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ABBREVIATIONS

ADEDY: Ανώτατη Διοίκηση Ενώσεων Δημοσίων Υπαλλήλων (Civil Servants' Confederation)
AFEK: Ατομικό Φύλλο Εκκαθάρισης (personal clearance certificate)
AIA: Athens International Airport
ANFA: Agreement on Net Financial Assets
APS: Asset Protection Scheme
ASEP: Ανώτατο Συμβούλιο Επιλογής Προσωπικού (Supreme Council for Civil Personnel Selection)
BoG: Bank of Greece
CDLF (ΤΠΔ): Ταμείο Παρακαταθηκών και Δανείων (Consignment Deposits and Loans Fund)
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
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
EBRD: European Bank for Reconstruction and Development
ECB: European Central Bank
EDA Attiki: Εταιρεία Διανομής Αττικής (Natural Gas Distribution Company of Attica)
EDP: excessive deficit procedure
EFKA: Ενιαίος Φορέας Κοινωνικής Ασφάλισης (Unified Social Security Fund) EFSF
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
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 FundESA: European System of Accounts
ESF: European Social FundESKAEN: 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)
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 Πρωτευούσης Α.Ε. (the Athens Water Supply and Sewerage Company S.A.)
FDI: foreign direct investment

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
GLF: Greek Loan Facility
GSCO: General Secretariat for Coordination
HCA: Hellenic Court of Audit
HCAP: Hellenic Corporation of Assets and Participations
HFED: Hellenic Fund for Entrepreneurship and Development
HFSF: Hellenic Financial Stability Fund
HICP: harmonised index of consumer prices
HR: human resources
HRMS: human resource management system
IAPR: Independent Authority for Public Revenue
ICT: information and communication technologies
IMC: inter-ministerial coordination
JMD: joint ministerial decision
KEPA: Κέντρο Πιστοποίησης Αναπηρίας (Disability certification centre)
KPI: key performance indicator
LCR: liquidity coverage ratio
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
MTFS: Medium-Term Fiscal Strategy
MW: megawatt
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
OAEE: 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)
OCW: out-of-court workout mechanism
OGA: Οργανισμός Γεωργικών Ασφαλίσεων (Agricultural Insurance Organization)
OSDDY/PP: Ολοκληρωμένο Σύστημα Διαχείρισης Δικαστικών Υποθέσεων / Πολιτικών και Ποινικών (Integrated Management System for Judicial Cases / Civil and Penal)
PCI: European Project of Common Interest
PCR: price coupling of regions
PDMA: Public Debt Management Agency
PIB: public investment budget
PIT: personal income tax
PPC: Public Power Corporation
PSO: public service obligation
RAE: Regulatory Agency for Energy
RAEM: 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
SRSS: Structural Reform Support Service
SSI: social solidarity income
SSM: Single Supervisory Mechanism
SSW: Special Secretariat for Water
TAIPED: Ταμείο Αξιοποίησης Ιδιωτικής Περιουσίας του Δημοσίου ΑΕ (Hellenic Republic Asset Development Fund)
TOMY: Τοπική Μονάδα Υγείας (Primary Health Care Unit)
VAT: value added tax
YEI: Youth Employment Initiative

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EXECUTIVE SUMMARY

Greece has been integrated into the European Semester and the Commission also activated enhanced surveillance under Regulation (EU) No 472/2013. Enhanced surveillance has been prolonged for a further six months by a Commission Decision of 20 February 2019. The second enhanced surveillance report is issued alongside the European Semester Country Report for Greece, which *inter alia* outlines the medium-term growth and investment challenges facing Greece. This staff working document accompanies that report.

Enhanced surveillance also provides the basis for assessing the commitments given by Greece to the Eurogroup of 22 June 2018. These include a general commitment to continue and complete reforms adopted under the ESM stability support programme and to safeguard the objectives of the reforms adopted under this programme and its predecessors. In this context, it provides the basis for monitoring the implementation of specific reform commitments annexed to the Eurogroup statement of 22 June 2018 in the areas of (i) fiscal and fiscal-structural policies, (ii) social welfare, (iii) financial stability, (iv) labour and product markets, (v) privatisation and (vi) public administration.

Real GDP is forecast to grow by 2% in 2018 and to accelerate to around 2.2% and 2.3% in 2019 and 2020, respectively. Labour market conditions continued improving in the second half of 2018: the unemployment rate dropped to 18.5% in November 2018, down from its peak of 27.9% in mid-2013, although long-term unemployment (13.5% 2018 third quarter) and youth unemployment (39.1% in November 2018) remain high. Overall, the balance of risks is tilted to the downside.

Greece has made progress in implementing the specific reform commitments due for end-2018, but some actions remain to be completed, especially in the area of financial sector reform. Beyond the specific reform commitments, developments in some areas raise concerns about reform delivery and continuity, including with a view to risks to the medium-term outlook.

As regards fiscal and fiscal structural policies, Greece implemented many reform commitments. Greece is likely to have over-achieved the primary surplus target of 3.5% of GDP in 2018. Moreover, the 2019 budget is projected to ensure the achievement of the primary surplus target of 3.5% of GDP, thus completing an end-2018 specific commitment. The Greek authorities have initiated preparatory work on assessing the fiscal impact and risks stemming from court rulings on reforms enacted under the financial assistance programmes: the authorities should continue to monitor these fiscal risks, and should take offsetting measures as needed in the context of the Medium-Term Fiscal Strategy (MTFS). Greece has reduced its stock of net arrears (continuous specific commitment) however, the pace of reduction has slowed significantly and new arrears continue to be created.

Further steps are needed to fully implement all reform commitments on fiscal and fiscal-structural policies. More specifically:

- To address the shortfall (an end-2018 specific commitment) in the staff levels of permanent employees at the Independent Authority for Public Revenue (IAPR), the authorities need to complete the adoption of complementary measures including the amendment of the enabling legislation to allow for the establishment of a grading system for the IAPR that is linked to job descriptions.

- The authorities should address concerns on the medium-term orientation of fiscal and fiscal structural policies. Greater effort is needed to tackle structural problems which lead to the continued creation of new arrears and persistent under execution of the public investment budget. The authorities should take steps to respect their ceilings for permanent and temporary recruitments in the public sector, which are at risk based on announcements of excessive levels of recruitments in 2019. Finally, the authorities are expected to implement growth-friendly tax reforms for 2020, involving the widening of tax bases and the lowering of tax rates on corporates and labour.

Reform commitments to establish a sustainable social welfare system are largely on track. The rollout of the primary health care system is advancing, with significant progress in the opening of primary health care units (TOMYs) almost reaching the nominal target of 120 (an end-2018 specific commitment). EKAPY, the body for centralised procurement, has been set up in line with the end-2018 specific commitment and activity has resumed, though on a limited scale. Progress on other aspects of the health care reform is uneven and the authorities should address issues identified by the Commission as regards the frequency and design of pharmaceutical repricing and the operation of the clawback scheme. The reform of other social safety nets (disability benefits, the Social Solidarity Income scheme) has continued, and a new housing benefit for renters is about to be introduced (albeit with a slight delay).

The financial system in Greece continues to face important challenges. The liquidity situation of banks has improved and the reduction of non-performing loans (NPL) has continued, although the take-up of tools for their resolution lags behind expectations. The number of e-auctions rose in the fourth quarter of 2018, but the failure rate remains high and a large share of successful auctions lead to the purchase of the asset by the bank that launched the auction. The Hellenic Financial Stability Fund (HFSF) has developed its exit strategy for the sale of its shares in the four systemic banks (end-2018 specific commitment). Progress has been made in enhancing the case-processing capacities of courts through new staff appointments and through the financial training of judges (specific commitment for end-2018). Capital controls have been gradually relaxed in line with the agreed roadmap (continuous specific commitment).

Greece needs to complete some remaining reform commitments related to the financial sector:

- Discussions are still ongoing regarding a proposal of the Greek authorities for a new system of protection of primary residences to replace the current protection under the Household Insolvency (Katseli) law. There are a large number of design and technical details which need to be settled so as to ensure that the scheme is genuinely temporary, properly targeted, can be operational in the near future and improves the payment culture. In addition, the action plan to eliminate the backlog of pending cases under the household insolvency law by 2021 needs to be better specified, taking into account the new legal framework for the protection of primary residences, impediments to the successful conduct of e-auctions should be addressed. An agreed legislative amendment and a draft action plan for State-guaranteed loans are are currently under assessment. Finally, the alignment of the mandate of the HFSF Selection Panel with the recently extended mandate of the HFSF needs to be confirmed by the Legal Council of State. In line with the HFSF law, the Minister of Finance should complete the appointment of the Deputy CEO of the HFSF and the vacant General Council position.

- On a more medium-term orientation, greater priority needs to be attached to measures needed to restore the banking sector to robust health. To this end, coordination across government departments and vis-à-vis stakeholders should be improved, and policy initiatives should avoid across-the board solutions which, by protecting strategic defaulters, create risks of moral hazard and further undermine the payment culture. Recent proposals from the authorities on new systemic instruments to achieve a faster pace of NPL reduction are welcome, but *inter alia* will need to be assessed from an antitrust perspective.

As regards reforms on labour and product market reforms, the picture is mixed as some reforms are still underway. The government has increased the statutory minimum wage by 10.9%, effective as of 1 February 2019, and abolished the sub-minimum wage for persons aged under 25 (implying an increase of 27% for this group). In making the revision, the authorities formally followed the procedure (an end-2018 specific commitment) of Law 4172/2013; however, such a large increase poses risks for employment growth and competitiveness and important lessons should be drawn for the next revision of the minimum wage due in June 2020. As regards product market reforms, enabling legislation on installation and operation licensing procedures for environmental infrastructures has been adopted (an end-2018 specific commitment) and work is progressing well on the cadastre and the forest maps.

However, further actions and commitments are needed on product and labour market reforms:

- The divestment of lignite-generating capacity by the Public Power Corporation (specific commitment for end-2018) was not completed, and discussions between the Greek authorities, PPC and the Commission are still underway to find an acceptable remedy to the antitrust case in line with the requirements of EU law.

- The Greek authorities should clarify how they intend to safeguard wage competitiveness over the medium term and to establish an environment which is genuinely business and investment-friendly. The large increase in the minimum wage may generate a short-term positive impact on economic activity, but this comes at the potential costs of lower employment growth and a sustained loss of competitiveness over the medium term. More generally, the authorities need to develop a compelling reform strategy that supports investment and potential growth based on progress in key reforms such as energy and privatisation.

Progress has been made as regards reform commitments on the Hellenic Corporation of Assets and Participations (HCAP) and on privatisation, but some open issues need to be addressed. HCAP has continued the implementation of its strategic plan in line with the continuous specific commitment, and the real-estate subsidiary ETAD has been restructured; the implementation of the coordination mechanism for SOEs falling under HCAP has been launched, and a roadmap has been adopted for the transfer of the Olympic Centre (OAKA) (end-2018 specific commitments). Regarding the end-2018 commitments on privatisation tenders, the transaction of DESFA (the natural gas transmission operator) and the concession for Athens International Airport were successfully concluded, and on the Hellinikon project key intermediate steps related to the casino licence and urban planning and environmental studies have been completed.

Nonetheless, the following actions on privatisation remain to be finalised:

- The authorities need to accelerate the implementation of the transactions for 2019, as reflected in the specific commitments made by the Greek authorities to the Eurogroup partners in June 2018 and in the updated Asset Development Plan (ADP), and in particular adopt all the agreed actions to remove impediments in the Egnatia transaction.

Progress with advancing public administration reforms has been uneven, and there is a need to clarify the medium-term orientation of policies, especially as regards recruitment. The third cycle of the mobility scheme was launched in August 2018 with a view to be completed as a specific commitment by mid-2019, while the fourth mobility cycle is planned to be launched by the end of February 2019. The authorities have continued their solid progress towards establishing an integrated Human Resource Management System which is a specific commitment for the end of 2019. While the appointment of 90 Directors General has been completed, the authorities need to address significant delays on the appointment of Administrative Secretaries (end-2018 specific commitment). To this end, the authorities have adopted a series of complementary measures to ensure that the core objectives of the reform remain on track, including the adoption of a law on strategic recruitment as well as specifying the modalities of the independent assessment of the selection process for the Administrative Secretaries and Directors General that is planned to be completed by mid-2019.

To complete their reform commitments in the area of public administration:

- The authorities need to accelerate the appointment of senior managers at the level of directors and heads of division, and related to legal codification, take the approval decision for 'digital portal' tender, and the legal provisions for 'Central Committee on Codification' should be submitted to the Parliament.

- The authorities should clarify how they intend to respect their own ceilings for permanent and temporary recruitments in the public sector, as announcements on planned recruitments in 2019 appear to be above the available ceilings.

Progress with the implementation of end-2018 specific commitments to the Eurogroup (Eurogroup annex 22 June 2018)

	Commitment	State of play and next steps
1	**Fiscal target:** the annual budget achieves a medium-term primary surplus of 3.5% of GDP.	The 2019 budget was adopted and it is consistent with the primary surplus target.
2	**Public revenue administration:** Permanent staffing positions at the Independent Authority of Public Revenue (IAPR) to reach 12,000 by end-2018.	Permanent staff stood at 11,487 at end-2018, thus below target. The authorities have adopted the following complementary measures: • Blueprint (2019-2021): IAPR has adopted its 'Blueprint' • IT: agreement reached between GSIS and IAPR on an annual envelope for IAPR services part of GSIS' budget. *In addition, the authorities need to complete the following actions:* • HR Reform: adopt enabling legislation regarding establishment of a grading system based on job descriptions. This measure is connected to the public administration reform area (#16). • Liability for tax/customs officials: legislation to be adopted. • Transfers to IAPR from the mobility scheme: legal provisions to be adopted to facilitate the transfer of staff to IAPR from the mobility scheme. • Joint Ministerial Decision on 'fuel markers': to be adopted.
3	**Public financial management:** Avoid the accumulation of new arrears.	December 2018 data show that the stock of net arrears has been reduced since the end of the ESM programme. Going forward, additional efforts are still needed to clear the backlog and avoid the build-up of new arrears.
4	**Health care:** Open at least 120 primary health care centres (TOMYs) by end-2018.	Based on the latest reports, 112 primary health care units (TOMYs) were opened across the territory.
5	**Health care:** Establish the main body responsible for central procurement (EKAPY) by end-2018.	The main body responsible for central procurement, EKAPY, and centralised procurement has resumed.

	Commitment	State of play and next steps
6	**Non-Performing Loans (NPL)**: continue to implement reforms aimed at restoring the health of the banking system, including NPL resolution efforts by ensuring the continued effectiveness of the relevant legal framework.	*The authorities need to complete the following measures. Household insolvency law: the authorities' proposal for a successor scheme to the primary residence protection under the Katseli law is currently being assessed by the institutions with a number of open crucial issues. Backlog of household insolvency cases: the current Household Insolvency action plan will need to be updated, with a view to reaching the target of eliminating the backlog by end-2021. E-auctions: impediments to the successful conduct of e-auctions should be addressed. State-guaranteed loans: agreed legislative amendment and a draft action plan are under assessment.*
7	**Capital controls**: relaxation of capital controls in line with the roadmap of May 2017.	The authorities continued to lift capital controls in line with the agreed roadmap.
8	**Justice:** complete phase I of the establishment of the e-justice system (OSDDY-PP) by end 2018.	Phase I of the OSDDY-PP has been completed with all deliverables formally handed over by the contractor by January 2019.
9	The **HFSF** will by end-2018 develop an exit strategy for the sale of its stakes in the systemic banks and the mandate of the Selection Panel of the HFSF shall be aligned with the mandate of the HFSF.	<u>Exit Strategy</u>: The HFSF General Council has approved the divestment framework for the sale of its shares in the four systemic banks. *<u>Selection Panel mandate extension</u>: The authorities clarified that in their view the mandate of the HFSF Selection Panel as a body is in alignment with the recently extended mandate of the HFSF; this is to be confirmed by the Legal Council of State. In line with the HFSF law, the Minister of Finance should complete the appointment of the Deputy CEO of the HFSF and the vacant General Council position on the basis of the shortlist produced by the Selection Panel*.
10	**Labour market**: Safeguard competitiveness through an annual update of the minimum wage in line with the provisions of Law 4172/2013.	The authorities have updated the minimum wage following the procedure laid down in Article 103 of Law 4172/2013. As a result, the minimum wage has been raised by 10.9% and the sub-minimum wage for persons aged under 25 was eliminated (implying an increase of some 27%). The magnitude of the increase raises concerns for the employment prospects (especially for the young and old-age low-skilled workers), and for competitiveness in the medium term.
11	**Investment Licensing:** adopt all enabling licensing legislation	All enabling legislation had been adopted by the issuance of a joint ministerial decision (FEK/B/436 - 14.02.2019).
12	**Energy:** Complete the agreed divestment of Public Power Corporation's lignite-fired capacity w by end-2018.	*The divestment of the Public Power Corporation lignites been delayed as the tender process did not yield any successful bids. Steps to remedy this situation need to be agreed with the Commission, and the authorities have signalled their intention to submit a new proposal.*
13	**Hellenic Corporation of Assets and Participations (HCAP):** The Strategic Plan of HCAP will be implemented on a continuous basis.	HCAP prepared the Strategic Plan which 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.

