2018 was not respected, and it will be important for this trend to be reined in during 2019. As reported in the previous enhanced surveillance report, it is estimated that the number of temporary staff will need to be reduced by approximately 1,550 persons in order for the overall size of the public sector to be maintained.

The agreed actions to improve the reporting of the census (*'apografi'*) are yet to be implemented. These cover the inclusion of data on (i) flows of permanent staff of legal entities of private law; and (ii) temporary staff of legal entities of private law being paid by the National Strategic Reference Framework and/or other sources. It would also be warranted to update the *'apografi'* website with monthly staff figures covering 2019, and to restore the reporting to the regularity of previous years.

In terms of continuing the institutional and legal reforms associated to the unified wage grid, various actions remain pending. For example, as concerns the special wage grid ⁽⁶⁰⁾, the Joint Ministerial Decision (Ministry of Finance and Ministry of Foreign Affairs) to set up a coherent approach on how the allowance for service abroad is being calculated has yet to be taken, although a detailed proposal has been prepared for some time. In addition, it is important that the third phase of the Single Payment Authority reform is initiated that will see it becoming mandated to carry out also the actual clearing, besides executing the payments, of all salaries paid to public officials. This would entail, amongst other, (i) adoption of the approval decision for a project funded by the National Strategic Reference Framework to set up the needed IT infrastructure; and (ii) legal amendment adopted that will extend the Single Payment Authority's mandate to allow for the clearing of salaries for all general government entities covered by the unified wage grid. A third item is for MAR to proceed to set up a system to allow for supplementary compensation linked to the job description and the evaluation of the position as foreseen in the unified wage grid ⁽⁶¹⁾. Given that the digital organigram and job description exercise is expected to be completed by end of 2019, if the preparatory work is completed during the next months it would allow for this provision to be applied as of next year. Finally, a Joint Ministerial Decision is expected to be adopted by July 2019 that will establish a more coherent framework as concerns hazardous allowances, although to date the expected scenarios to be prepared by the inter-ministerial committee are yet to be finalised.

Recently adopted salary provisions pose risks to the unified wage grid, and a number of decisions to complete this reform remain pending. Salary provisions adopted to extend the payment of 'personal differences' were further extended both in time and scope to also cover the Ministry of Economy and Development ⁽⁶²⁾. Although the actual fiscal cost is small, this raises structural problems and fiscal risk,

⁽⁵⁹⁾ Law 4590/2019 (OJ A-17/7.2.2019).

⁽⁶⁰⁾ Article 144, Law 4472/2017 (OJ A-74/19.5.2017).

⁽⁶¹⁾ Article 17, Law 4354/2015 (OJ A-176/16.12.2015).

⁽⁶²⁾ Article 57, Law 4605/2019 (OJ A-52/1.4.2019).

as other Ministries may seek similar salary provisions. Establishing a unified wage grid was one of the key reforms implemented under the financial assistance programmes.

There are ongoing discussions on legal provisions for specific independent authorities that if adopted would allow for significant deviation from key public administration reforms adopted during the programme period. While specific provisions might be needed in order for the various authorities to be in a position to attract and maintain highly qualified personnel needed to carry out its function, a preferable approach would be to base it on the various public administration reforms in place (e.g. appraisal, job descriptions, mobility system) and build on these blocks through respecting the overall principles. In the event, specific salary provisions are being considered, it would again be preferable if these provisions would be part of a systematic approach to certain entities (e.g. independent authorities) rather than *ad hoc* exceptions of the unified wage grid. If the latter approach is adopted, which could amongst other entail deviation from the current norm that the personal differences are being accounted for under the remuneration thresholds defined by the unified wage grid, this risks setting a precedent and could result in a significant increase of the wage bill. Similarly, a more strategic approach would also be preferable as concerns adjustments on the hiring process of permanent staff, in particular as regards the role and mandate of the Supreme Council for Civil Personnel Selection (ASEP).