	Commitment	State of play and next steps
14	**HCAP** The transfer of OAKA to HCAP and the restructuring of ETAD will be completed by end-2018.	The restructuring of ETAD has been completed. The transfer of OAKA is taking longer to complete than initially planned. The authorities have 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. In addition, on 21 February 2019, the Cabinet Committee and HCAP have launched the coordination mechanism for State-owned enterprises.
15	**Tenders** The Asset Development Plan of TAIPED will be implemented on a continuous basis. The transactions on the AIA concession, Hellinikon and DESFA will be completed by end-2018	Asset Development Plan (ADP): The updated ADP of TAIPED was endorsed by KYSOIP on 15 February (FEK 461, 15 February 2019). *DESFA:* The financial closing of the transaction was completed on 20 December 2018. *AIA:* The AIA extension agreement was ratified by the Greek Parliament on 14 February 2019 and the payment of the financial transaction of EUR 1.1 billion plus an annual rate of 10.3% paid proportionally by AIA from 1 January 2019 until closing date, was done on 22 February 2019, thereby closing the transaction. *Hellinikon:* the project has encountered some delays mainly concerning the award of the casino licence and the urban planning and environmental approvals. As key intermediate steps: (i) the request for proposal for the award of the casino licence was uploaded on 19 February; (ii) the studies on the urban planning zone, the development zone, and the park were submitted by the investors to the Greek authorities, on 6 February 2019, and the Integrated Environmental Impact Assessment study followed on 18 February. *The authorities need to implement all agreed complementary actions related to the concession of Egnatia motorways, to remove impediments to the transaction.*
16	**Public Administration - Appointments.** The implementation of reforms to modernise the public administration will be sustained. As part of this effort, Greece will complete reforms to modernise human resource management in the public sector, and in particular the appointment of Administrative Secretary Generals and all Directors General according to law 4369/2016 by end-2018.	Director-Generals: all appointments (90 posts) have been completed. Administrative Secretaries: to date no appointment (of 69) has been made and as complementary actions, the authorities have adopted a law on strategic recruitment (also linking the hiring plan with the Medium-Term Fiscal Strategy) and strengthening the capacity of the Ministry of Administrative Reconstruction and: (i) provided an updated timeline for the completion of the recruitments of Administrative Secretaries by end 2019; (ii) agreed with the Commission the modalities of the independent assessment of the appointment cycles of Administrative Secretaries and Director-Generals to be completed by June 2019 with follow-up measures adopted by September 2019; (iii) committed to a specific road map on the streamlining job qualifications ('klados'), (iv) committed to update the census ('apografi') database to also report on - flows of permanent staff of legal entities of private law and insert a category of temporary staff of legal entities of private law being paid by NSRF/other sources; (v) committed to launch the first calls for Heads of Division appointments by end-March 2019. *As a complementary measure, the authorities need to complete the following actions: related to legal codification, they should take the approval decision for the 'digital portal' tender and should submit the legal provisions for the 'Central Committee on Codification' to the Parliament. In addition, related to the important HR reform of the public revenue administration, the authorities should adopt an amendment that allows the implementation of the first-stage linking of grading to job descriptions for IAPR.*

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.([1]) The Commission has prolonged enhanced surveillance for Greece, effective for six months as from 20 February 2019.([2]) That decision 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.([3]) In this context, 16 specific commitments were made with a deadline of end-2018, progress on which is assessed in this report.

This report is based on the findings of a mission to Athens between 21 and 25 January 2019 conducted by the Commission in liaison with the ECB([4]); the IMF participated in the context of its Post-Programme Monitoring (PPM) framework, 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).

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 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. Given that half of last year's and the full amount of this year's instalments of the

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([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) XX/2019 of XX February 2019 on the extension of enhanced surveillance for Greece, OJ L xxx, dd.mm.yyyy, p. xx.

([3]) 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

([4]) 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.

step-up margin are currently eligible for a waiver, the policy-contingent debt measures for possible release at this stage amount to some EUR 970 million.

2. MACROECONOMIC DEVELOPMENTS

The economic recovery will continue into 2019.([5]) The recovery continued in the third quarter of 2018 with real GDP growing at 1% quarter-on-quarter (seasonally and working-day adjusted), which corresponds to a 2.2% year-on-year growth. This followed an already encouraging 0.5% and 0.4% q-o-q growth rate in the first and second quarter. Growth is expected to have reached 2% for 2018 as a whole. GDP is forecast to accelerate further in 2019 and 2020 to reach growth rates of 2.2% and 2.3% respectively. Domestic drivers of growth, i.e. private consumption and investment are expected to strengthen, while contributions from the external sector are expected to moderate on the back of the projected slowdown in the EU and increased domestic import demand.

Private consumption is expected to remain a major contributor to growth in 2019. Private spending was an important driver of growth in the first two quarters of 2018 and, although its (quarterly) growth halted, in the third quarter it is still expected to have had a major contributory effect for the year as a whole. Despite some moderation in aggregate economic sentiment indicators, consumer confidence and retail confidence have improved up until January 2019 and reached some of their best readings since 2008-2009.([6]) Private consumption is thus expected to provide much of the growth contribution on the demand side in 2019 and possibly in 2020 as well.

The export sector continues to perform well, and its outlook remains mostly positive despite the slowdown in the EU. Both the tourism industry recorded a very good year in 2018 with over 10% increase in tourist expenditures, and export of goods increased dynamically, reaching almost 9% real growth on average in 2018 from January to November. Import growth was moderate in the first half of the year, but has increased markedly since, and thus will limit the growth contribution of foreign trade. In 2019, export of goods is projected to continue to grow, albeit some slowdown is expected after what was an exceptionally good year for Greek exports. The slowdown in the EU is not expected to be disruptive to Greek goods' exports, as demand for primary products are generally less closely linked to income developments. The export of services, however, is likely to see very modest growth at best, as the renewed competition from Turkey, and the contracting demand from some key markets pose severe challenges in 2019.

Investment performance has been mixed. The residential construction sector has started to recover. According to anecdotal evidence, the increased activity on flat sharing platforms and the Golden Visa program are channelling purchasing power to the real estate market, thereby boosting investment demand. Non-residential construction is markedly below its 2017 level, due to the base effect created by the delivery of the highway construction in 2017-Q3. As for equipment, transport and weapon equipment purchases show a decline compared to 2017, while other types of equipment show a steady increase. In any case, the broad-based recovery of business investment has not materialised as it was expected a year ago. In the coming years, a rebound and sustained growth of investments will be key for a healthy economic recovery. An encouraging first sign of investment potential is that new corporate lending has mildly accelerated in the very last months of 2018, even though it remained mostly in the negative territory throughout the year indicating that the deleveraging process is still in place.

Labour market conditions continued improving in the second half of 2018. Employment grew by 1.5% in the first three quarters of 2018 according to national accounts statistics, which is the same growth rate as in 2017. Labour Force Survey data show a slightly better figure: 2% annual growth for the period January-November 2018. Consistently, unemployment rate dropped to 18.5% in November from 20.8% at the end of 2017. However, youth and long-term unemployment remain very high (respectively, 39.1% of the labour market participants and 71.8% of total unemployed).

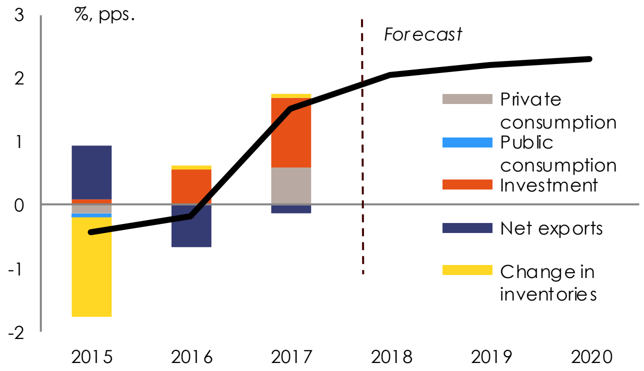
([5]) The Commission's most recent forecast was published on 7 February 2019: European Economic Forecast, Winter 2019 (Interim), Institutional Paper 096, February 2019. https://ec.europa.eu/info/publications/european-economic-forecast-winter-2019_en

([6]) This opposing dynamics of business and consumer confidence was observed during the last pre-election period in 2015 as well.

Inflation reached 0.8% in 2018. The almost 4% annual increase in energy prices was one of the main contributors to headline inflation in 2018. Although the headline figure marks a slight disinflation compared to 2017, some of this is due to the inflationary effect of the indirect tax increases in 2017. Core inflation reached 0.5% in 2018, slightly below its 0.6% value in 2017. Due to a downward revision of the oil price forecasts, the inflation forecast for Greece is also revised. As energy prices are expected to moderate significantly in 2019, headline inflation is expected to remain below 1% in 2019 and in the outer years as core inflation strengthens and energy prices stabilise.

Overall, the balance of risks is tilted to the downside. The outlook assumes that reform momentum will be maintained, providing credibility and a good investment climate. Consumption growth may be higher than expected in 2019, should the increase in the minimum wage translate into higher consumption spending.([7]) However, downside risks dominate the forecast: the increase in the minimum wage poses potential downside risks both on investment recovery and on export performance due to the possible losses in competitiveness. Risks to investment are exacerbated by the high level of non-performing loans which continues to weigh on the intermediation capacity of banks (a pre-requisite for the financing of the projected investment growth). FDI inflows could be further hampered by delays in privatisation, and on public administration and business environment reforms. Finally, the global and in particular the EU slowdown, may further hamper Greece's recovery.

Graph 2.1: **Real GDP growth and growth contributions**



Source: European Commission

Table 2.1: **Main features of the macroeconomic scenario**

	Annual percentage change					
	2017	**2018**	**2019**	**2020**	**2021**	**2022**
Real GDP	1.5	2	2.2	2.3	2.1	1.8
Employment growth	1.5	1.8	1.8	1.4	1	0.7
Unemployment rate	21.5	19.3	18	16.6	15.4	14.4
GDP deflator	0.6	0.5	1	1.4	1.6	1.8
Harmonised index of consumer prices	1.1	0.8	0.7	1.3	1.5	1.7

Source: European Commission

([7]) As of 1 February 2019, the statutory minimum wage was increased by close to 11% and the sub-minimum wage for youth has been abolished. A detailed assessment of this policy action is provided in section 6.1 of this report. The macroeconomic effect of the minimum wage increase is highly debated, and baseline macroeconomic scenario will be reassessed to incorporate the effects of the minimum wage increase at the time of the Commission 2019 spring forecast, when first information about the impact of the measure may become available. In the short run, one may expect an increase in private consumption, as the disposable income of those employees that benefit from the minimum wage hike increases. However, firms, especially micro and small firms, will have to either raise prices and/or cut back on investments and adapt their hiring plans, which may reduce the aggregate effect of the minimum wage increase. The cancellation or delay of some investments is expected to deteriorate labour productivity in the long run and could slow down the ongoing recovery. Also, the minimum wage hike (by 11% in general and effectively 27% for the youth) may increase the share of the informal sector, which is generally associated with lower productivity and limited growth potential. Overall, the additional domestic demand that would follow the minimum wage increase may come at the cost of more subdued employment growth and deteriorating productivity hence loss of competitiveness, especially over the medium and long run.

3. FISCAL AND FISCAL-STRUCTURAL POLICIES

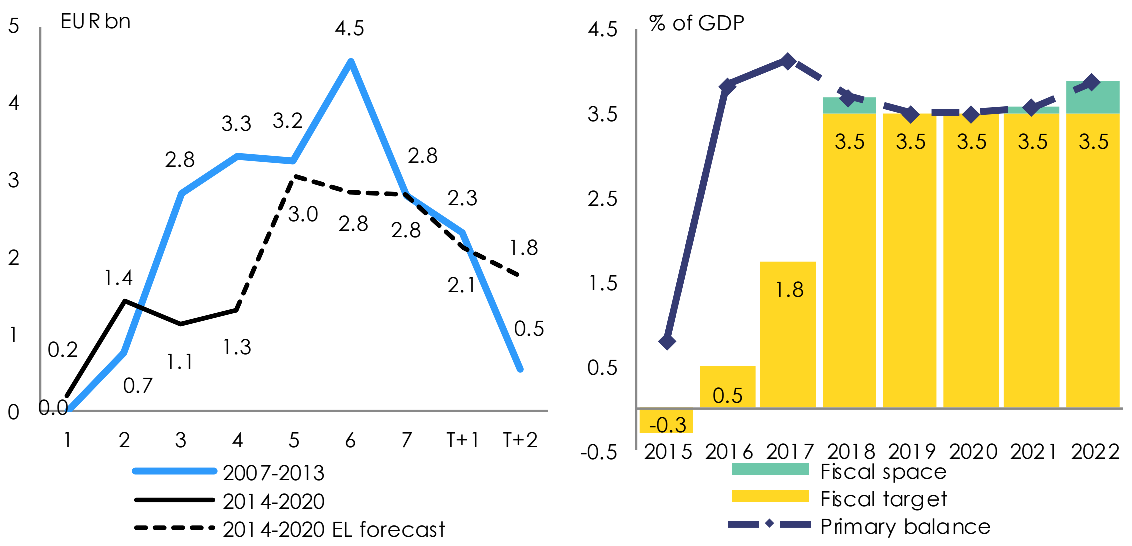
3.1. FISCAL POLICY

Public finances in 2018

Greece is likely to have over-achieved the primary surplus target of 3.5% of GDP in 2018, for the fourth year in a row. Based on data available to date, the authorities expect the primary surplus in 2018 to have reached 3.8% of GDP, after taking into account wage refunds that were paid to uniformed personnel and other public officials following a court ruling and the payment of a means-tested transfer ('social dividend'), both implemented at the end of 2018. The outcome could be even higher based on the incoming data confirming large-scale underspending vis-à-vis the initial 2018 budget. As in previous years, the main driver of the over-performance is likely to be the public investment budget; other factors include lower-than-budgeted ordinary expenditure of the State budget and on lump-sum pensions, all recurrent issues. First outturn data for the 2018 general government headline balance in accrual terms will be released on 23 April this year.

Faced with an expected over-performance, the government decided to grant a one-off means-tested cash transfer targeting low-income households (the so-called "social dividend") at the end of 2018, the size of which turned out to be larger than expected. The cost of the benefit is expected to reach EUR 782 million in total, which represents a considerable overrun compared to the initially foreseen envelop of EUR 710 million. The overrun is related to a sudden increase in the number of persons reported as self-standing households, which may imply risks for other social benefits and the taxable income, where the household status is a relevant criterion. The authorities are expected to investigate this issue further.

Graph 3.1: **EU funds claimed in the current and previous programming period (left) and primary balances and fiscal space (right)**



Left: the horizontal axis shows years of each programming period. Data for the 4th year of the 2014-2020 period (2018) are preliminary. The 5th and the following years of the same period are based on the authorities' most recent projections. Years labelled as T+1 and T+2 refer to the fact that, according to EU rules, amounts can also be drawn also in a horizon of 2 to 3 years after the end of the programming period. EU funds included in the analysis: ERDF, ESF & YEI, ESF, YEI, CF and EMFF.
Right: Primary balance in terms monitored under the enhanced surveillance framework.
Source: European Commission deparatments and the Greek authrotrities' projections

Although Greece has been among the top absorbers of EU funds until recently, an under-execution of the public investment budget was observed in 2018 which did not only concern domestic but also EU co-financed investment. In 2018, the authorities effectively drew EUR 870 million under the European Regional Development Fund and the Cohesion Fund, falling well short of the EUR 1.85 billion forecast by the authorities in July. As shown in Graph 3.1, so far the use of EU funds in the current programming period (2014-2020) has been significantly lower than in the previous one (2007-2013). The delays result largely from a lack of high-quality projects in the pipeline and complex public procurement procedures. While the risk of losing EU funds is contained until 2020, the back-loaded profile induces significant risks for the remaining years. Accelerating the implementation of EU funded programmes is essential to avoid pressure at the closure of the programming period.

Outlook for 2019 and beyond

The 2019 budget adopted in December 2018 is expected to ensure the achievement of the primary surplus target of 3.5% of GDP (end-2018 specific commitment). The assessment of the budget was provided in the first enhanced surveillance report published in November 2018. Updated projections will be presented in the Commission 2019 spring forecast and the Commission assessment of the 2019 Stability Programme. This report presents an overview of recent and expected upcoming developments with an impact on the budget, which will need to be addressed in the upcoming Stability Programme.

A number of measures with an impact on the 2019 public finances has been adopted or announced after the 2019 budget was voted. The impact of these measures will need to be quantified in the Stability Programme. Measures with a balance-deteriorating impact include:

- the extension of the VAT discount on five Aegean islands hosting refugee centres for the fourth time in December 2018. While the impact of the extension on the primary balance is expected to be limited, the abolition of the discount was an important reform commitment under the ESM programme. The new framework links the elimination of the discount to the easing of migration pressures, an assessment of which is to be carried out on a biannual basis;

- plans to introduce new settlement schemes for social contributions and tax debt. These measures have not yet been adopted but, if confirmed, they could have a sizeable negative impact on the collection of public revenues and the primary balance;

- the public wage bill shows some worrying trends that need to be addressed. The main challenges are related to the increase in the number of temporary personnel and the pressures that may arise to extend the application of newly adopted wage calculation rules for Ministry of Finance staff to the wide public administration.

The increase in the minimum wage as from 1 February could have a balance-improving impact in the short run, as higher revenues, mainly from social security contributions, are expected to outweigh increased spending on unemployment benefits and other benefits affected by the change.

A large unspecified spending appropriation created in the 2019 budget raises concern, as it could be used for spending not foreseen in the Commission fiscal projection. The appropriation was created as a buffer for the case that the above-mentioned wage refunds, which were foreseen to be paid in December 2018, should slip to 2019. While statistically this transaction still accrues to 2018, i.e. the year when the liability to carry out the refund was recognised by the government and the amount determined, an appropriation needed to be created in the budget to cater for the possible cash expenditure. Part of the refunds was indeed paid only in early 2019 but to a smaller extent than expected, leaving thus about EUR 650 million (0.3% of GDP) of the appropriation available for other spending that was not foreseen in the fiscal projections of the first enhanced surveillance report. As the forecast is based on the assumption that spending appropriations will be used fully, removing the unused appropriation would be warranted to avoid a negative impact on the Commission assessment.

Finally yet importantly, the Stability Programme provides an opportunity to clarify the consistency of the medium-term elements of the 2019 budget package with the tax reform adopted in June 2017 and set to enter into force in 2020. In the 2019 budget, the authorities presented a number of measures to enter into force in 2020: a progressive cut in the corporate income tax (CIT) rate in total by 4 percentage points over four years starting from 2020, a reduction in the dividend tax rate from 15% to 10% in 2020, and the agreement to limit the size of the public investment budget to EUR 1 billion throughout 2020. Some of these measures will interact with the balance-neutral tax reform adopted during the second review of the ESM programme in June 2017 to enter into force as from 1 January 2020. The pre-legislated package encompassed, on the consolidation side, a reduction in the personal income tax credit threshold to broaden the tax base, and, on the expansionary side, reductions in the personal and corporate income tax rates and the property tax rate. Box 3.1 provides a short overview of the main issues in the Greek tax system. It is critical that the tax system be made more growth friendly through a broadening of the tax base and lowering of tax rates on labour and in particular on corporates.

Table 3.1: **Main drivers of the fiscal projection**

	Actual	Projections				
	2017	2018	2019	2020	2021	2022
Total revenues, bn EUR	**87.1**	**88.8**	**89.4**	**90.6**	**92.4**	**94.1**
Total revenues, % of GDP	**48.3**	**48.0**	**46.7**	**45.7**	**44.9**	**44.1**
	Level	*y-o-y change (bn EUR)*				
Total revenues, bn EUR	**87.1**	**1.8**	**0.6**	**1.2**	**1.8**	**1.7**
Macro		1.3	1.6	1.8	2.1	2.3
Revenue measures		0.0	-0.4	-0.2	-0.1	-0.1
Non-tax revenues & claims on EU funds		1.6	-0.4	-0.3	0.1	-0.3
Other adjustments (3)		-1.2	-0.2	-0.2	-0.3	-0.2
Total primary expenditures, bn EUR	**79.6**	**82.0**	**82.7**	**83.7**	**85.1**	**86.0**
Total primary expenditures, % of GDP	**44.2**	**44.3**	**43.2**	**42.2**	**41.4**	**40.3**
	Level	*y-o-y change (bn EUR)*				
Total primary expenditures, bn EUR	**79.6**	**2.4**	**0.7**	**1.0**	**1.4**	**0.9**
Compensation of employees	21.5	0.7	0.8	0.5	0.3	0.3
Social transfers	38.4	-0.4	0.1	0.5	0.4	0.6
Investments (4)	5.0	2.1	0.1	0.1	0.0	0.0
Intermediate consumption	9.0	-0.3	0.5	-0.1	0.7	0.0
Other expenditure (5)	5.6	0.3	-0.8	0.1	0.0	0.1
Primary balance, bn EUR (2)	**7.5**	**6.8**	**6.7**	**6.9**	**7.2**	**8.0**
Primary balance, % of GDP	**4.1**	**3.7**	**3.5**	**3.5**	**3.5**	**3.8**
Memo items, % of GDP						
Headline balance	0.7	0.7	0.2	0.1	0.2	0.3
Structural balance	4.5	4.0	1.9	1.0	0.8	0.5
Pension reforms (net savings)	1.2	1.6	1.8	2.0	2.3	2.2
of which: recalibration and freeze	0.0	0.1	0.2	0.4	0.5	0.5

(1) Fiscal projections consistent with the 1st enhanced surveillance report (November 2018) reflecting the impact of measures included in the 2019 budget that have been legislated so far, to be confirmed in the MTFS. The outcome of 2018 will be adjusted based on the outturn data released in April 2019.
(2) Primary balance in terms monitored under enhanced surveillance.
(3) The decrease in 2018 reflects a negative carry-over from revenues collected in 2017 that were considered temporary.
(4) Gross capital formation and acquisitions less disposals of non-financial non-produced assets.
(5) Includes subsidies and transfers. The decrease in 2019 reflects the one-off wage refunds paid in 2018.

Source: European Commission

Fiscal risks

Greece's public finances are facing important fiscal risks. The risks are mostly related to past and pending court rulings related to reforms enacted under the financial assistance programmes but some also have a more political dimension. The most significant ones are the recent court rulings against the past pension reforms and the potential restoration of seasonal wage bonuses to civil servants. Other risks relate to pressures on the public wage bill. The risks, once materialised, may entail a retrospective and/or a recurrent impact on public finances of significant size. The Greek authorities should continue to monitor fiscal risks, including court rulings, and are invited to take offsetting measures as needed to meet the medium-term fiscal targets in the context of the Medium-Term Fiscal Strategy (MTFS) and its annual updates. 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 reforms/actions within the same policy field.

Regarding the 2012 pension reform, on 10 June 2015, the Council of State (CoS), Greece's highest administrative court, ruled that pension cuts implemented in 2012 and 2013 as part of a broader pension reform were unconstitutional and will need to be partly refunded. More specifically, the court challenged: (a) the reduction of supplementary pensions by 10 - 20% which came into effect on 1 January 2012, (b) the reduction of main pensions higher than EUR 1,000 by 5 - 20% which came into effect on 1 January 2013 and (c) the abolition of seasonal bonuses of pensioners from 1 January 2013. The court decided that the unconstitutionality of the reductions comes in effect from the date of the ruling's publication in June 2015 and only claims that were submitted before that date are entitled to a refund. The period of the refund starts from the date the reduction came into effect and goes up to the end of 2014, as the following period is covered by the 2016 pension reform that was applied retroactively. Therefore, the fiscal impact of the decision depends on the number claimants who filed a petition before June 2015. It should be noted that long delays occur between the time of an appeal and the time when the administrative department of the main pension fund is notified. However, the Ministry of Labour estimates that by today all appeals submitted until June 2015 should be known. According to the authorities, the number of claimants eligible for a refund is only 121, which implies negligible fiscal cost; however, the question is not yet finally settled as some lower courts have ruled against the restricted eligibility for the compensatory payments Moreover, residual uncertainty concerns the retroactive application of the 2016 pension reform (recalibration of pensions, new replacement rates, etc.), which has also been challenged at the CoS and the ruling is expected to be published in 2019. Since the reform has followed the guidance of the CoS ruling from 2015, it is not clear at this stage whether the challenge will succeed and, if so, which aspects of the reform could be affected.

The potential restoration of seasonal wage bonuses to public servants, still to be decided by the CoS, creates additional uncertainty. The seasonal bonuses totalling some EUR 1,000 annually were eliminated as of 2013. Since then, several courts ruled in favour of claims that the abolition of the bonuses was unlawful. In December 2018, the Supreme Court of Cassation ruled that the elimination of seasonal bonuses was unconstitutional indeed but given the high importance of the case, it will be settled by the plenary session of the CoS. The decision is likely to be made in 2019 and given the chain of court decisions up to now, the risk of a ruling in favour of unconstitutionality is material. The eventual fiscal cost could entail both a retroactive and a recurrent amount in case the court rules in favour of the reinstitution of the bonuses. The overall fiscal cost is estimated at 1.3% of GDP, of which 1.1% relates to the retroactive liability, assuming that all public servants will be eligible for a refund and the limitation on wage claims is five years; the recurrent costs would amount to 0.2% of GDP annually.

The public wage bill could be additionally affected by the recent decision to exempt certain officials, mostly at the Ministry of Finance, from the unified wage grid introduced under the ESM programme. To recall, employees hired before November 2011, when the first uniform wage grid came into effect, are entitled to receive a 'personal difference' that limited the size of the wage cuts implied by the uniform wage grid to 25%. An October 2018 legislation, however, extended the personal difference to employees hired or transferred to the Ministry of Finance and its supervised entities from November 2011 to October 2018. Although the estimated direct cost of the legislation is small, pressure could arise to extend the application of the personal difference to the wider public administration. Unlike for the previous two cases, no final court case is pending. The trigger could be either an individual legal challenge on equal treatment grounds, or a unilateral decision of various general government entities to extend it on an ad hoc basis. The process may be difficult to contain once the process, which has already started, reaches a critical mass. At this stage, no personal difference has been restored retrospectively, hence the fiscal risk relates only to recurrent cost that could reach up to 0.1% of GDP once/if the personal difference is spread across entire public administration.

3.2. FISCAL STRUCTURAL POLICIES

3.2.1. Taxation

Greece has continued to make progress in the reform of ENFIA property tax valuation. The 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. The legal framework for the new system of property valuation by professional real estate valuers has been established by an amendment in law 4587/2018. A Property Tax Valuation Unit has now been established and two key IT projects have been initiated to map electronically zonal boundaries and to systemise the collection of real estate data. An independent quality assessment exercise of the results of the last year's nationwide valuation exercise is currently underway with technical support. Preliminary results suggest that a new nationwide valuation exercise is not needed in 2019 and that the realignment of property tax values can be continued on the basis of last year's exercise. Moreover, only a limited number of public objections to last year's revaluation have been received to last year's partial revaluation of zonal values.

Progress has also been made on other tax policy issues. Three joint ministerial decisions have finally established a user-friendly framework for business tax incentives for the employment of youth and long-term unemployed, investments in energy- and water-saving technologies, and for the support of audio-visual productions. 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.

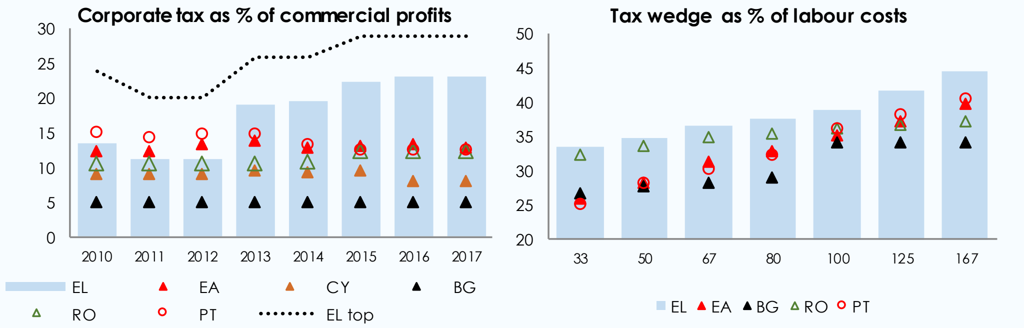
3.2.2. Revenue administration

The specific commitment related to staffing levels was not met, however this reporting period has seen significant progress on a number of key reforms (e.g. HR reform, blueprint and IT envelope) that will still need to be firmed up by early March 2019. Overall the Independent Authority for Public Revenues (IAPR) is continuing to make steady progress in terms of improving tax collection, including reducing the long overdue debts. A more detailed overview of IAPR's achievements since its launch in 2017 and progress in achieving set targets on a number of key performance indicators (KPIs) is included in the end of this section (see Box 3.2).

Box 3.1: Taxation – Structure and Main Issues

The overall tax-to-GDP ratio in Greece increased substantially in recent years and is already higher than in peer countries. The tax system imposes a high tax burden on corporates and on low-income earners and households with children, which undermines Greece's international competitiveness and discourages labour supply. These issues, coupled with the high additional cost carried by Greek citizens to purchase complementary services to basic public services, help explain the recent surge of the notion of over-taxation in Greece.

Graph 1: **Tax burden on corporates and households with children exceeds the peer countries**



Left: commercial profit is computed as sales minus cost of goods sold, gross salaries, other expenses, provisions and depreciation (see WB Doing Business Report for details). Labour taxes and social contributions paid by the employer are excluded.
Right: tax wedge at different levels of income of the first earner (as % of the average wage), for a two-earner couple with two children, spouse earning 67% of the average wage.
Source: WB Doing Business 2019 and DG TAXUD Taxation Trends Report 2017 (for the top CIT statutory rate) (left panel) and OECD/EC, Tax and benefits indicators, 2017 (right panel).

The high tax burden on corporations, including high administrative burden, discourages investment. Apart from the high statutory corporate income tax (CIT), all businesses active for more than five years are also due to pay a fixed annual levy of EUR 650 irrespective of their profitability, and relatively high and complex stamp duties. According to the 2019 Pricewaterhouse Coopers Paying Taxes Report, Greek companies spend more than twice as many hours complying with taxes than companies in other EU countries. The tax system further shows a high debt bias, which disadvantages young and innovative companies. Moreover, despite the high statutory rate (6th highest in the EU), Greece collects only an average amount of revenues from the CIT.

The average tax burden on labour in Greece is also high. In 2016, Greece had an implicit tax rate on employed labour of 41%, compared with the EU average of 36%. The tax burden is materially higher than in peer countries for couples with only one wage earner and households with dependent children. Owing to the high tax-free allowance, the structure of taxation is skewed towards social contributions, which impacts heavily on low earners. Despite the high tax burden, Greece collects a below-average amount of revenues from taxing employees' income. Increases in the tax and social security burden has also affected self-employment, which is twice as common in Greece than in the EU. Declared income from self-employment fell by 27% between 2015-17, whilst the number of self-employed fell by 14% over the same period.

Despite numerous efforts to improve compliance, VAT fraud remains substantial. The VAT gap is the second largest in the EU based on 2016 data and, unlike for the rest of the EU, does not show a decreasing trend over time. The main driver of the high VAT gap appears to be fraud as the contribution of tax policy parameters, captured by the 'VAT policy gap', is only somewhat above the EU average. The VAT policy gap is mostly driven by the structure of VAT rates and the geographical discounts for the Aegean islands. The number of islands benefiting from the discount was reduced in 2017 to five islands hosting refugee centres.

The specific commitment to have reached a staffing level of 12,000 permanent employees at the IAPR by the end of 2018 has not been met. The overall staff level actually decreased during 2018 (from 11,682 to 11,492). The main reason given by the authorities was the delay of new hirings, in particular as concerns the recruitment carried out by the Supreme Council for Civil Personnel Selection (ASEP) of new tax/customs officials (546 posts). However, it should be noted that a contributing factor of ASEP's limited processing capacity causing this delay was the priority assigned by the government to another ongoing recruitment process([8]) that was determined to be of specific public interest to which ASEP had to consequently allocate a significant proportion of its resources. According to latest updates by ASEP the final selection table for the tax/customs officials (546 posts) should be published by April 2019. This would mean that the first new hirings should be able to take up their positions by mid-2019. Another reason provided why the staffing target was not met was the lower than expected number of realised transfers from the mobility scheme. In addition, more exits took place than expected, mainly due to the increased number of retirements. The authorities will need take specific actions in order to ensure that the specific commitment to reach a staffing level of 12,500 permanent employees by end-2019, while also reflecting if the number of retirements is expected to remain at the elevated level of 2018, considering the rather high average age of current IAPR staff. Worryingly, IAPR's own estimates currently indicate that 12,114 permanent staff will be in place by end of 2019.

By contrast, the authorities have agreed to take complementary measures with a view to enhancing the overall operational capacity and efficiency of the IAPR across a number of dimensions, although for some of these intensive discussions are ongoing with the expectation that the measures will be adopted by early March 2019. In particular:

- Steps have been taken to further enhance the IAPR's overall capacity and efficiency, with the most noteworthy measure concerning the human resources (HR) reform of the IAPR. This entails the introduction of grading, remuneration and performance assessment tailored to the IAPR and is seen as essential in order to enhance IAPR's prospects to attract highly-qualified staff and to allow for their development and progression. More specifically, a legislative amendment to IAPR's enabling legislation is currently under intense discussions with the authorities with the expectation that it will be adopted by the Parliament by early March 2019. This law amendment, if adopted, will allow IAPR to proceed and adopt the required secondary legislation, thereby introducing a new grading scheme that is linked to job descriptions. This is the first step needed for the introduction of a specific remuneration scheme linked to job descriptions. As concerns the second and final step to introduce a supplementary remuneration scheme for IAPR, this will require primary legislation setting out the provisions for the supplementary wage grid. The authorities are in the process of finalising a detailed timeplan for completing the HR reform that is expected to be in place by end of 2019. It is worth pointing out that (i) the HR reform is closely aligned with the overall principles of the HR reforms promoted by the Ministry of Administrative Reconstruction (MAR) and covering the overall public administration; and (ii) the additional budget foreseen for the supplementary remuneration part of the HR reform is already part of the budget adopted for 2019. Further, the Governor has issued a decision end-2018, setting out another part of the HR reform, namely the appraisal system that will be applied for all IAPR staff as of 2019. This decision is yet to be published in the Government Gazette.

- **The IAPR has adopted its reform action plan ("Blueprint") for the period 2019-2021 following securing the additional funding needed.** The "Blueprint" sets out specific measures and investments that will be required to continue the transformation of the IAPR into a modern, flexible and effective organisation. The "Blueprint" foresees specific actions on a number of areas, such as the automation of obligations currently requiring physical presence and enforcing compliance. Most actions and projects will be covered through secured funding sources (mainly from EU funds); however, the Ministry of Finance agreed to cover the financing gap of about EUR 80 million, out of which EUR 5 million is expected to annually recurrent cost, thereby demonstrating its strong support to continue strengthening the capacity of IAPR.

- **The General Secretariat of Information Systems (GSIS) and the IAPR have reached an agreement on an annual envelope for the IAPR’s IT infrastructure/tools.** This means that a specific amount for 2019 (approximately EUR 5 million) has been pre-allocated for IT support and services to be provided exclusively to IAPR mainly relating to maintenance and renewal of licenses.

([8]) Concerning 8166 permanent posts (note: self-financed through municipal levy, mainly for waste management collection) in the local and regional administration (3K/2018) for which over 120 000 applications were submitted.

Other measures expected to be taken by early March, include (i) legal provisions to further facilitate the transfer of staff to IAPR from the mobility scheme; (ii) legal provisions to strengthen liability protection for tax/customs officials, which are expected to facilitate the introduction of new/indirect audit methods; and (iii) joint ministerial decision adopted by the Ministry of Finance, Ministry of Infrastructure & Transport, Ministry of Economy & Development and Ministry of Environment & Energy that will allow IAPR to launch the tender for the procurement of fuel markers.

The single centre for the collection of social security debt (KEAO) continues to meet its set targets for the collection of social security debt. For 2018, the target was an overall collection of EUR 1.2 billion and the actual collection exceeded this target by close to 15%.([9]) Notwithstanding the steady progress achieved in terms of social security debt collection, the total amount of debt due to the single pension fund EFKA continues to increase (11% increase in 2018([10])). As concerns the joint actions between IAPR-KEAO, a positive step expected during the next reporting period, secondary legislation is expected to be adopted that will allow KEAO to consider directly applying IAPR’s classification of the persons/entities considered to have 'uncollectable' debt.