8.2. JUSTICE

E-justice

The Greek authorities are proceeding with the preparatory stage of the second phase of the Integrated Judicial Case Management System, activated earlier this year and scheduled for finalisation by mid-2020. The second phase, scheduled for finalisation by mid-2020, will extend coverage to the entire territory of Greece, also building on the experience acquired during the roll-out of the first phase. In this context, completion of the tendering procedure for the electronic filing of legal documents to the courts is a mid-2019 specific commitment. The special permanent legislative committee responsible for legal adaptations for the purposes of optimal implementation and efficiency of OSDDY-PP, established in February 2019⁽⁶³⁾, should initiate the proceedings for the public consultation, on the public procurement platform (www.promitheus.gov.gr), of the draft tender texts regarding the projects of the second phase by end-June 2019. Upon conclusion of the public consultation and finalisation of the tender, the tendering procedure should be launched by end-September 2019. Furthermore, the implementation of the electronic filing of court documents (legal writs), already available in 18 magistrate courts throughout Greece, as well as in the Court of Audit, the Council of State and first- and second-instance administrative courts, is proceeding, as evidenced by a recent notice addressed by the Athens Bar Association to its members and covering the filing of legal writs, memoranda and means of evidence⁽⁶⁴⁾. In parallel, the work of the law-drafting committee for the enactment of the legal amendments to the Greek Code of Civil Procedure and the Judicial Bailiffs' Code that are necessary for allowing the electronic service of documents is progressing, along with the setting up of the requisite electronic platform by the judicial bailiffs' association, in collaboration with the Thessaloniki University, regarding the technical aspects of the project. The implementation of this new method of service of documents should facilitate their processing, optimise the unhindered conduct of the relevant judicial procedures and reduce costs, particularly taking into account entities on which a large number of services is regularly made, such as banks, State entities and services, the Legal Council of State, etc.

Alternative dispute resolution

With a view to addressing the issues created by a postponement, from mid-October 2018 to mid-September 2019, of the entry into force of the provisions on mandatory mediation, the Greek Ministry of Justice established a working group to draw up a report on mediation and

⁽⁶³⁾ Ministerial Decision 12695/F327/2019 of the Minister of Justice, Transparency and Human Rights.

⁽⁶⁴⁾ Athens Bar Association announcement of 16.2.2019, [cf. Athens Bar Association Announcement of Electronic Filing of Procedural Documents](#).

arbitration ⁽⁶⁵⁾. The working group is chaired by a Supreme Court judge and includes the Chairman of the Plenary Session of Greek Bar Associations, a representative of the Association of Judges and Prosecutors, mediators, judges and representatives of the Ministry of Justice. The group has so far held five meetings, addressing a range of relevant issues: the cost of the mediation process, the disputes eligible for compulsory mediation, possible changes in the legal framework of judicial mediation, the status of judicial arbitration and the manner in which the three alternative dispute resolution mechanisms (extra-judicial and judicial mediation, judicial arbitration) can coexist and interact without overlapping.

Work by the Central Committee of Mediation is progressing. A new Chairman has been appointed, and weekly sessions are held. The Central Committee of Mediation has conducted a competition and certified about 340 new mediators, approved the functioning of new training centres, including the first training centre of the University of Athens, recognised certified intermediaries from other Member States under the new simplified procedure and is in the process of drafting a proposal to the Ministry of Justice for legislative improvements of the law on mediation ⁽⁶⁶⁾. Mediations under Law 4512/2018 (regarding the categories of disputes for which mediation is not compulsory) are taking place normally, according to the Ministry of Justice referring to market information.

In the area of anti-corruption, the authorities have continued their efforts, led by the General Secretariat for Anti-corruption (GSAC). The legal initiatives promoted by GSAC are yet to be introduced to the Parliament. As concerns progress on implementing the National Anti-corruption Action Plan for 2018-2021 the bi-annual report prepared by GSAC provides a detailed overview of key actions carried out. The next progress report will cover the period January-June 2019 and is also expected to update the timeline to reflect that a certain number of actions have been delayed due to contractual issues outside the direct control of GSAC. One key action where little progress has been made to date concerns the establishment of a coordination mechanism for corruption cases. During the next reporting it is expected that GSAC will be in a position to define and commit to a specific road map to deliver on this important action, including adopting the legal framework needed. Other actions included in the National Anti-corruption Action Plan where some progress has been made but where follow-up actions are expected, includes establishing a more unified framework for controlling bodies and also for the asset declaration system. As concerns the three legislative initiatives that had been expected to be submitted to the Parliament by May 2019, these includes: (i) whistleblowing (will be aligned with the EU Directive currently being finalised); (ii) internal auditing across the public administration; and (iii) an update of GSAC's mandate, including establishment of its organigram. It is expected that all three laws will be adopted in the next couple of months, but especially important is for the law on internal auditing to be adopted shortly, in order to be in place before the newly elected local administrations assume their function. GSAC has also contributed to the preparation of the updating of the Penal Code and Code of Penal Procedure that are yet to be adopted by suggesting the inclusion of references to GRECO and OECD practices to combat corruption. Finally, as concerns the action relating to the role and operations of the anti-fraud coordination service (AFCOS), although progress is being made the Commission is not yet in a position to confirm that the system set up for Greece fully meets the requirements expected.