The government has informed the European institutions that they do not intend to proceed in the near future with revisions to instalment schemes for tax debt and social security debt, as they need to undertake further technical analysis and reflection. It is important to avoid creating fiscal risks or undermining the payment culture, and to respect the core objectives of the reforms carried out as part of the ESM programme.

([9]) Total collection of debt in 2018 was EUR 1.374 billion (source: KEAO).
([10]) January 2018: EUR 31.42 billion. December 2018: EUR 34.79 billion.

Box 3.2: **Tax administration**

The Independent Agency for Public Revenue (IAPR) became operational on 1 January 2017 as an autonomous revenue agency. This significant change followed numerous reforms undertaken during the preceding years to the tax system and public revenue administration, which had little impact in terms of providing a coherent and efficient institutional structure. The key aim of IAPR's establishment was therefore to substantially contribute in remediating Greece's long-standing weakness in the areas of tax collection and compliance. The reasons behind this weakness were manifold, such as low administrative capacity demonstrated through not being able to efficiently integrate modern and efficient collection and audit tools, but also by a lack of tailored human resources management systems as well as political interference that resulted in frequent changes in senior management positions and subsequent low level of trust among citizens.

IAPR has already demonstrated its added value, for example through increasing tax collection, which in 2018 reached EUR 5.6 billion (i.e. 8.5% higher than in 2017). This achievement should also be considered in the overall context, where a large share of the population has seen their average household income going down while the overall tax pressure has increased. Contributing factors for IAPR's success to date have been (i) high rates of electronic filing and payment; (ii) a strong legal framework allowing for withholding at source; and (iii) comprehensive sources of third party information.

IAPR has been provided significant technical support from the Commission services and IMF from its inception and until today. The technical support has gradually shifted from a focus on strengthening IAPR's institutional capacity to introducing modern collection and audit tools in the tax and customs administration. For example, introducing audit techniques based on market segmentation, strengthening risk analysis and audit cases prioritisation, but also by alleviating IAPR from new public prosecutors' orders. In the area of customs, a coordination centre involving inter-ministerial cooperation for the fight against smuggling of excisable goods has been established while and supply chain legislation for tobacco smuggling has been adopted.

Significant progress has also been made in the use of electronic payments, which exceeded EUR 31 billion in 2018 compared to EUR 25 billion in 2017 (i.e. 24% increase).

Key Performance Indicators (KPIs)

Table 1 sets out the 11 KPIs of IAPR and compares the targets against actual results for 2017 and 2018. The KPIs cover a number of areas, including debt collection, audits and compliance. As the table shows, IAPR has managed to exceed targets set for KPIs relating to debt collection, but is struggling a bit when it comes to increasingly focus on so called "fresh" cases for the audit carried out. It is encouraging that while four (out of 11) KPIs were achieved in 2017, in 2018 this number had increased to nine (out of 11). Most targets for 2019 seem to build on results realised to date, although it is noteworthy that the target set for KPI 3 (Collection of debts by Large Debtor Unit) is significantly less than the actual result for 2018.

Looking to 2019 and beyond

Although, significant work has been done a number of key areas of IAPR's core functions need further improvement, such as (i) developing a reliable and up-to-date tax registry; (ii) establish a structured approach for the identification and mitigation of compliance risks; and (iii) further strengthen the level of assurance from internal audit.

It is therefore essential that key actions to both strengthen the overall institutional capacity and introduce modern collection and compliance tools are followed up on. [The recently adopted 'blueprint' for 2018-2021 sets out a detailed road map on prioritised actions, such as (i) improving services to citizens and businesses (e.g. automation of obligations requiring physical presence at the IAPR offices); (ii) enforcing compliance (e.g. redesign of the operation and audit processes); (iii) effective and efficient use of resources (e.g. Human Resource Management System and IT infrastructure); and iv) improvement of enforced collection through consolidation.

(Continued on the next page)

Box (continued)

More specifically, the model collection office should be operational before end of 2019 and should allow for it to then be rolled out to the wider tax administration with more modern collection and audit methods being applied and integrated into the day-to-day operations. This is then expected to be complemented by an end-to-end user system that is expected to be ready by beginning of 2021.

Table 1: **KPIs of the IAPR (2017-2019)**

			2017		2018		2019
			Target	*Result*	*Target*	*Result*	*Target*
Debt collection	KPI 1	Collection of tax debts as of the end of the previous year (EUR millions)	2 700	2 678	2 800	2 878	2 900
	KPI 2	Collection of new debts in the current year (percent of new debt in the year)	23.5%	22.4%	24.0%	28.8%	27.0%
	KPI 3	Collection of debts by Large Debtor Unit (EUR millions)	690	698	645	852	675
Audits of fresh tax cases by the whole IAPR	KPI 4	Percent of fresh tax audit cases in total completed audits	60.0%	48.8%	70.0%	46.3%	70.0%
Tax audits and collection of large tax payers	KPI 5	Collection after audits in the year (percent of assessed tax and penalties)	41.0%	15.1%	40.0%	40.9%	40.0%
Tax audits and collection of high wealth individuals	KPI 6	Collection after audits in the year (percent of assessed tax and penalties)	23.5%	12.0%	20.0%	52.2%	40.0%
Tax refunds	KPI 7	Percent of VAT tax refund claims processed within 90 days	70.0%	88.5%	95.0%	96.3%	95.0%
Compliance and enforcement	KPI 8	Percentage of total tax paid on time for VAT, Income and Property taxes	83.0%	80.7%	84.0%	80.8%	84.0%
Percentage of total tax paid on time for VAT, Income and Property taxes	KPI 9	Percentage of debtors under enforcement measures	57.0%	60.2%	59.0%	64.1%	66.0%
Pre litigation phase	KPI 10	Percentage of cases closed by explicit decision of the DRU	95.0%	91.9%	91.0%	93.0%	85.0%
Prosecution audits by Mobile Units	KPI 11	Prosecution audits by Mobile Units (Customs Administration)	15 400	19 320	17 500	20 248	20 000

Green indicates KPI achieved, red indicates KPI not achieved.
Source: IAPR

3.2.3. Public Financial Management

The Greek authorities have committed 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. The net stock of arrears has decreased since the end of the programme. However, the pace of reduction has slowed significantly as new arrears continue to be created . Besides, the implementation of some reforms identified by the HCA is so far lagging behind.

Programme financing and own resources have been utilised to clear arrears. The end-December 2018 stock of net arrears stood at EUR 1.4 billion, thus EUR 0.3 billion lower than the end-August 2018 stock of arrears, which was set as benchmark for the assessment. While September and October saw mixed progress, clearance re-accelerated in November and December. Of the total EUR 7 billion disbursed for arrears clearance during the programme, only EUR 0.2 billion remain unused by end-December 2018. In the same period, the authorities have used more than four times the disbursed amount to clear arrears from own resources, i.e. in total some EUR 35 billion including about EUR 28 billion of Greek own resources). Much of this amount needed to be devoted to new arrears, which have continued to be created. Despite the substantial improvement relative to the initial stock, the remaining arrears as of end-December 2018 need to be cleared, and looking ahead, the stock of arrears to be preserved at the minimum level possible.

The authorities are currently implementing structural measures to address the bottlenecks of arrears management and clearance with a view to fully clearing arrears, within the limits of technical and legal feasibility. The measures are based on the recommendations of systemic nature issued by the Hellenic Court of Auditors (HCA) following its audit on arrears in May 2018. Progress on the implementation of the action plans of the IAPR and the General Accounting Office (GAO) show mixed results. Both the IAPR and GAO action plans are experiencing some delays On the IAPR side out of the total 35 actions at least 8 have been delayed and six are foreseen to be completed after the mid-2019 cut-off date for the completion of this commitment. For the GAO action plan, some entities have reported that measures with end-December 2018 deadline have not yet been implemented. The entities in question have identified the reasons for the delays and proposed corrective actions. Some of the actions have already been finalised by end-January, the remaining ones are expected to be finalised in the coming months according to revised deadlines. The overall implementation of the reforms in both action plans will be assessed in mid-2019 based on a follow-up audit by the HCA.

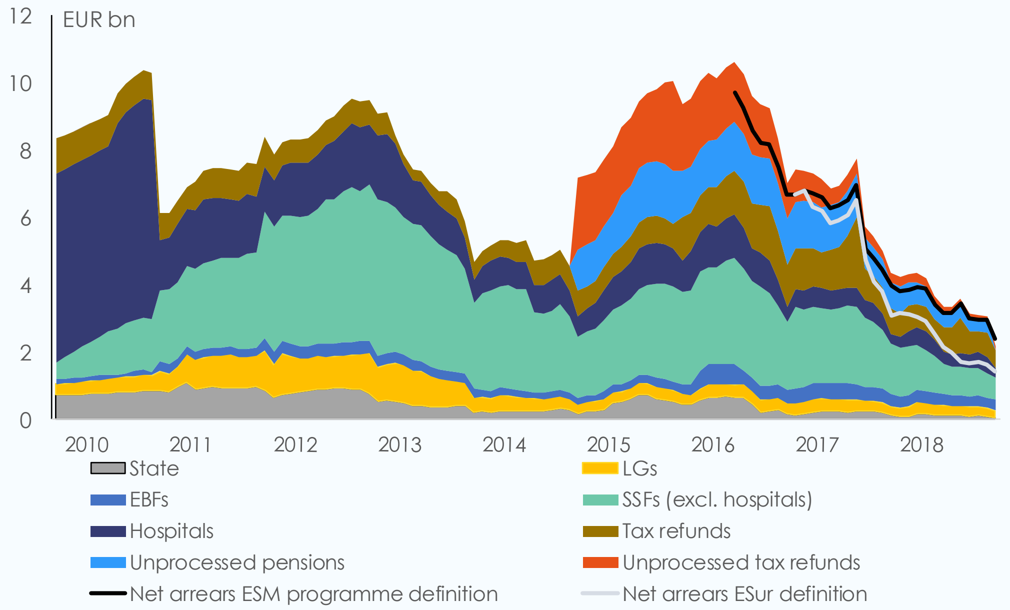
The authorities are also taking parallel actions to ensure that remaining arrears are being cleared. These include legislative amendments resolving issues and clarifying processes related to arrears in hospitals and social security funds, a more efficient reallocation of financing among the entities and a clearance plan for the remaining arrears in the first quarter of 2019.

Efforts need to continue both to strengthen the system for arrears clearance and to tackle the causes of arrears creation. The current slow progress of arrears clearance and the continuing creation of new arrears suggest that further measures could usefully be considered by the authorities. Discussions are ongoing to pinpoint further measures in addition to the ones already in the pipeline, inter alia through streamlining payment processes.

Box 3.3: **Arrears clearance measures**

Tackling structural problems related to general government arrears to third parties has been in focus since the inception of the first financial assistance programme in 2010. A plethora of actions have been taken as part of both the European and IMF programmes for Greece. The majority of these actions were implemented with technical support provided by the IMF and the Commission Structural Reform Support Service. Previous audits and extensive technical support have identified the sectors and entities with the largest arrears creation (namely the central State and its entities – extra-budgetary funds –, local governments, social security funds, pensions and tax refunds). According to the technical support experts, many of the operational issues have been resolved and procedures are now established for channelling the arrears. Notwithstanding, new arrears continue to be created, suggesting remaining structural bottlenecks in the system.

Graph 1: **Evolution of the stock of arrears 2009-2018**



Data for unprocessed tax refunds and pension applications available only as of December 2014
Source: GAO

The main actions to improve the functioning and monitoring of payment systems and arrears clearance implemented since 2010 are listed below. They contributed to a large extend in drawing down the total amount of government arrears and tax refunds in fiscal accounts (i.e. excluding unprocessed tax refunds and pension applications) from EUR 8.5 billion in January 2010 to EUR 3 billion in August 2018. The net stock of arrears according to the ESM programme definition([1]) amounted to EUR 3.1 billion in August 2018. This has subsequently adjusted to EUR 1.7 billion according to the definition under enhanced surveillance.([2])

At the beginning of the process, drawing a reliable picture of amount and sources of arrears guided the adjustment requirements. The monthly reporting of arrears was a structural fiscal measure in the first Memorandum of Understanding (MoU) in 2010.([3]) Initiatives were taken in February 2011 to strengthen

([1]) The net stock of arrears under the ESM programme definition includes unprocessed tax refunds and pension applications, but excludes amounts that are subject to clawback and rebate.
([2]) The net stock of arrears under the Enhanced Surveillance definition further excludes tax refund claims that are below 90 days, supplementary pension claims and arrears that are not immediately clearable due to technical or legal reasons.
([3]) European Commission, The Economic Adjustment Programme for Greece First Review – summer 2010, *Occasional Papers 68*, p.61.

(Continued on the next page)

Box (continued)

spending controls led to the establishment of commitment registries in line ministries and in the main general government entities, providing consistent commitment and arrears data. Training and technical support to various general government entities were also provided for all social security funds and major local authorities which are major sources of arrears production.([4]) Again in 2011, in order to verify the reliability of the commitment registries at all levels of government, a parallel commitment recording system (called the e-portal) was established for all government levels. In late 2011, during the EFSF financial assistance programme, structural benchmarks were set to increase the coverage of commitment registries and ensure consistency between the arrears recorded in the commitment registries and those recorded in the e-portal. The e-portal was enlarged later (in 2013) to successfully capture all stages of the expenditure cycle. It resulted from this action a substantial progress in addressing the remaining access and coverage issues. Simultaneously, data reporting through the e-portal was made compulsory in line ministries and general government entities, enforced by sanctions and disciplinary actions.

From 2012, plans were launched to clear arrears. In November 2012, in the context of the second programme, a special plan for arrears clearance was published under which the clearance of government entities arrears through the State budget was contingent on i) progress in setting up the commitment registry and ii) no additional accumulation of arrears by each public entity. The implementation of the plan went on until the end of 2013 and it produced a significant reduction in arrears (the total amount of government arrears and tax refunds in the fiscal accounts went down from EUR 9.4 billion to EUR 4.7 billion between November 2012 and the end of 2013).

However, from end-2014, the stock of arrears started to increase again, exacerbated by liquidity constraints, which led, at mid-2016, to the adoption of a new plan for arrears clearance with support from official ESM funding. In the new arrears clearance programme, the ESM disbursed EUR 7 billion for arrears clearance between December 2015 and June 2018, which contributed to a substantial reduction in the stock of arrears. However, full arrears clearance – an ESM programme commitment – was not achieved by the end of the programme, even though it has been reinforced by broader measures to improve public financial management aimed at addressing the structural sources of arrears. The net stock of arrears stood at EUR 1.4 billion in end-December 2018.

Further reforms to complement the control over spending took place in the second and third programmes. Budgetary ceilings per sub-sectors were introduced in 2013 together with sectoral automatic mechanisms to correct possible deviations ([5]). In 2014, the reforms implemented to enable Greece to meet the deadlines imposed by the EU Late Payment Directive (Directive 2011/7/EU) were directly linked to the clearance of arrears. Technical support on public financial management reforms indeed focussed on government banking arrangements, cash management operations and streamlining existing payment processes. Furthermore, under the ESM stability support programme that ran from August 2015, a major reform was initiated with technical support from the Commission and the IMF, aimed at strengthening the functions and responsibilities of the General Directorate of Financial Services, of central ministries and general government entities by making them fully responsible for all financial service functions. The reform was fully implemented at the end of 2016.

The specific commitment of the non-accumulation of new general government arrears in the post-programme is supportive to the overall goal of the gradual elimination of the remaining stock of arrears. Reforms to address the remaining structural bottlenecks of arrears management and clearance are still ongoing, and will be closely monitored under the enhanced surveillance.

([4]) MEFP and MoU of the third review of the first programme: European Commission, The Economic Adjustment Programme for Greece Third Review – Winter 2011, Occasional Papers 77, p.84 (MEFP) and p. 95 (MoU).

([5]) European Commission, The Second Economic Adjustment Programme for Greece Fourth Review – April 2014, *Occasional Papers 192, Box 9* p. 36.

4. SOCIAL WELFARE

4.1. PENSIONS

The authorities are making good progress in implementing the action plan for the completion of the setup of the unified main pension fund EFKA, which is a mid-2020 commitment. The authorities have continued publishing detailed statistical information on pensions (monthly Helios reports) and quarterly reports on pension claims. The authorities have also made available reports on the progress in the creation of electronic records for retirees and insured persons, which show that the vast majority of insurance records have already been recorded electronically. The remaining unprocessed data is estimated to be fully digitized within the coming months.

The authorities have started discussions with the National Bank of Greece (NBG) concerning the future of NBG employees' supplementary pension fund. These discussions are still in a very early phase, and therefore the repercussions on *inter alia* public pension spending cannot yet be assessed.

4.2. HEALTH CARE

The rollout of the primary health care system is progressing, though the pace is still slow. The authorities have declared their full commitment to the implementation of this reform and to make efforts to overcome stakeholders' resistance. Based on the latest reports, 112 primary health care units (TOMYs) were opened across the territory, which is just below the nominal target of 120 (end-2018 specific commitment) and additional units are foreseen in the coming weeks; there are also different levels of staffing across sites. An additional call to recruit family doctors is envisaged to take place in March 2019. Meanwhile, the authorities are engaging in further negotiations with private family doctors to be contracted by the National Health Insurance Agency, EOPYY, and this seems to represent the main obstacle to a swift implementation. The level of population registered with primary health care centres is below 2 million, which is less than one fifth of the total population: this nonetheless represents marked progress as the numbers have doubled since November 2018. Due to capacity constraint of doctors, who cannot be expected to effectively treat patients beyond a given threshold, the current level of registered patients is thus close to the maximum capacity of the present stock of public-sector family doctors. The rest of the population are currently either still self-referring to specialists or visiting private family doctors, in the last case having to pay out-of pocket. Many of these private family doctors were previously contracted by EOPYY but refused to adhere to the new contractual arrangement, which was considered less favourable. The authorities argue that this situation has not translated into a substantial increase of out-of-pocket payments for citizens, nor has it in any way constrained access.

Centralised procurement in the area of health care has resumed, but no new tenders have been launched so far. The authorities in line with the end-2018 specific commitment have set up the main body responsible for central procurement (EKAPY), with a view to achieving a share of centralised procurement in total hospital expenditure of 30% in mid-2020 and 40% in mid-2022. While the management board is still on temporary appointment, EKAPY is operational. More specifically:

- based on available information, the authorities have achieved the first results in terms of savings by completing old tenders from 2014, i.e. initiated by the previous organisation responsible for central procurement, (EPY). However, that entity was abolished by the current government and, following a suspension of the procurement activities, replaced by EKAPY, intended to be an upgraded version of EPY. As it stands, it is not yet possible to assess whether EKAPY will improve on EPY, due to the rather long period in which activities were interrupted and to the fact that EKAPY has not yet launched genuinely new tenders.

- The authorities are currently focusing on attracting skilled workforce, improving the organisation's administrative and operational processes, including the monitoring and coordination of other bodies under EKAPY's responsibility and on issuing new centralised tenders. In order to achieve this, the foundations are being set for the standardisation of processes and the realisation of economies of scale.

- Regarding new tenders, the 2018 operational plan spells out the nature and budget of the new tenders that are to be launched during 2019 and how these relate to the 30% target, however the exact timeline was not set yet. There are still critical issues related to the capacity to design and launch new tenders with a view to reaching that target by mid-2020 given the current staff limitations, but the authorities made legislative amendments([11]) to convert secondments into EKAPY's permanent staff and they are working on further amendments to obtain additional personnel, which would bring EKAPY to be almost 40% staffed by the first semester of 2019 to reach 70% by the second semester of the same year. Greece is currently receiving technical support, but without adequate endowment of staff capacity, EKAPY may not be able to support planned operations.

The authorities have revised some measures adopted under the ESM programme, with uncertain impacts in terms of system efficiency. More specifically:

- the repricing procedure for pharmaceuticals has been changed into one single yearly repricing (as opposed to bi-annual), originally envisaged for February 2019, which already shifted to March. Moreover, the pricing mechanism has been modified to take as reference the two cheapest prices in the euro area (instead of in the whole EU), which is expected to increase prices. One positive aspect of the new methodology would be the harmonisation of the prices of generics which would all have the same price by category and be priced at no more than 32.5% of their originator. While the authorities argue that the new system will yield savings due to the fact that it will limit withdrawals of well-established and cost-effective drugs that would otherwise be replaced by newer and more expensive alternatives, simulations suggest that the overall effect of these changes so far was an increase in the pharmaceutical price level by 1% (as opposed to the decrease that would have been generated by the old system).

- The implementation of the full offsetting and collection of the clawback by June every year for the previous calendar year is ongoing, but the authorities passed an amendment to extend the maximum allowed period for repayment schemes of excess spending in the area of outpatient pharmaceuticals for the past years. The amendment raises concerns on the capacity to collect the past clawback, thus worsening the liquidity of EOPYY. Meanwhile, the discontinuity in the presidency of EOPYY may translate into delays affecting the June 2019 deadline, though this cannot be assessed yet.

4.3. SAFETY NETS

The comprehensive reform of the Greek welfare system is being continued with the introduction of a new housing benefit. The scheme, which was originally destined to low-income households either renting or servicing a mortgage on their main residence, will consist in a means-tested subsidy for renters only. The amount of the monthly benefit is between EUR 70 and EUR 210, depending on the household size. This corresponds to 30-50% of average rental costs in Greece. The relevant secondary legislation has been finalised later than expected and it is now scheduled to be adopted by the end of February 2019 (but the benefit will be granted retroactively as of 1 January 2019). Part of the original budget allocation (EUR 100 million out of 400 million) will be destined to a separate scheme dedicated to mortgage-holders (see also Section 5.2). Although its design has not yet been specified, from preliminary discussions it seems that the scheme for mortgage-holders would target only non-performing mortgages. If this were to be the case, this would penalise low-income households who still manage to service their mortgage, possibly creating disincentives for regular loan servicing. Besides the exclusion of mortgage-holders, the cost of

([11]) Ministerial Decision (4.10.2018) Γ 1180/17.10.2018 and Ministerial Decision (18.12.2018) Γ 1572/31.12.2018.

the housing benefit for renters has also been revised downward due to a revision of the expected take-up rate based on more precise estimates.

The review of the system of disability benefits (specific commitment mid-2019) is progressing, albeit with some delays. As a first step, the Greek authorities have been upgrading and simplifying the administrative processes to certify disability status for claiming benefits. These new procedures have been piloted in three provinces and are now to be gradually introduced in the rest of the country. In parallel, a new approach for determining the degree of disability is being developed with technical support. This new approach integrates the current purely medical assessment of disability with a functional assessment. New disability determination standards and protocols should be defined on the basis of the results of the initial pilot, and applied consistently to all disability benefits. However, some initial bottlenecks in the new procedure slowed down the data collection phase, which in turn delayed the pilot evaluation (originally expected by end-2018). A first assessment based on preliminary data has become available in February 2019.

The Social Solidarity Income (SSI) scheme is reaching its maturity, with progress being made in the implementation of its social inclusion and labour market (re-)integration elements, to be achieved by end-2019 (specific commitment). The SSI scheme guarantees a minimum level of income to households confronted with extreme poverty and has become a well-established element of the Greek social welfare system. The scheme reaches about 300 000 households (corresponding to more than 600 000 individuals), for annual expenditure of around EUR 750 million. Since its inception, the scheme has been designed around three pillars: (i) income support; (ii) social inclusion; and, (iii) labour market (re-)integration. 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. For its successful implementation, the reform of the system of active labour market policies needs to be completed, with the shift to a new delivery model to allow the provision of individualised services to jobseekers based on their needs, as well as better job matching services to employers. This new system is currently being tested in a pilot project launched in June 2018 in one local office of the public employment service covering three municipalities (with a population of about 10 000 registered unemployed), and it should 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, the 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. The Greek authorities are expected to carry out a study to assess the appropriateness of the current system of subsidised fares. 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

Despite the progress made in the context of the financial assistance programmes and the improving liquidity situation of Greek banks, the financial system in Greece is still characterised by a number of challenges, in particular the very high levels of non-performing loans (NPLs). The sovereign-bank nexus remains strong, including through high levels of deferred tax credits (DTCs) on bank balance sheets. Recently, also banks' profitability has weakened. Capital controls have been gradually relaxed in line with the roadmap (end-2018 specific commitment), but some restrictions still remain in place.([12])

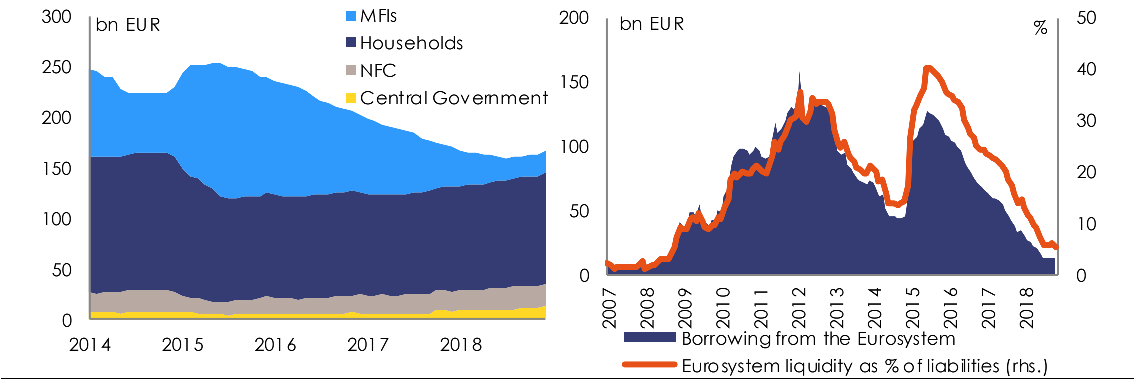
The capital position of the banking system as a whole is broadly adequate but it remains challenged by low profitability and poor asset quality. During the first nine months of 2018, operating profit declined and the proportion taken up by provisions reached 95%. The decline in operating profit is giving the banks less room for manoeuvre to meet their NPL targets and to comply with the forthcoming provisioning calendar without incurring net losses. As of the third quarter of 2018, the Greek banking system had a Common Equity Tier 1 (CET1) of 15.7% in comparison with an EU average of 15.1%. However, the high level of deferred tax credits, which are not deducted from capital, are still a source of concern in terms of capital quality and their contribution to the strong sovereign-bank nexus in Greece. In addition, in line with the EU banking regulatory framework, Greek banks, like all EU banks, do not only have to meet capital requirements but will also have to issue bail-inable debt in the following years in order to meet the minimum requirement for own funds and eligible liabilities (MREL).([13])

Banks' private sector deposits have been stable and reliance on central bank funding has decreased. All four systemic banks have repaid their emergency liquidity assistance entirely. Private sector deposits have increased slightly towards the end of 2018, as compared with the immediate aftermath of ESM programme (see Graph 5.1). The improved liquidity situation of Greek banks and increased confidence of depositors gave room for a further loosening of capital controls as of 1 October 2018, which allowed for unlimited cash withdrawals from credit institutions in Greece and further mitigated the adverse impact from capital controls on Greek businesses.

([12]) From a broader perspective, recent financial sector developments are also discussed in the 2019 Country Report for Greece under the European Semester.

([13]) MREL targets are going to be established 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.

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



Source: Bank of Greece

NPL resolution remains the most important challenge for the banking sector in Greece. NPL reduction is essential to ensure the stability of the Greek banking sector. The pace of NPL reduction so far is in line with supervisory targets, but an acceleration in the reduction path, which is constrained by weak profitability, is needed to meet the NPL targets for 2019 and future years. Efforts should continue in the various important reforms related to the insolvency framework for households and corporations, the enforceability of collateral through electronic online auctions, the out-of-court debt workout mechanism, as well as the activation of a secondary market for non-performing loans. Moreover, the high level of non-performing loans makes it advisable to accelerate the speed of cleaning-up the balance sheets and requires major efforts in the immediate post-programme period also in view of application of the prudential backstop in the coming years.([14]) A more ambitious pace of NPL reduction would allow Greek banks to fulfil their mission of providing credit to the real economy more promptly and may better enable the banks to attract equity investors.

Further efforts to address the challenges related to NPLs and the sovereign-bank nexus would serve to safeguard reform momentum and underpin credibility over the medium term and to reassure markets and interested stakeholders that sound financial practices will be sustained. Credibility remains key after the end of the ESM programme, in order to fully restore market access – for both the sovereign and the banks – and provide reassurances of a stable financial sector in Greece. In this respect, providing a comprehensive workable scheme to assist NPL resolution would benefit both the banks and the sovereign.

The low processing rate of called State guarantees related to bank loans is in urgent need of improvement, and the authorities need to take effective corrective measures. Over the last seven years, a backlog in payment by the General Accounting Office (GAO) of claims made by banks under State-guaranteed loans has accumulated, which totals approximately EUR 1.5 billion. Most of the underlying loans were granted to private companies and individuals, some of them by virtue of Ministerial Decisions issued after the occurrence of natural disasters or similar circumstances. However, statistics show that in some segments the processing rate of called guarantees is very low, which puts a significant burden on banks due to the non-payment of primary obligors and the guarantor. The authorities have adopted legislative amendments to remove uncertainty which was worsened by an earlier legislative amendment in mid-2018, as regards the enforceability of guarantees and have submitted an action plan which is currently under assessment. The legal provision is currently under assessment. These actions are essential in order to yield results, e.g. in the form of a significantly increased processing rate still in 2019.

([14]) On 18 December 2018, the Council Presidency and the European Parliament reached a provisional political agreement on a prudential backstop to cover losses caused by future loans that turn non-performing. Based on the proposal initially put forward by the Commission in March 2018, the prudential backstop aims at creating appropriate incentives to address NPLs at an early stage by requiring a prudential framework for banks to deal with new NPLs (i.e. deductions from own funds will apply for banks not meeting the applicable minimum level of loss coverage).

Table 5.1: **Financial stability indicators**

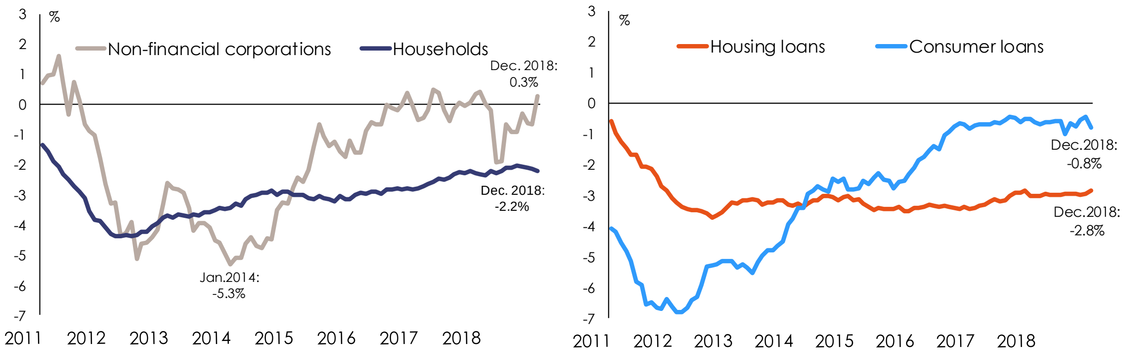
	2014Q4	2015Q4	2016Q2	2016Q3	2016Q4	2017Q1	2017Q2	2017Q3	2017Q4	2018Q1	2018Q2	2018Q3
Non-performing loans	39.7	46.8	47.2	47.4	46.3	46.6	46.9	46.7	45.0	45.4	44.9	43.5
o/w NFC & HH sectors	41.8	49.5	50.1	50.3	50.4	50.3	50.6	50.4	49.4	49.2	48.4	47.3
o/w NFC sector	44.7	52.5	53.2	53.9	53.9	53.4	53.3	52.6	51.4	51.1	49.4	47.9
o/w HH sector	38.5	45.9	46.5	46.2	46.3	46.8	47.5	47.9	47.1	47.0	47.3	46.6
Coverage ratio	43.5	48.5	48.1	48.2	48.2	48.1	47.4	47.2	46.7	49.5	49.0	47.8
Return on equity(1)	-10.6	-24.2	-15.8	-9.9	-7.5	1.3	-0.4	-0.3	-1.3	0.7	-2.4	-0.8
Return on assets(1)	-1.0	-2.8	-1.9	-1.2	-0.9	0.1	-0.1	0.0	-0.2	0.1	-0.3	-0.1
Total capital ratio	14.1	16.5	18.0	18.2	17.0	16.8	17.2	17.2	17.1	16.4	16.4	16.3
CET 1 ratio	13.8	16.3	17.8	18.1	16.9	16.7	17.1	17.2	17.0	15.8	15.8	15.7
Tier 1 ratio	13.8	16.3	17.8	18.1	16.9	16.7	17.1	17.2	17.0	15.8	15.8	15.7
Loan to deposit ratio	79.1	72.3	74.5	75.5	75.9	77.2	78.2	81.8	83.5	78.8	78.4	76.0

(1) Annualized data.
Source: ECB

5.1.2. Financing of the economy

Bank lending remains subdued, with a gradual improvement for companies during the second half of 2018. Since 2016, the annual growth rate of loans extended to non-financial corporations had been negative, but close to zero (Graph 5.2). During the second half of 2018, a gradual recovery in lending to non-financial corporations was observed. The growth rate for loans to households has been very slowly recovering since July 2016, but as of the end of 2018 remained in clearly negative territory. This was mainly driven by subdued mortgage developments, although banks reported improved housing prospects and stronger demand for housing loans (Graph 5.2). Growth in consumer loans remained close to zero, with a slight shift from credit card and overdraft credit to longer-term loans for consumer durables. Factors that supported new credit to the private sector include the recent moderate recovery in economic activity and a slight reduction in lending rates, notably for companies. On the downside, the burden of a high NPL stock has been inhibiting new lending by banks. In 2018, credit standards for new loans have not been eased overall.

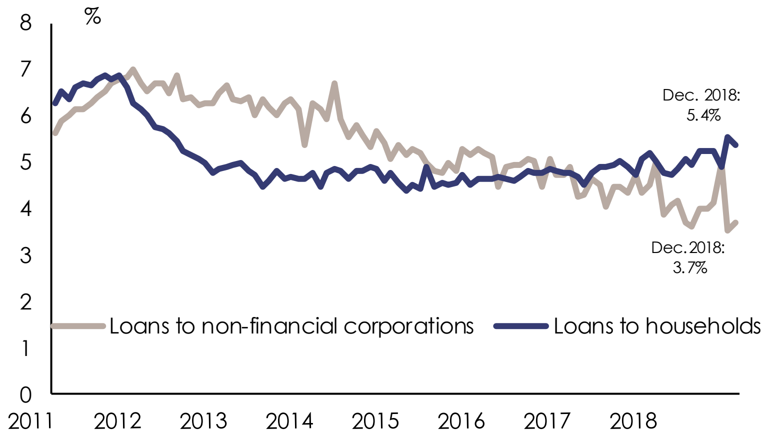
Graph 5.2: **Bank credit to non-financial corporations and households**



Source: Bank of Greece

Lending rates to non-financial corporations are decreasing, while interest rates on mortgage and consumer loans are increasing (Graph 5.3). Lending spreads remain elevated. The gradual decline in lending rates to non-financial corporations has continued during 2018, driven by lower credit risk and the favourable effect of the financing instruments available to SMEs (e.g. by the Hellenic Fund for Entrepreneurship and Development, the European Bank for Reconstruction and Development and the European Investment Bank Group). By contrast, as of the end of 2018 lending rates to households continued to follow the upward trend of the past 4 years, 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.