The Commission has continued to monitor developments in relation to the legal proceedings against the members of the Committee of Experts of TAIPED and the former President and senior staff of the Hellenic Statistical Authority (ELSTAT). In the case against former ELSTAT President A. Georgiou related to charges filed in connection with fiscal statistics, the Athens Court of Appeal issued a ruling in his favour that was officially published on 8 March 2019; the period for filing an appeal against it expired on 9 April 2019. A certificate attesting to the non-filing of an appeal by the Supreme Court Prosecutor by that date was issued on 10 April 2019 and delivered to A. Georgiou's counsel. Consequently, the ruling stands in force and the excessive deficit case has been irrevocably dismissed. This is a very welcome development. Regarding other pending cases involving Mr. A. Georgiou, an appeal introduced by him, in his quality as an appellant-defendant in a civil case against a first-instance court decision that found for the claimant in a defamation lawsuit, was scheduled to be heard in May 2019. Regarding the Committee of Experts, there has been a positive development since the last enhanced

⁽⁶⁵⁾ Ministerial Decision 5543/F.326/24.1.2019 (OJ YODD-56/11.2.2019).

⁽⁶⁶⁾ Law 4512/2018 (OJ A-5/17.1.2018 and A-8/23.1.2018).

surveillance report, in the form of the issuance of a favourable ruling by the chamber formation of the Athens Court of Appeal (not yet published). Upon publication, it may be appealed by the Supreme Court Prosecutor. The Commission will continue to closely monitor developments in both procedures to report back in the context of enhanced surveillance.

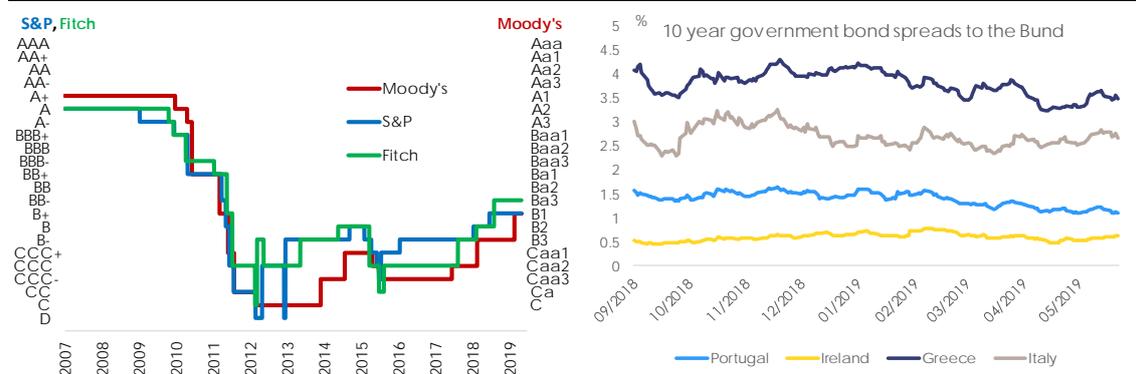
9. SOVEREIGN FINANCING AND CAPACITY TO REPAY

9.1. SOVEREIGN FINANCING

After the successful bond issuance in January, Greece tapped the markets for a second time in March 2019. On 1 March, Moody's improved Greece's credit rating by two notches from B3 to B1 acknowledging the consolidation of the economic recovery. Taking advantage of the improving market environment, the Public Debt Management Agency decided to go forward with the issuance of a 10-year government bond raising EUR 2.5 billion at a re-offered yield of 3.9% and a coupon rate of 3.875%. This has been the first market issuance of a Greek government bond with such a long maturity since 2010. The demand was strong with high real money participation.

Despite the successful conclusion of the programme and the release of the debt measures related to the end-2018 commitments, Greece's yield spreads remain elevated. After a positive momentum recorded after the issuance of the 10-year government bond, in the more recent period Greek bonds experienced pressure in particular after the announcements of new fiscal measures by the authorities on 7 May. Following the announcements, bond yields increased on all maturities by around 30 basis points. While yields have somewhat receded after mid-May, still Greek bonds underperformed when compared to other euro area issuers. This suggests that some of the risk premia are related to domestic factors, and may signal investor concerns over recent fiscal decisions, in addition to the more persistent factors such as weaknesses in the banking sector.