Graph 5.3: **Bank interest rates on new loans**



Source: Bank of Greece

Small and medium-size enterprises in Greece continue to be adversely affected by the very limited access to finance. Small firm size and weak performance are important limiting factors in firms' access to credit. Export-oriented firms and relatively younger firms seem to be overall less likely to report constraints. Macroeconomic conditions and bank balance sheet strength remain important factors for the severity of constraints encountered by SMEs. The demand for external financing in Greece continued to be the strongest in the euro area. Surveys show that there are signs of a slight improvement in the willingness of banks to provide credit in Greece since the beginning of 2017, but overall SMEs continued to be disproportionately affected by the lack of access to bank financing.

5.2. FINANCIAL SECTOR POLICIES

The significant drop in the share prices of Greek banks since the end of the ESM programme by around 40% underlines the importance to make swift further progress on the repair of their balance sheets, supported by appropriate financial sector policies in an environment conducive to NPL reduction. At the same time, the reform momentum has abated and efforts to improve the effectiveness of major legislative frameworks have stalled. It is important that legislative actions do not lead to a deterioration of the payment culture.

Non-performing loans and insolvency legislation

At the June 2018 Eurogroup, the Greek authorities committed to "continue to implement reforms aimed at restoring the health of the banking system, including non-performing loans (NPL) resolution efforts by ensuring the continued effectiveness of the relevant legal framework (i.e. household and corporate insolvency, out-of-court workout, NPL sales, e-auctions) and taking all necessary actions to this effect." This assessment covers the various dimensions of the NPL resolution strategy.

The stock of NPLs has been gradually decreasing, but at a slow pace and remains elevated and according to the latest available data amounted to EUR 84.7 billion or 46.7% of total exposures in September 2018. This is almost 1 pp. lower than the previous quarter and 2 pps. lower than one year before. This compared with an EU average NPL ratio of 3.4% at the end of September 2018([15]). The pace of reduction of NPLs continued to accelerate, driven by sales and also due to e-auctions, although both face some difficulties in practice.

([15]) The EU average is based on ECB data, which slightly differs from Bank of Greece data. The broader denominator used in the ECB data (total debt instruments and not only total loans) has a lowering effect on the NPL ratio. Therefore, according to ECB data the NPL ratio in Greece in 2018Q3 is 43.5% vs. an EU average of 3.4%.

By typology of loans, the NPL reduction in the third quarter was driven by consumer loans and, to a lesser extent, by business loans. In contrast to the general trend the NPL ratio in residential loans, far from being reduced, continues on an increasing trend since September 2016 having reached in September 2018 a NPL ratio of 44.7% (the highest for this segment since the beginning of the crisis). This is explained by the subdued performance of the mortgage book. In that context, it is important to note that the amount of NPLs under the legal protection of the household insolvency law remains significant at approximately EUR 17 billion, corresponding to a backlog of pending court cases of around 135 000. Diverging trends in the NPL ratio of these loans from the general trend suggest that the protection, in its current form, creates adverse incentives that have severely damaged the payment culture by households during the crisis.

The Greek authorities are exploring additional initiatives to support NPL reduction efforts. Technical work is being undertaken by the authorities on a possible asset protection scheme based on the initiative and preparations of the HFSF. In addition, the Bank of Greece has proposed a different scheme, which would include the transfer of denounced loans currently held by Greek banks along with part of their deferred tax credits to an Asset Management Company, where the loans would be serviced by external specialist firms. Such initiatives could be helpful elements in the toolkit for NPL resolution, provided they are based on thorough technical preparation, inter alia on scope, governance, funding, compatibility with EU competition and State aid rules and impact on bank and sovereign balance sheets, based on a comprehensive analysis of relevant indicators. The analysis could provide a basis for a comparative assessment of the cost-effectiveness of the various proposals, thus assisting the decision-making by the authorities. In January 2019, the Ministry of Finance announced that it established a working group with the Bank of Greece and the HFSF, which may support the coordinated assessment of the respective schemes, including through improved cooperation and consultations with relevant European stakeholders (e.g. regarding State aid aspects). It will be 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.

Household insolvency law and other debtor protection schemes

The Greek authorities shared with the institutions their proposals and plans for the adoption of legislation on a new scheme for the protection of primary residences, but a large number of important open issues remain. The protection of primary residences under the household insolvency framework was agreed to be a temporary crisis measure due to expire by end-2018. However, the protection was unilaterally extended in December 2018 by two months, during which the authorities presented a new protection scheme that would apply after the expiration of protection under the Katseli Law, would require banks to accept debt restructurings for a large group of eligible borrowers and would offer them a limited State subsidy component.

More specifically, the scheme would offer a restructuring to debtors fulfilling the requisite eligibility criteria (related to the value of the primary residence, the outstanding amount of the loan, annual income and wealth, personal and professional status). Applications under the new scheme would be submitted via an online platform. The eligibility control would be automatic, conducted through the platform. The scheme would allow for the agreement between banks and eligible debtors on case-by-case restructuring solutions. A haircut would be applicable on the outstanding amount of eligible loans in excess of 120% of the value of the primary residence. Eligible debtors would stand to receive a State subsidy of the monthly instalment, depending on individual assessment of their repayment capacity, provided the restructured principal amount payable would not exceed 120% of the market value of the primary residence. The subsidy level would be reassessed periodically and the debtor would receive the subsidy for the duration of the restructuring plan (fixed at 25 years, with an age limit of the debtor of 80 years). Provisional relief (stay of enforcement and liquidation measures) would be statutory and/or ordered by the court (in the event of a judicial continuation of the proceedings following failure at reaching a consensual solution); rescheduling agreements would be subject to judicial confirmation. As for the proposed cut-off date for the implementation of the new framework, it would be 31 December 2018.

Based on a preliminary assessment of its principal features, the proposal raises serious concerns regarding its impact on the payment culture and bank balance sheets; its overall design could enable strategic default:

1. in terms of scope and perimeter, it would cover not only household loans but would also extend to business loans secured by a mortgage on the primary residence);

2. it would create an additional protection scheme that would apply in parallel to existing loan rescheduling mechanism such as the household insolvency law;

3. the replacement scheme would require banks to accept mandatory pre-defined debt restructurings for a large group of eligible borrowers irrespective of their individual financial circumstances and actual repayment capacity;

4. the proposal is not sufficiently targeted to the most vulnerable debtors; the proposed thresholds for income and wealth criteria need to be carefully calibrated and frequently updated and debtors should be assessed on an annual basis as to their ongoing eligibility. Furthermore, the proposal would interact directly with several other proceedings, namely the ones under the insolvency code, special administration, OCW, and NPL sales and securitisations laws;

5. it risks creating further delays for debtors with pending applications under the existing protection scheme who would choose to apply under the new scheme, as all pending proceedings would be suspended until the new restructuring procedure is completed;

6. no impact assessment of the proposal has been provided, for example on the potential impact on the capital base of banks;

7. the wide scope puts the authorities’ commitment to eliminate the backlog of all household insolvency applications by end 2021 at risk;

8. new stays on enforcement introduced by the proposal would be expected to affect future auctioning and foreclosure proceedings;

9. additional clarity on the fiscal aspects of the proposal is required.

Discussions with the institutions are ongoing with a view to address the open issues. The authorities will also need to formally consult the ECB on their legal proposal, and any new scheme will require state-aid approval by the Commission.

The expected expiry of primary residence protection under the household insolvency law at the end of December 2018 and the speculation on possible new debtor protection schemes, led to a sharp increase of new filings of applications in the fourth quarter of 2018, which is bound to adversely affect the processing of pending cases by courts, thus creating a potential need for adjustments to the authorities’ current action plan. More specifically, new applications increased by 112% during the fourth quarter of 2018 based on preliminary data compared with the previous quarter (i.e. 11 455 new cases in the fourth quarter of 2018 against 5412 in the third quarter). The extension of the protection to 28 February 2019, which took place despite the institutions’ scepticism about its potential impact, is likely to trigger additional applications during the first quarter 2019. An increase of 24% in completed/resolved cases to some 12,400 was reported in the fourth quarter of 2018 as compared to the third quarter 2018. Nevertheless, the surge in incoming cases led to the result that the backlog has not diminished materially in net terms in the fourth quarter. For the first three quarters of 2018, the Ministry of Justice had reported an improvement in the relevant KPIs. Specifically, completed cases increased by 30% and the backlog was reduced by 15%, with 137 901 pending cases remaining at the end of Q4. This figure was tentatively revised by the authorities, to 100 319 on the strength of updated Q4 data collected in the context of the recently completed first phase of the OSDDY-PP project([16]). This reduction is due to the elimination of double-counting of pending cases, made possible by the increase in granularity of data input. The clearance rate was reported at 207% for the first three quarters of 2018 against 160% for the first three quarters of 2017, mainly because of the discontinuation of the lawyers' strike during the judicial year 2015-2016. It remains highly uncertain whether the large stock of pending cases could be processed with the view to eliminate the backlog by the end of 2021, and a concrete action plan, which links the envisaged actions to a well-defined reduction trajectory of court cases, is still pending. The Minister of Justice has not yet communicated its expectation as regards the pace of reduction of cases in the period ahead. In this context it should be noted that a concrete action plan will be largely contingent on the finalization and implementation of the new framework for the protection of the first residence of bank debtors, given that its features and relation with currently pending cases will have a direct bearing on the volume of the backlog.

Some progress has been recorded with respect to enhancing the case-processing capacity of courts through new staff appointments and training of judges on financial topics (the latter also being a specific end-2018 commitment). Regarding the appointment of clerical court staff, 138 candidates from an ASEP competition reserve list were appointed recently([17]). The authorities are proceeding to appointments of successful candidates of recently completed ASEP competitions([18]) and are processing the results of another ASEP competition for the appointment of further staff. Although these measures will contribute to addressing operating shortcomings in terms of human resources, the assessment of their impact on reducing backlogs is challenging, both in terms of timing (as their effect can be expected to be observable in several months' time), and in terms of efficiency (given that increasing the number of staff only partly addresses the processing capacity problem, due to the serious infrastructure deficiencies afflicting the court system; moreover, backlogs are also the result of litigants' behaviour and tactics). As for the number of serving magistrates, there are currently no vacant posts for magistrates and no vacancies are expected until end-2020. Steps were also taken for the future provision of financial training to judges; more specifically: (a) the legal framework for magistrate judges will be revised to provide for their enrolment in the National School of Judges (NSJ), where the syllabus will include courses on financial and accounting matters and on the methodology of judicial work; (b) all judges will be obliged to attend at least two seminars yearly([19]), with a special focus on financial and accounting matters; at least six such seminars per year would be held across the territory of Greece by courts in collaboration with the NSJ; a contract for the provision of seminars, by the NSJ in cooperation with the Economic Chamber of Greece, on macro- and microeconomics, finance and banking was executed in February. A training meeting for new magistrates courts judges, organized by the Judges' and Prosecutors' Union, took place in November 2018 in Athens, focusing on household insolvency cases; the teaching material is available online at the Union's website.

The authorities have established and made publicly accessible a codified version of the household insolvency law, as it stood in force up to end-2018, by uploading the codification onto the website of the Special Secretariat for the Management of Private Debt.([20])

Corporate insolvency law

The recent major revision of the insolvency code introduced under the ESM programme and the creation of the profession of insolvency administrator have not yet contributed to an increased use of the new framework by stakeholders. Following the enactment of said revision, 35 new cases were filed with the relevant division of the first instance court of Athens (the largest in Greece, dealing with the majority of corporate insolvency cases) in the first semester of 2018. An explanation for the low uptake

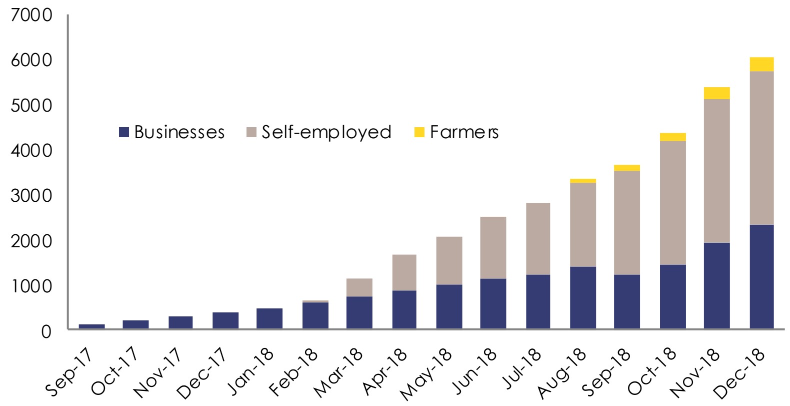
([16]) The updated data were collected from 18 (out of 19) magistrate courts covered by the first phase of the project, which are dealing with 63.6% of the total Katseli law backlog; the findings were then extrapolated to the remaining 136 magistrate courts. Further verification will be necessary based on future date input from a larger sample of magistrate courts in the context of the next phase of the project.
([17]) OJ 1579 C/2018 and 68 C/2019)
([18]) OJ 1579 C/2018, OJ 68 C/2019)
([19]) Articles 25 and 26 of law 4587/2018 (OJ 218/A/24.12.2018)
([20]) http://www.keyd.gov.gr/wp-content/uploads/2019/01/Κωδικοποιημένος_N.3869.2010.pdf

may be the availability of alternative debt resolution mechanisms such as the out-of-court workout mechanism of law 4469/2017 and the special administration procedure of law 4307/2014. Scope for an accelerated uptake remains as the numerous improvements and procedural streamlining unfold their impact, enabling bona fide individual debtors to obtain discharge three years after the declaration of bankruptcy and further simplifying and accelerating insolvency proceedings regarding small and medium-size enterprises. Progress has been recorded in the second round of the accreditation process for the enrolment of insolvency administrators, which was completed in November 2018; the relevant registry was accordingly updated in January 2019.

Out-of-court workout

The uptake of the out-of-court workout (OCW) mechanism is showing some progress, though more in bilateral and markedly less in multilateral restructurings, while infrastructure is being upgraded to ensure an unhindered and increasingly automated operation. The latest data provided by the authorities confirm a continuous increase in the number of submitted applications to more than 6000 in December 2018; however, the number of successfully resolved cases remains small: approximately 91% of multilateral negotiations are reported as pending, 4% successfully resolved and the rest rejected. The situation is more favourable regarding bilateral negotiations, with 57% pending, 22% successful and 21% rejected. As for the technical aspect, the electronic platform was repeatedly updated and upgraded in the fourth quarter of 2018, in order to acquire the ability to better collect data and monitor statistics regarding public and private creditors, including the tax authority, social security institutions and financial institutions.

Graph 5.4: **Submitted out-of-cour workout applications**



Source: Special Secretariat for Private Debt Management Ministry of Justice

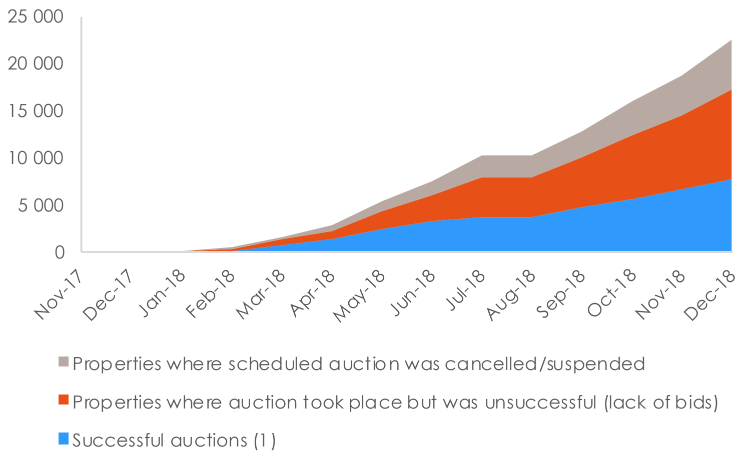
A number of statutory amendments to the OCW law were introduced in December 2018([21]), some of which raise concern. The main elements include (a) a temporal extension of the OCW law by a year until end-2019, (b) a decrease of the amount of debts considered small and thus exempted from the OCW mechanism, (c) an increase of the current EUR 50 000 ceiling to EUR 300 000 for debts that can be settled through a simplified procedure, (d) the introduction of the possibility for creditors to exclude non-business-related claims from the settlement, (e) the possibility of extending the stay of enforcement and liquidation measures against petitioners beyond the expiry of the statutory term, provided that the extension of the proceedings is due to a request by the State as a creditor and (f) the suspension of penal pursuits pending OCW proceedings. Some of these amendments raise concerns. In particular, amendment (c) above is unlikely to raise the chances of more multilateral restructurings, given that banks have a stated preference for assessing petitions on their individual merits and refrain from participating in standardized proceedings. Also, amendment (e) will accommodate a problematic situation rather than remedying it. The rationale of the introduction of the amendment put forward by the authorities, namely that public sector entities (tax authorities, social security funds) cannot respond in time to their

([21]) Article 45 of law 4587/2018 (OJ 218/A/24.12.2018) obligations under the OCW law, should lead to the adoption of measures to ensure timely compliance with such duties rather than extending the length of the proceedings. Otherwise, this measure would risk reproducing a key deficiency of the household insolvency law, by providing an unwarranted shelter to strategic defaulters. Any further changes to the OCW should be preceded by a consultation with stakeholders in order to achieve consensus as a de facto stultification of the OCW mechanism would be detrimental to the NPL reduction process, all the more so given the lack of other credible private debt restructuring mechanisms in Greece.

E-auctions

E-auctions were conducted as foreseen in the fourth quarter of 2018 and are on the rise according to the latest set of data submitted in January 2019 by the Ministry of Justice; however, certain impediments have been identified and should be appropriately addressed. In brief:

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, Transparency and Human Rights Ministry of Justice (Greece)

- The number of auctions that took place in the fourth quarter actually exceeded the estimate stated in the previous first enhanced surveillance report (7183 actual auctions in the fourth quarter against an estimate of 5600 for the period covering the fourth quarter of 2018 and January 2019). Overall, a total of 17 223 properties have been sold through e-auctions conducted from the introduction of the system in November 2017 to end-2018. As for the recent trend, 2741 successful auctions were conducted in December 2018, the highest monthly average during 2018, while a further 4681 auctions were scheduled to take place in January 2019.

- Coverage of the territory is almost complete, with only the Corfu Notaries Association continuing to abstain.

- As for the number of properties actually transferred, it should be noted that unsuccessful auctions accounted for about half of the auctions conducted in the fourth quarter of 2018. The reasons for the high failure rate are not straightforward to assess, though they arguably include lack of third-party interest, and too high offer prices. Moreover, more than seven out of ten successful auctions lead to the purchase of the asset by the bank that launched the auction. This situation is unsatisfactory from the point of view of NPL clearance and measures should be taken to increase third-party interest, e.g. by making the e-auctions platform more user-friendly (e.g. through the inclusion of pictures of the property as well as less legal jargon in descriptions and the provision of information on the actual state of the property.

The Hellenic Bank Association has flagged two issues of a legal nature that are disturbing the unimpeded impediments to the flow of e-auctions that have become apparent in recent months, namely (a) the "last-moment" filing of a Katseli law application shortly before the auction, which triggers an automatic stay of enforcement measures irrespective of the borrower's eligibility and may resulting in postponements of e-auctions for periods up to or even exceeding two years; and (b) the filing of application for a reassessment of the reserve price that frequently lead to upwards revisions based on non-expert testimonies, which lead to auctions without bid (due to too high prices) and thus significant delays in the auctioning process as the auction is suspended on average for another 12 months until the court issues the final say on the matter. It would be warranted for the authorities to further swiftly investigate these impediments and implement mitigating action, including through legal amendments, with a view to effectively ensure the determination of reserve prices so as to reduce the number of unsuccessful auctions and to deter opportunistic behaviour by debtors which could lead to a high number of cancellations of auctions. More generally, the authorities should deepen their analysis on the possible reasons for the high failure rate of e-auctions and take appropriate remedial action. They need to engage in such investigation becomes even stronger given that voluntary sales of real estate property also do not constitute a viable alternative to auctions for a number of reasons, mainly relating to tax certification requirements for the on-sale, costs incurred by the holding bank in order to rectify building permit irregularities before on-selling, and the tax treatment regarding the levy of sale- and possession taxes until the on-sale.

Sales and securitisations of NPLs

Improved legal clarity regarding the basis for the sale and securitisation of NPLs could facilitate wider take-up of these tools. The main two options available to sell or securitise NPLs are the securitisation law 3156/2003 and the NPL sales law 4354/2015. Part of the legal and banking market seems uncertain as to whether certain requirements imposed on the NPLs seller under law 4354 (including the obligation to offer an “appropriate restructuring” to the debtor as a condition precedent to the sale, and the obligation to notify each debtor individually of the sale instead of registering the sale with a public record) are also applicable to NPL securitisations done under law 3156. Legal (including litigation and compliance) risks arising out of this uncertainty may be detrimental to the validity of the sales and are reflected on the low sale prices; in addition, the above mentioned obligations seem to have very little value added in practice as the response by debtors to such offers so far has been minimal but on the other hand seem to have possible contamination risks and moral hazard implications. Given the importance of NPL sales and securitisations in the efforts of banks to accelerate NPL reduction, it would be warranted for the authorities to further investigate the issue and, more generally, to deepen their analysis on the possible ways to remove legal uncertainty or ambiguities related to NPL sales and securitisations.

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

The authorities are monitoring the results of the reform of the Greek Code of Civil Procedure adopted under the ESM programme. An evaluation report is expected by end-March 2019 based on information and the feedback to questionnaires submitted by Justice stakeholders (judges, members of the legal professions etc.) on the implementation of the reformed Code since the beginning of 2016 and on the quantification of its impact. In preparation, the authorities dispatched questionnaires to all courts and stakeholders in December 2018. A committee was formed in February 2019 to study the feedback and to formulate a proposal for potentially needed legislative amendments.

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 reprivatising 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([22]) (RFAs) that will be discussed between the HFSF and the respective banks in the coming months.

The HFSF General Council has approved a divestment strategy (specific commitment end-2018) in November 2018 and submitted it to the Ministry of Finance. The divestment strategy is based on three phases (stewardship, preparation and execution phase), which are not time-bound but rather conditions-based, and should ultimately lead to the execution of divestment transactions regarding the respective bank shares held by the HFSF. The document makes 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 is still subject to consideration.

The authorities have clarified that, in their view, the mandate of the HFSF Selection Panel as a body was in alignment with the recently extended mandate of the HFSF (specific commitment end-2018). This clarification is subject to confirmation by the Legal Council of State. In addition, in line with the HFSF law, the Minister of Finance should complete the appointment of the Deputy CEO of the HFSF and the vacant General Council position on the basis of the shortlist produced by the Selection Panel.

The HFSF has made a number of governance recommendations to the four systemic banks in the context of its second bank governance review in September 2017, with the aim of deepening and embedding the new governance culture. In particular, these recommendations contained – among others – that the banks need to take additional actions in the areas of risk culture, compliance and internal control framework. The implementation of the recommendations is ongoing: as of December 2018, out of the 175 recommendations, 106 (61%, compared to 35% in May 2018) were closed and 62 (35%, compared to 53% in May 2018) were in progress.

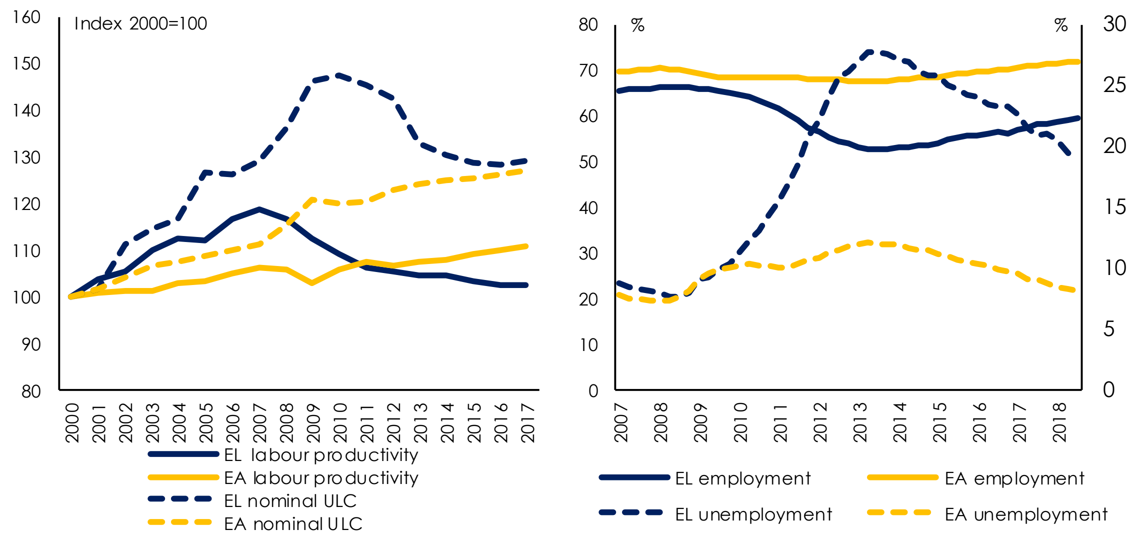
([22]) The RFAs are mandatorily concluded bilateral agreements between the HFSF and each of the four systemic banks that received State aid, regulating – among others – the significant obligations and the monitoring of the implementation of the restructuring plans and the HFSF's consent rights.

6. LABOUR AND PRODUCT MARKETS

6.1. LABOUR MARKET

Major reforms of labour market institutions and the wage bargaining framework in recent years have helped Greece regain cost competitiveness and contributed to increasing employment rates and falling levels of unemployment. These reforms have helped restore Greece's wage competitiveness compared to euro area partners and have fostered employment creation in recent years which has led to unemployment falling from 27.5% in 2013 to 18.5% by end 2018. The implementation of these reforms over the long run is critical to Greece achieving sustainable economic growth. The functioning of the labour market is being supported by the implementation of an action plan on undeclared work and ongoing efforts to strengthen active labour market policies. The most immediate policy challenges arise in the area of wage formation. In particular, the suspensions applied to extensions and the 'favourability' principle in collective bargaining were lifted upon the expiry of the ESM programme in autumn 2018, and social partners have started to negotiate new collective agreements under this framework. In addition, Greece committed to safeguard competitiveness through an annual update of the minimum wage in line with the provisions of Law 4172/2013. While this can be seen as a welcome normalisation of the wage setting process, actual outcomes will have to be carefully monitored.

Graph 6.1: **Evolution of competitiveness and employment indicators**



Source: Eurostat

The government increased the statutory minimum wage by 10.9%, effective as of 1 February 2019. The monthly minimum wage for white-collar employees increases from EUR 586.08 to EUR 650 (14 annual payments), while the daily rate for blue-collar workers increases from EUR 26.18 to EUR 29.04. This is the first increase in the minimum wage since 2012, when its level was lowered by 22% and kept frozen until the end of the ESM stability support programme. The issuance of the Ministerial Decision setting the new levels of the minimum wage is the last step of a process that was initiated in September 2018. The authorities broadly followed the procedure laid down in Article 103 of Law 4172/2013 which consists in the gathering of analysis by different institutions, a consultation with the social partners, and the publication of a report with recommendations by a committee of independent experts specifically appointed for this purpose. It should be noted that the increase decided by the government is higher than what was recommended by the committee of experts (that is, an increase in the range of 5%-10%). As the calendar of the procedure was exceptionally advanced for this year in light of Greece's exit from financial assistance programmes, these new levels are expected to remain in place until the end of June 2020, when the following annual revision of the minimum wage will be due.

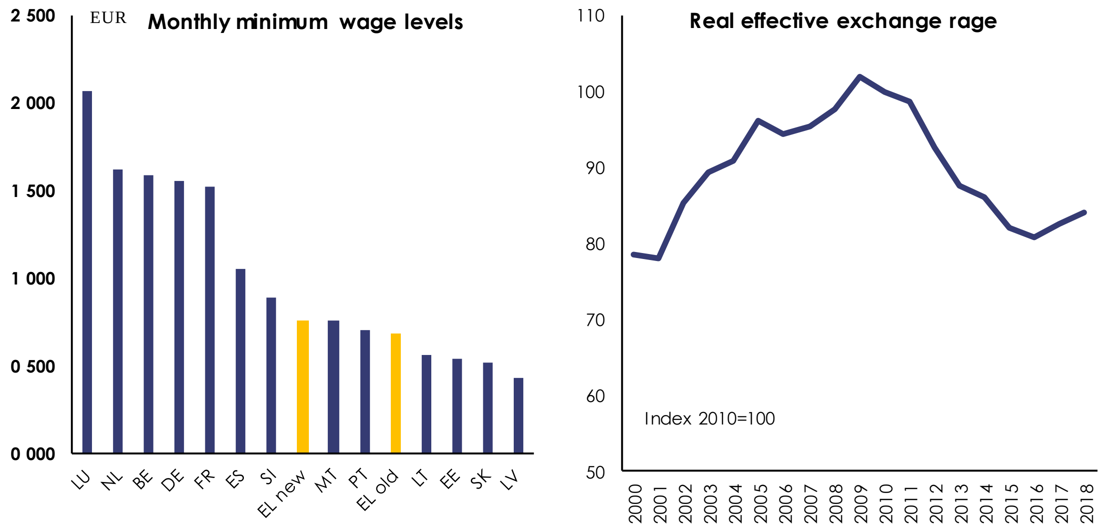
The new level of the minimum wage applies to all workers irrespective of age, determining an increase of about 27% for workers under 25 years of age who were previously subject to a lower minimum. With this revision, the lower minimum wage of EUR 510.95 per month that was applicable to workers younger than 25, which was in force since 2012, has effectively been abolished. Therefore, also young workers are subject to the new standard rate of EUR 650 per month. This sizable increase is only partly mitigated by the recently introduced subsidy reducing the employers' social security contributions (by 6.7 percentage points) for workers under 25 years of age: the resulting increase in the labour costs for a young worker previously employed at the sub-minimum wage is above 20%. In this respect, the authorities did not carry out an in-depth assessment of the possible impact of such an increase on the labour market situation of the under-25 prior to the decision.

The existing seniority-based top-ups to the minimum wage were maintained; however, their accrual remains suspended. Workers with work experience accrued before 2012 continue to be entitled to a higher minimum wage: the basic minimum wage is topped up by 10% for every 3 years of work experience (5% for blue-collar workers) up to a maximum of 30%. This means that for workers with a long tenure, the applicable minimum wage can go up to EUR 845 per month. The accumulation of these seniority top-ups was "frozen" in 2012: the seniority top-ups already accrued were safeguarded, while the accrual of new entitlements (from 2012 onwards) was suspended as long as the unemployment rate remains above 10%. An amendment to Law 4172/2013 adopted in 2014 had introduced the requirement for the new statutory minimum wage to be set as a "unique reference value". In principle, this should have implied the abolition of the seniority top-ups. However, the legal interpretation of this provision is not straightforward, and the Greek authorities have clarified with a ministerial circular that such mention of a "unique reference value" rules out the possibility of differentiating the minimum wage on the basis of age (e.g. regarding younger workers) but does not abolish the seniority top-ups. At the same time, the circular confirmed that the suspension of the accrual of seniority top-ups as long as unemployment is above 10% continues to be in force. Such a wage scale structure with seniority top-ups (accumulated until 2012) can negatively affect the employability of low-skilled older workers.

While the legal procedure for the revision of the minimum wage was formally respected, some lessons can be learned for its application in the future. Since the procedure was being applied for the first time, there were no established practices to be followed. Feedback received from the authorities and the social partners point to a less-than-optimal consultation phase. Specific aspects which could be subject to improvement include: i) the availability of information and data for all the institutions requested to provide their analysis of the economy and labour market, in view of an adjustment of the minimum wage; ii) a more structured discussion on substance, following the circulation of the different analytical inputs, with a view to reaching a shared assessment of the economic situation; iii) a more structured political consultation with the national social partners, with a view to building consensus on the possible future increase; iv) clearer guidelines to the committee of experts for the drafting of the final report, which should provide a synthesis of the analysis produced in the first phase of the process; and, v) some justification from the side of the government in case its final decision deviates from the recommendation issued by the committee of experts. On a positive note, the authorities made a real effort to improve the quality and availability of administrative data, which allowed measuring for the first time the actual incidence of the minimum wage across the economy.

While it is not possible to make clear predictions on the effect that such an increase in the minimum wage will have on the economy and the labour market, a double-digit increase represents a sizable shock to a still slack and fragile labour market and raises significant concerns about the longer-term implications for growth and competiveness in Greece. Even prior to the increase, the level of the minimum wage in Greece, both in gross terms and as a proportion of the median wage was already at the levels seen in many euro area countries (see Graph 6.2): the very large increase will have a material impact upon the relative competitiveness position of Greece compared to euro area countries and other peer countries.

Graph 6.2: **Minimum wage levels in euro area countries and relative competitiveness position of Greece**



Source: Eurostat, AMECO

In reflecting upon the economic consequences of the increase in the minimum wage, the following considerations could be borne in mind:

- **The magnitude of the increase, combined with the fact that a relatively large share of workers earn the minimum wage in Greece, increases the risk of negative employment effects.** While there is little consensus in the economic literature on the effects of minimum wage increases on employment, a majority of empirical studies have found negative effects on specific groups, such as the young and low-skilled workers. For instance, assuming an employment elasticity between -0.1 and -0.2 for the young (in line with conservative estimates from the academic literature), the increase in labour costs by 20% would imply a reduction in youth employment between 2% and 4%, which would put a halt to the recent decline in youth unemployment (currently still at 38.5%, the highest in the EU). Moreover, the impact of a minimum wage increase is larger when it is more 'binding', that is, when its level is high relative to the median/average wage and when a large proportion of the workforce is directly affected. This is indeed the case for Greece, where in 2018 the minimum wage was about 50% of the median wage and the share of minimum wage earners in the private sector was around 22% in total (to compare, in most euro-area Member States the share of minimum wage workers is much smaller, below 10%). Notably, in Greece this share of minimum wage workers is markedly higher in very small firms (with 10 employees or less), and it reaches 57% among workers under 25 years of age. The magnitude of the increase could be even more important considering that the effects of the minimum wage are likely to be non-linear. This is due to the binary nature of hiring and firing decisions, as well as to the skewedness of the wage distribution (with a larger share of workers concentrated at the bottom of the wage distribution), implying that the negative employment effects would be stronger the larger the magnitude of the increase. In this respect, the increase that has been decided for Greece is far from negligible, both in relative and absolute terms (especially for workers under 25 years of age).

- **Whilst the increase in the minimum wage may not have an immediate direct consequence on wages above the minimum, spill-over effects may materialise if the 10.9% increase is taken as reference in collective bargaining negotiations**. The sectoral collective agreements currently in force, and which have been extended to apply to the entire sector, all have salary grids starting above the level of the new minimum wage, so these are not directly affected by the increase. At the same time, the increase in the minimum wage may propagate to the broader wage distribution if it is taken as benchmark for wage negotiations leading to new collective agreements. This point is also relevant for external competitiveness. Although the economic sectors most directly concerned by the minimum wage increase (i.e. the sectors with the highest incidence of minimum wage workers) are mainly in the non-tradable sector. The latter, however, includes also sub-sectors such as hotels and restaurants which are key for the export of tourism-related services. In addition, the effects on the tradable sector will be more significant if the high minimum wage increase spills over to the rest of the economy. In this respect, the still high unemployment and the relatively flexible labour market would suggest spill-overs to be limited. Yet, the reinstatement of the favourability principle following the end of the ESM programme combined with the possibility of unilateral recourse to arbitration for the resolution of collective bargaining disputes may increase the extent of such spill-overs, especially if the minimum wage increase is taken as reference in arbitration decisions. It is therefore important that the authorities monitor and analyse the impact of the revision in the minimum wage in the context of the broader wage formation process, assessing the direct impact of the minimum wage increase, as well as the broader evolution of collectively bargained wages (determined either through the sector collective agreements, or by arbitration decisions). In particular, the outcomes of arbitration decisions should be monitored and assessed during 2019, so as to inform future decisions to revise the minimum wage from 2020 onwards.