Graph 9.1: Greece's credit ratings and yield spreads compared to the Bund



Source: European Commission, Macrobond

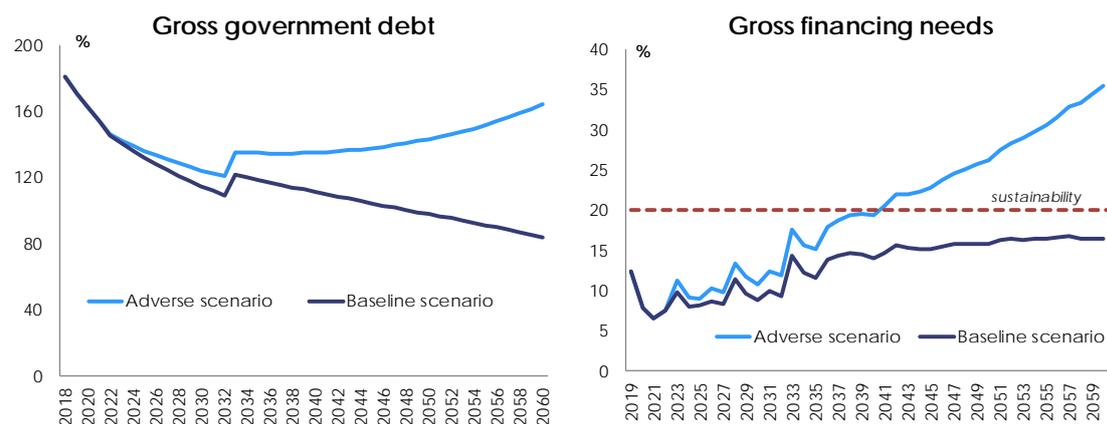
Furthermore, in February the Public Debt Management Agency replaced a loan with the National Bank of Greece of EUR billion outstanding (the so-called TITLOS interest rate swap, depicted as a loan according to Eurostat decisions), with three private placements totalling EUR 3.3 billion. Greece managed to reduce its debt by EUR 0.7 billion as the exchange was performed in market terms. Overall, the state cash reserves stood high at EUR 24.3 billion at the end of March; including the cash reserves of general government entities already on the treasury single account, the reserves reached EUR 33.7 billion. The cash buffer account remained undrawn in the first quarter. According to the authorities' plan, the state cash reserves would be reduced to around EUR 18.3 billion by March 2020, corresponding to a general government reserve of EUR 25.9 billion, assuming the early repayment of a part of the IMF loan, financed partially through the cash buffer account. An IMF repayment and use of the cash buffer in this way would require certain approvals by ESM and EFSF governing bodies.

State liquidity remains sufficient to cover financing needs for more than two years, even without new issuances. According to data provided by the authorities, state reserves are projected to decrease to EUR 15.9 billion by the end of 2019 without new issuances. Given the limited financing needs in 2020 and 2021, the estimated reserves would cover the state debt-financing needs well into 2022.

9.2. DEBT SUSTAINABILITY

A technical update ⁽⁶⁷⁾ of the debt sustainability analysis has been carried out and a full update will be undertaken in autumn 2019. This technical update assumes compliance with primary balance targets and the full implementation of all medium-term measures to ensure debt sustainability agreed in June 2018. The baseline scenario shows that debt will remain on a downward path (save for the capitalisation of the deferred interest in 2033), but remains above 100% of GDP until 2048. A technical update of the adverse scenario shows that debt starts rising again after the mid-2030s.

Graph 9.2: Main results of the debt sustainability analysis



Source: European Commission

Under the baseline scenario, Greece’s gross financing needs (GFN) are set to hover around 10% of GDP until 2032. Thereafter, the GFN start to increase slowly, but are projected to remain around 17% of GDP at the end of the forecast horizon. In the adverse scenario, the GFN reach 20% in 2041 and increase further thereafter. At the current juncture, it is not possible to fully incorporate the recent fiscal measures into the DSA as further analysis is required on the impact of such measures on growth and more clarity is required on the future orientation of policies over the medium-term. Policy slippage, however, would have a negative impact on the trajectory of debt, especially if this led to a situation whereby additional debt measures are not implemented. For example, based on the macroeconomic assumptions of the baseline scenario, a 1 percentage point deviation from the agreed target primary surplus of 3.5 of GDP from 2019 to 2022 would *ceteris paribus* result in a higher debt-to-GDP ratio by over 25 percentage points by 2060.

⁽⁶⁷⁾ The technical update includes: updated debt data for 2018, updated macroeconomic scenarios and assumptions on risk free rates, updated interest and amortisation payments on Greek Loan Facility as well as other loans, new bond issuances and an updated privatisation schedule.

ANNEX

Commitment	State of play and next steps
Mid-2019 specific commitments	
Fiscal. Adopt MTFS in line with fiscal targets	<p>The primary surplus monitored under enhanced surveillance reached 4.3% of GDP, well above the target of 3.5% of GDP.</p> <p>Greece’s Stability Programme was submitted on 30 April 2019 and represents the national medium-term fiscal plan under Article 4(1) of Regulation (EU) 473/2013. On 15 May 2019, thus after the submission of the Stability Programme, the authorities adopted a package of new permanent fiscal measures which the European institutions estimate will have a fiscal cost of more than 1% of GDP. The adoption of the new fiscal measures poses a risk to the achievement of the agreed primary surplus target of 3.5% of GDP in 2019 and beyond.</p> <p>The European institutions are supporting the authorities to address the reasons for the under-execution of budget ceilings, which contribute to the over-achievement of fiscal targets, by further improving the budget preparation process, enhancing the capacity of the General Accounting Office (staffing, training, resources) to properly scrutinise budget proposes of the main budgetary units, and to establish a unified approach to budgetary planning by transferring responsibility for the setting of investment spending targets to the General Accounting Office.</p>
Health care – Clawbacks. Complete the offsetting and collection of the clawback for 2018	<p>For pharmaceuticals, the process of offsetting/collection has started. As of early May, 357 out of 580 million (62%) remained to be collected. The quantification of clawbacks for provider services has not been finalised yet. Despite improvements in collection, the generation of new clawbacks is high, which underlines the need for more sustained efforts to implement structural measures designed to curb supply-induced demand. Some recent measures on pricing weaken one of the most effective cost-containment mechanisms thus far (the previously biannual repricing procedure).</p>
Taxation–ENFIA. Undertake nationwide valuation exercises of property tax value based on market values	<p>Progress has been made in setting up the Valuation unit and developing the tools for valuations. Following a Technical Assistance study, there has been agreement that a new nationwide valuation exercise by valuers is not needed in 2019, but that a further partial realignment of zonal property tax values will be undertaken by mid-2019 to bring them 50% closer to the market price valuations established in 2018. The authorities need to prepare the detailed timetable for this update to take place and the associated fiscal analysis of the realignment exercise that would allow the setting of revenue neutral tax rates and thresholds.</p>

<p>Public financial management. Avoid the accumulation of new arrears and complete the implementation of reforms identified by the Hellenic Court of Auditors (HCA)</p>	<p>The authorities committed to clear the current stock of arrears. In net terms, the stock stood at EUR 1.4 billion at end-March 2019, EUR 0.3 billion lower than the end-August 2018 value. The pace of reduction has slowed significantly, as new arrears continue to be created especially in the areas of pension claims and hospitals. In order to streamline payment processes in these sectors, the financial liability regime for accountants has been modified and corrective measures are expected to be adopted.</p> <p>Programme financing and own resources are still utilised to clear arrears. Stuck programme financing has been reallocated within some entities. As some programme funds remained unused by the end of March 2019, the period for their utilisation was extended until May 2019. The updated arrears clearance plan prepared by the authorities shows that net arrears would stand at slightly below EUR 0.5 billion by August 2019.</p> <p>Progress on the implementation of the action plans of the Independent Authority for Public Revenue and the General Accounting Office will be assessed in mid-2019 in the context of a follow-up audit by the HCA. The implementation of additional actions related to streamlining of payment processes and facilitation of arrears clearance is progressing.</p> <p>A provision was tabled in the Parliament postponing the phasing out of ex ante audits by the HCA until 31 July 2019 for local entities and extra-budgetary funds (excluding the social benefits agency OPEKA).</p> <p>Regarding the Treasury Single Account (TSA), the Bank of Greece successfully runs a pilot phase. About a third of the general government entities (588) have a cash management account in the Bank of Greece, with others to follow by the end of July 2019. Other near-term steps include the creation of a new Directorate responsible for the TSA, the elaboration on the general government entities' 15 days liquidity buffer calculation for general government entities and assessment as well as the mandatory payment of their wages and pensions through the cash management accounts.</p>
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<p>Social safety nets. Apply to all disability benefits the new approach for disability determination based on both medical and functional assessment</p>	<p>The new criteria to determine disability on the basis of (also) a functional assessment are still to be established. The pilot project that should have allowed defining these criteria encountered delays and is still running. Its ex-post evaluation will only be completed towards the end of 2019.</p>
<p>Financial. Continue to implement reforms aimed at restoring the health of the banking system, including NPL resolution efforts</p> <ul style="list-style-type: none"> • NPL resolution schemes • PRP implementation • E-auctions • Household insolvency action plan • Harmonisation of insolvency legislation • State guarantees 	<p>NPL resolution schemes under discussion have seen limited progress: While the securitisation scheme is relatively advanced and currently under discussions with the Commission regarding compliance with state aid rules, the proposal of shifting bad assets along with deferred tax credits to an SPV has not progressed yet.</p> <p>Household Insolvency Action Plan: following receipt of data for 2018 and the first quarter of 2019, the action plan should be revised by end-June 2019 in the light of recent developments (particularly an increase in filings under article 9 of the Household Insolvency law during its extension up to end-February 2019), so as to ensure the attainment of the objective to eliminate the backlog of pending court cases by end-2021, which cannot be achieved with the current processing rate.</p> <p>New Primary Residence Protection (PRP) framework: further to the adoption of law 4605/2019 and of the required secondary legislation, establishing a new mechanism for the protection of primary residences through the restructuring of eligible non-performing loans, close monitoring will be required regarding the timely operationalisation of the platform for the filing and processing of restructuring requests (including its interaction with the platform for the granting of the State contribution), by end-July 2019.</p> <p>E-auctions: Data have been provided by the HBA related to court filings by debtors for the protection of primary residences under the Household Insolvency law and/or bid pricing revision requests in the context of forced liquidation proceedings, as well as the causes for the high percentage of failed auctions and of repossessions by creditors); in light of the analysis of these data, the authorities are expected to take measures (also in the context of the ongoing review of the implementation of the new CCP), in order to define and take the necessary mitigating actions.</p> <p>Harmonisation of the personal insolvency framework: The authorities committed to harmonise and improve in the coming months in a holistic manner the bankruptcy and insolvency regimes; moreover, the authorities intend to provide shortly a concrete proposal for establishing a single personal insolvency framework through either a law-drafting committee or a working group. The authorities committed to send a proposal which has not been received so far.</p> <p>State guarantees: The authorities are considering some additional actions to speed up the clearance of called guarantees. Work is ongoing to develop a new payment process in collaboration with the banks. In the context of ensuring the full clearance of the</p>

	called but not paid guarantees within the foreseeable future, more ambitious measures of a structural nature will be necessary.
Justice. Complete the tendering procedure for the launching of phase II of the Unified System for the Management of Court cases (OSDDY-PP),	This action forms part of the second phase of the OSDDY-PP project. The draft tendering documentation should be put in public consultation on the public procurement platform (www.promitheus.gov.gr) by end- June 2019 in view of finalisation of the tender and the launch of the tendering procedure by end-September 2019.
Financial. Continue the relaxation of capital controls in line with the published roadmap	Capital controls have been relaxed in line with the published roadmap, although no further relaxation was recorded this year in the limited remaining restrictions still in place.
Cadastre. Complete the drawing of the remaining forest maps	The preparation of the forest maps is on time with some implementation risks. Fifteen contracts are proceeding according the schedule and the sixteenth and final one that was delayed due to an appeal procedure launched by an unsuccessful bidder was signed in May 2019. A decision of the Council of State in March 2019 states that the areas of "building concentrations" cannot be excluded from the forest maps. The authorities have prepared draft legislation to be urgently introduced in Parliament to address the concerns of the Council of State. Until then it is not clear if this decision will have an implication on the intermediary commitment to complete the drawing of the remaining forest maps by mid-2019.
Energy. Launch the Target Model for the electricity market	The original timeline (April 2019 rollout) is unachievable. A revised timeline was discussed, suggesting an October go-live, but based on current information, it seems that rollout before 2020 will not be possible. Further monitoring and the implementation of intermediate steps will be required.
Privatisation. Complete the transactions on HELPE (including transfer of remaining shares to HCAP) and Marina of Alimos	HELPE: No binding offers submitted. TAIPED was given in early May 2019 the technical mandate to explore all options available towards proceeding with the transaction and come up with proposals as to the best options. Marina of Alimos: Binding offers submitted. An e-auction took place on 16 April 2019, leading to the selection of the preferred bidder was selected on 16 April. Next steps are for Court of Audit approval (end-June) and the signing of the Concession Agreement (end-July)

<p>Privatisation. Implement the Asset Development Plan of TAIPED on a continuous basis</p>	<p>Asset Development Plan (ADP): The ADP of TAIPED should be updated and endorsed by KYSOIP. Maintaining progress towards completion of the end-2019 commitments under the ADP requires in particular the following actions:</p> <p>Egnatia</p> <ul style="list-style-type: none">• Immediate launch and completion of the construction of all remaining frontal and lateral toll stations.• Specification by the Tunnel Licencing Authority (based on Egnatia’s submissions) of the measures that need to be implemented in order for the tunnels to be licensed (by end of May).• Completion of the process for the appointment of Chairman, CEO and NED members of the BoD of Egnatia. Proposal by Minister on Chairman and the parliamentary hearing process should all be concluded in due time to allow for TAIPED to complete work stream by said deadline.• Resolution of the motor service stations contracts open issues (re. Eleftherochori, Oraiokastro, Ardanio and Sostis) by Egnatia S.A. without delays• Clear picture on what works needs to be done for bridges to be classified as safe (mid-June). Egnatia must clearly define the measures that must be taken as well as the cost for the bridges to be completely safe.• Egnatia to proceed to necessary actions (tender for advisor appointment) for all the preparatory work necessary for the remaining expropriations. <p>DEPA launching of the transactions for the sale of 50% + 1 share of DEPA Commercial</p> <p>Regional ports of Alexandroupolis and Kavala: Issue of the relevant Joint Ministerial Decision that would make possible the launching of the tender. Launching of the transactions on the regional ports of Alexandroupolis and Kavala</p> <p>Sale of 30% of the AIA shares: Resolution of the issue of the 9th member in the Board of Directors of AIA. Signing of the waiver agreement by mid-June 2019; Launching of the tender process for the sale of 30% of AIA by end-June 2019.</p> <p>EYDAP: The concession agreement between EYDAP and the HR expires in October. There is a need for an extension of the concession agreement the soonest possible.</p>
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<p>HCAP. Implement the Strategic Plan of HCAP on a continuous basis. Complete the review/replacement of all SOE boards</p>	<p>HCAP's Strategic Plan was approved by the General Assembly in January 2018. On the basis of the Strategic Plan, the non-listed subsidiaries submitted updated Business Plans to HCAP. Furthermore, HCAP prepared the Business Plan of the Corporation for the period 2019-2021 implementing the Strategic Plan and setting key performance indicators for the non-listed subsidiaries.</p> <p>Review / replacement of ELTA, GAIAOSE, OASA and AEDIK (Corinth Canal) Board of Directors completed. Assessment in other 4 SOEs has been launched. In addition to that, new Heads of the Audit Committee have been appointed for PPC, EYATH, Central Market of Thessaloniki and Hellenic Saltworks. Appointing professional members in the BoDs in the bigger non-listed SOEs (in particular executive members) continues to be challenging due to the low level of remuneration, which would need to be addressed through legislative action.</p>
<p>Public administration. Independent assessment of the appointment process for senior management, including follow up measures</p>	<p>Authorities confirmed timeline for assessment to be finalised by June 2019. Following the completion of the assessment, the authorities confirmed intention to set up a high-level working group (incl. officials from MAR and ASEP) to review the recommendations and proceed to adopt various measures (incl. legal amendments) by September 2019.</p>
<p>Public administration. Complete the 3rd cycle of mobility and performance assessments</p>	<p><i>Mobility scheme - 3rd cycle:</i> launched in August 2018. 5,440 vacant posts (out of which 4,754 concerned transfers) were published originating from 165 entities and attracting 5,333 applications. Until today (i) 223 transfers (out of 744 selection decisions); and (ii) 12 secondments (out of 48 selection decisions) have been completed. Although, the time needed from publication of a post to selection decision and then actual appointment taking place has been significantly shortened, there is a risk that a significant part of the expected transfers (and secondments) will not be completed by the end of June 2019.</p> <p><i>Performance assessment:</i> circular launching the performance assessment was issued on 12 March 2019 with a revised timeline published on 3 May 2019: the timeline foreseen is as follows: (i) 14 March – 12 April: registering of officials to be assessed by HR departments; (ii) 15 April – 13 May: officials carry out their self-assessment; (iii) 15 May – 10 June: first evaluators carry out their assessments; (iv) 12 – 30 June: second evaluators carry out their assessments. Authorities have confirmed that the appraisal will be completed on time and as per the timeline set out above.</p>

Follow-up on issues from 2nd enhanced surveillance report	
Fiscal. Monitor and contain fiscal risks related to court cases, instalment schemes and the public sector wage bill	Updates to be provided as needed.
Tax administration. Progress with IAPR recruitment.	<p>The hiring of staff to the Independent Authority for Public Revenue (IAPR) remains slow. Latest update from authorities is that expected staff number end of 2019 will have reached close to 12,400 (compared to the specific commitment of 12,500), though achieving the authorities' target would require an increase in the pace of recruitments. Actual staffing has marginally increased during the first quarter of 2019 to 11,534 from 11,487 end-2018. Authorities confirmed that a final list of successful candidates was published in April 2019 by ASEP for 546 tax/customs officials to be appointed.</p> <p>As concerns the 'complementary measures' adopted in early 2019: (i) HR reform: the IAPR to submit request to the Legal Council of State to seek its legal opinion as concerns the supplementary wage grid for the IAPR by June and proceed to adopt secondary legislation needed for the supplementary grading scale; (ii) 'blueprint' (2019-2022): regular monitoring of progress on various projects, including the IAPR to establish an executive committee; and (iii) IT envelope: budget agreed between GSIS and IAPR, but not yet secured/allocated..</p>
Labour market. Monitor impact of minimum wage increase and collective bargaining	Authorities agree on the need to assess the impact of the recent minimum wage increase and to monitor overall wage developments. Technical work is on-going to make full use of the information on labour market trends contained in administrative databases (EFKA, ERGANI, OPS-SEPE), with the support of technical assistance.
Energy. Completion of lignite divestiture	As per the recent Commission decision C(2019) 2748, an extension to the commitment was granted to allow for a new tender under the same framework. This foresees binding offers received by mid-May and closure by end-June. It calls for the appointment of another valuator to provide a fairness opinion on the plants' values in order to assess offers. The Commission has stressed the expectation of a distancing from the initial valuation and the pressing need for a fairness valuation. In the wake of the recent announcement that the government will be holding parliamentary elections before the summer, a unilateral decision extending the process deadline to 15 July was made by PPC following consultation with the Ministry of Energy and Environment. As such, the closure will not be made within that given deadline.

<p>Public Administration. Progress with appointment of Administrative Secretaries and issues relating to the unified wage grid.</p>	<p>According to the latest updates from the authorities, one actual appointment and four selections of Administrative Secretaries have been completed out of 69 in total. According to the authorities, the two selection panels should be able to complete up to five shortlists per month, which means that all selection decisions should be completed by end-2019. If the current selection trend remains it is increasingly unlikely that the revised target of completing all selection decisions by end-2019 will be achieved.</p> <p>Legal amendments adopted since the publication of the 2nd enhanced surveillance report risk further counteracting the unified wage grid reform. In addition, various amendments under discussion concerning salary provisions and hiring process for specific entities should preferably not be adopted as <i>ad hoc</i> exceptions to existing provisions but following a strategic/systemic approach for certain public entities (e.g. independent authorities). Authorities confirmed that they do not have any intention to proceed to implement provision foreseen in the unified wage grid (Article 17) to provide supplementary remuneration on the basis of job description and appraisal of position until all job descriptions have been completed (expected by end-2019) and a common approach having been defined by MAR.</p>
<p>Privatisation: The transaction on Hellinikon should have been completed by end-2018</p>	<p>The authorities should continue the strong efforts to complete all pending conditions precedent the soonest possible: (i) Award of the casino licence in Hellinikon, (ii) Issue of the Joint Ministerial Decisions on the metropolitan park, the development zones and the urban planning zones; (iii) Partition of the Hellinikon site between the Hellenic Republic and Lamda Development (iv) Completion of the relocation of all users.</p>
<p>HCAP. The transfer of OAKA to HCAP should have been completed by end-2018.</p>	<p>The transfer of OAKA will take longer to complete. Given the complexities and involvement of third parties, an adjusted timetable for the transfer by end-2020 appears reasonable. The authorities have further developed a roadmap for specific actions to be taken during 2019 to address the open technical issues, which appears appropriate in light of the complexity of the project.</p>

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