- **Regarding the possible macroeconomic general-equilibrium effects, the possible positive effects in terms of increased disposable income and consumption may be short-lived**. The results of model simulations by the Bank of Greece show that the increase in the minimum wage can have positive short-term effects on the economy through increased disposable income and consumption. However, the same analysis suggests that these are not sustainable if the overall increase in wages exceeds the growth of labour productivity, leading to negative effects on employment, investment and GDP over the medium-term. The increase in the standard minimum wage of 10.9% should be seen against the background of the Commission's current projection for unit labour cost growth of 1.4%, stagnating labour productivity and nominal GDP growth of 3.4% in 2019. Other euro area countries which had received financial assistance during the crisis have adopted a more prudent and gradual approach towards minimum wage setting in the post-programme period. ([23]) Whilst the Greek legislation does provide broad freedom in the revision of the level of minimum wage every year, such annual decisions could be usefully guided by medium-term considerations on competitiveness and living standards, which would help steer expectations with respect to the trajectory of the minimum wage in the medium term.

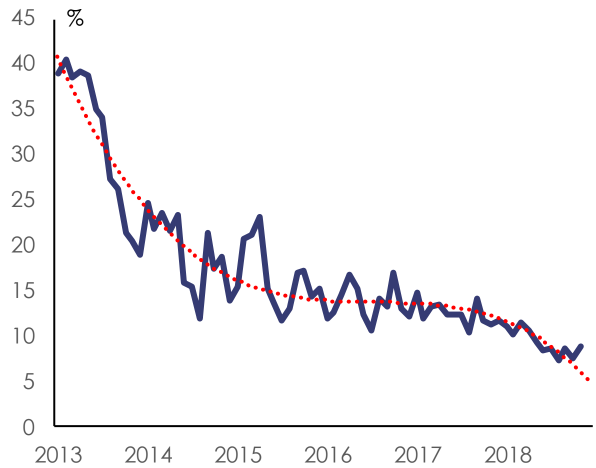
- **The increase in the minimum wage is likely to raise the incidence of undeclared and under-declared work, which is still considered to be widespread in Greece.** In particular, there is anecdotal evidence that some companies reduce labour costs by declaring their employees to be working part-time rather than full-time, thereby avoiding to pay taxes and social security contributions on part of the salary. Since a higher minimum wage increases the contributory minima, it can increase the proportion of the wage that is actually declared. At the same time, however, it provides an incentive to further reduce the number of hours worked that are formally declared.

In light of the above, it is important that the authorities keep up progress with the implementation of the action plan to tackle undeclared work. The action plan was adopted in 2017, and its implementation (to be concluded by end-2019) has been running smoothly. The plan promotes an integrated approach to undeclared work, by reinforcing cooperation among different institutions, strengthening the capacity of the labour inspectorate to detect the phenomenon and improving the incentives for compliance. Although it is difficult to measure the effects of the adopted measures (given the very nature of the phenomenon), data from inspections point to an accelerated decline in the number of uninsured workers found in high-risk sectors since the end of 2017 (see Graph 6.3), which could be attributed to the progressive implementation of measures in the action plan. The authorities are currently shifting the focus on improving the capacity of the labour inspectorate to detect the phenomenon of

([23]) For example, Portugal had a series of sustained annual increases of some 4.5%-5% each year between 2015 and 2018: the monthly minimum wage in Portugal reached EUR 580 in 2018 (14 payments), i.e. almost the same level that Greece has had since 2012, before the latest increase of 10.9%. The minimum wage in Portugal has been further increased in 2019 to EUR 600 per month (+3.45%, a smaller increase compared to the previous ones), and so the new level in Greece will be EUR 650 a month, or 9%, higher than that of Portugal. The Labour market conditions are very different as the unemployment rate in Portugal is currently at 6.6%, which compares with more than 18% in Greece, and with youth unemployment still close to 40%.

under-declared work. Thanks to recent measures adopted (including legislative changes and technological innovations), labour inspectors should be able to better verify the correspondence between the presence of workers at the workplace and the hours of work actually declared. It remains to be seen, however, whether these measures will be effective.

Graph 6.3: **Share of uninsured workers found in high-risk sectors**



Source: Greek labour inspectorate

By improving the productivity of the labour force, an effective system of active labour market policies can contribute to the sustainability of wage increases. The system of active labour market policies is being deeply reformed to improve its efficiency and effectiveness. A new delivery model is currently being piloted in one local office of the public employment service covering three municipalities and will be extended to the rest of country in the course of 2019. This model should enable the public employment service to provide a more tailored offer of services to jobseekers. In particular, participation to specific active labour market programmes (such as counselling, training, work experience, public works) would be offered on the basis of a proper assessment of the jobseekers' needs, according to their profiling. In parallel, the design of the different labour market programmes is also being reviewed, in order to improve their relevance and effectiveness.

Education

The OECD published a comprehensive review of the Greek educational system in April 2018 pointing to a series of shortcomings. These include an inadequate allocation of resources, low autonomy, skill miss-matches, declining average student performance in the Programme for International Students Assessment (PISA), and weaknesses in the governance of higher education institutions. The report includes specific recommendations to improve on the efficiency of the system. Implementing the OECD's recommendations would move the sector forward, but no specific steps have been taken so far. On the contrary, some measures taken in the recent months go opposite to the spirit of reforms made in past years. Mergers between technical education institutions (TEIs), which focus on applied sciences, technology and art and universities have commenced in 2018. Rationalising the higher education system which consisted of 36 independent institutions before the mergers, is in principle a step in the right direction. However, the current policy which integrates the TEIs into the existing universities, keeps expanding the system by founding new departments, and maintains their regional fragmentation across different cities. Given the lack of a strategic plan or 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.

6.2. PRODUCT MARKET AND COMPETITIVENESS

6.2.1. Business environment

Since the last enhanced surveillance report, overall progress has been observed on product market reforms linked to post-programme commitments. However, there is a varying level of commitment across governmental entities to continue and expand the reforms that started during the ESM programme, which is causing delays, while limiting the scope of their application and deepening. Occasional reversal of individual pieces of legislation on the principles and practices of investment licensing reforms has been observed and tackled in the previous months, but increased ownership from the entire government and the creation of an adequate institutional mechanism to ensure a sustainable future safeguard of past achievements would be advisable.

Under the investment licencing reform, the enabling legislation on installation and operation licensing procedures for environmental infrastructures has been adopted with the issuance of a joint ministerial decision (JMD) (**end-2018 specific commitment**). This important and urgent piece of legislation activates Article 78 of law 4549/2018 defining in clear terms the licensing procedures needed to undertake waste management activities. The gravity of the situation at the time of issuance of this JMD, which is described in the "Environment" subsection of Section 3.4.2 of the Country Report, resulted in two costly infringement procedures for non-compliance with EU law on illegal landfills and hazardous waste management. The new framework should allow private and public investments to be directed into this sector and implement advanced technological solutions for waste management to close the gap with EU best practices.

The authorities have also made progress on specific investment licensing commitments with deadlines for the outer years. In particular:

- With a view to finalising the tendering procedures for the relevant **ICT system** (ILIMS) by end-2019, progress has been observed in line with the agreed action plan. Six valid offers have been received by bidder in response to the public procurement tender. They are currently being evaluated in terms of technical specification and financial aspects.

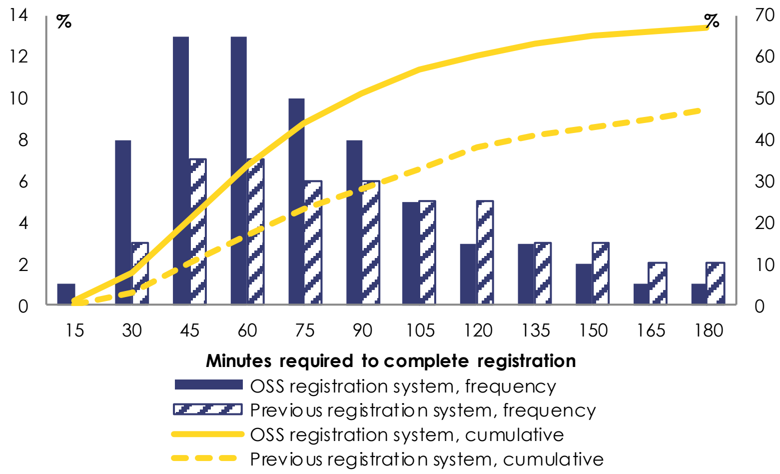
- Work on the implementation of the **inspections framework** law has proceeded in accordance with the agreed action plan with the objective to finalise the inspection legislation by mid-2020. Relevant horizontal and sector-specific actions included in the plan have been finalised.

- Regarding the **simplification**, by mid-2020, **of investment licencing procedure in the 24 sectors** identified by the authorities in June 2018, preparatory work has started for the first set of sectors, focusing on primary production. A first assessment of licensing procedures and draft reform proposals will be delivered before the next enhanced surveillance report, with a view to passing primary and secondary legislation by June 2019.

- A detailed action plan for the revision of the **nuisance classification**, to be completed at the latest by mid-2021, has been finalised. The objective is to rationalise the current system, where two imperfectly overlapping classifications (nuisance and environmental) coexist within the same investment licensing process, bringing it in line with standard practices. Work on the definition of the new classification will be facilitated by technical support and heavily involve private stakeholders and experts, who will analyse and discuss the interactions between the two classifications and their implications for investors and spatial planners. The action plan includes the key commitments by the end of February (i) to issue a Ministerial Decision setting up a Steering Committee for the project and (ii) to emanate a Secretary General Decision defining the composition and functions of the corresponding Working Group.

The authorities have progressed with the implementation of measures to reduce administrative burden through the simplification of business registration procedures. Thanks to the simplification in business registration procedures achieved though One-Stop-Shops (OSS) and electronic One-Stop-Shops (eOSS), the average time for the completion of the business registration process has been dramatically reduced compared to the past. For example, in the 5 months preceding the publication of this report, over 50% of a total of 5214 start-up registrations was finalised within 90 minutes and 70% within 180, as opposed to 28% within 90 minutes and 47% within 180 under the previous system (Graph 6.4). As for online registrations through the eOSS, the Greek authorities report that 1,178 private company (IKE) registrations have been completed, with an average time for the finalisation of the process of about 18 hours, and a minimum of 8 minutes.

Graph 6.4: **Time required to register private companies**



The histogram show the time (in minutes) required to register a start-up in the five months since the Electronic One-Stop-Shops for businesses have been active, as compared to a similar sample of registration under the previous system. Data include business registrations that took place both online and offline. The number of IKE registrations under the new and old system (blue bars, censored at180 minutes) is reported on the left-hand side, the corresponding cumulative distributions (yellow lines) are measured on the right-hand side.
Source: European Commission based on data from the Greek Ministry of Economy and Development

Little, if any, progress has been observed as regards actions for supporting exports. Two export-enhancing action plans had been drawn and followed by the Greek authorities during the ESM stability support programme: one focused on providing information to firms on export markets, called Export Promotion Action Plan; the other, focused on the rationalisation, simplification and digitisation of customs procedures, called Trade Facilitation Action Plan. In particular:

– The Export Promotion Action Plan suffered from a lack of strategic coordination with other actions and projects in overlapping domains. While the current action plan ended at the end of 2018, there is no clear commitment from the authorities towards a new action plan or a defined timeline for performing an impact assessment of the actions undertaken in the course of the past and future action plans. Such an exercise is needed in order to identify the added value of this project and to measure its effectiveness in terms of increasing the propensity to export of the Greek economy as a whole;

– The Trade Facilitation Action Plan aimed at supporting import and export activities through a number of actions, including the reduction of export fees, the review of risk assessment techniques, the coordination of inspection procedures with other government agencies and the creation of an integrated ICT system to speed up procedures for traders and customs officers. The targeted key beneficiaries of the project were exporters to extra-EU countries, who need to provide product-specific documentation to be retrieved from different government agencies in a variety of different formats and supports. Efforts to realise such an integrated system have not been successful yet and a new action plan will be proposed in the following weeks in order for the Single Window ICT system to become operational by the end of 2020.

The authorities committed to complete the cadastre project by mid-2021 and as intermediate steps to complete the remaining forest maps by mid-2019 and fully establish the cadastral agency and complete 45% of the cadastral mapping by mid-2020 (specific commitments). Progress of the implementation of the project has been mixed in recent months. The Greek authorities have adopted a comprehensive road map with the objective to complete the reform of the cadastre agency (Hellenic Cadastre) by mid- 2020 and the cadastral mapping by mid-2021.

Progress with the cadastral mapping and the forest maps preparation and ratification is satisfactory and broadly on time. The Commission has taken the decision to co-finance with structural funds the last bunch of contracts (about EUR 84 million). A new two-year technical support contract has also been signed between the Commission and the World Bank in November 2018 and the World Bank team has started providing technical support on the ground. The staffing of the agency allocated to the management of the contracts is satisfactory. 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 underway. Hellenic Cadastre has launched an electronic application for property declaration and payment. In addition, 42 cadastral offices are operating throughout the country to serve the persons that are unable to declare their properties electronically. A major cadastral office (3,000 sq. m) will remain open in Athens during the whole declaration period to facilitate the citizens as a large number of inhabitants of Athens greater area possess properties around the country.

The preparation and ratification of the forest maps is proceeding according to plan. As of 31 January 2019, 41% of the country is covered by definitive maps, 11 % of the country has finalised maps in the process of ratification and 46% of the country maps are being processed by external consultants. The remaining 2% of the country's forest maps still needs to be contracted.

By contrast, substantial delays are observed in the administrative part of the reform concerning mainly the management of the new Hellenic Cadastre agency, and the integration of mortgage offices into it. The appointment of the new management team and board of directors is severely delayed. A transitional management very committed to the reform was appointed a year ago. However, the transformation of the former cadastre company to a new entity that integrates the cadastre and the mortgage offices is a major and complex operation and requires strong management and decision making capacity. A migration team was appointed to carry out this task, but it remains weak and so far no mortgage offices have been integrated in the new structure as opposed to the 10-15 offices that were planned to be integrated by December 2018 according to the road map. Delays are also observed in the preparation of the business plan and corporate strategy, the manual of procedures and the interoperability of the cadastre with the taxation database. The risk is that, while the cadastre is indeed completed by mid-2021, the Hellenic Cadastre entity might not be fully operational nor function as planned. Against these delays, the government has decided to adopt a detailed timetable for the appointment of the management team and the board, to take immediate actions to strengthen the migration team with sufficient full-time dedicated staff and to prepare a detailed plan for the integration of the mortgage offices to meet the deadlines set. The World Bank provides technical support to both actions. The next three months will be critical for 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) needs to be accelerated. More specifically:

- Regarding the Special Spatial Frameworks (sectoral strategic documents), the tourism framework is on-going; the one on mineral resources is in the tendering phase, the one on renewables is ready to be tendered; the Special Spatial Framework on industry is in the tender preparation phase and is expected to be tendered by mid-2019. Finally a Special Spatial Framework for aquaculture is planned for 2020.

- Twelve Regional Plans are completed. The relevant ministerial decisions for six plans were adopted in December 2018. The adopted plans are the following seven: Attica, Crete, Thessaly, Central Greece, East Macedonia-Thrace, Epirus, Ionian Islands. Another five ministerial decisions are under preparation and will be completed by end-February 2019. These are: Central Macedonia, Western Macedonia, Northern Aegean, Western Greece, and Peloponnese. The regional plan for the South Aegean was delayed due to financing problems.

- By contrast, there is not much progress on 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.

- A very important complement of the spatial plan law is the possibility to modify the Local Spatial Plans by Special Spatial Plans (SSP). These may cover one or more municipalities; they are at the same hierarchical level with the local plans and are particularly useful for investments in the absence of LSPs. Since November 2018, four Special Spatial Plans were submitted for approval, two of which received pre-approval (Tritsis Park and a tourism development in Rhodes). Two other need to be re-submitted after revision. These are a casino in the town of Maroussi and a medical park in the Municipality of Peania.

Finally, a study is being launched with technical support through the Commission for the systematisation of environmental legislation. This is a complementary action to the cadastre and spatial planning aiming at facilitating citizens and investors to access and understand environmental legislation.

6.2.2. Network industries (energy, water, transport and logistics)

Energy

Since the last report, some progress has been made with the energy-related specific commitments, but generally this has been slow. Specifically, commitments cover the divestment of the Public Power Corporation's (PPC) lignite-fired generation capacity by end-2018; the launch of the Target Model by mid-2019 and the implementation of agreed measures on the NOME auction system by end-2019.

The divestiture by PPC of some lignite fired generation capacity as part of a state-aid remedy with COMP (end-2018 specific commitment) has not been completed. This is despite the fact that original deadline of 17 October 2018, was postponed to 8 February 2019 after four extension requests from the Greek authorities and the setting of the terms of the Sale and Purchase Agreement (SPA) were set in December. It is noted that many efforts were made by the investors to submit positive offers that would be acceptable by PPC. Efforts were also made to find ways to reduce variable costs; these included i.a. the abolition of the supplier surcharge and lignite fee and most recently the extension of the SPA to include the terms of a voluntary retirement scheme. Despite significant negotiations, PPC did not take up to the main proposals formulated by the potential investors to facilitate the valuation of the plants and to allow for positive offers. At the same time, PPC's own proposals and measures, in particular the voluntary retirement scheme, came late in the process. Following the submissions of the bids by two potential investors on 6 February 2019, PPC's Board of Directors did not identify any preferred offer meeting the valuation, and therefore decided not to sign-off the SPAs and the related contracts with any of the investors. As the divestiture has not happened within the prescribed time, alternative ways to complete it are now under discussion between the Greek authorities, PPC and the Commission to find an acceptable remedy to the antitrust case in line with the requirements of EU law. The Greek authorities have signalled their intention is to submit a new proposal by early March 2019. The Commission invites the authorities to ensure that this new proposal is sufficiently detailed so as to enable an informed assessment to be made as to whether adequate progress is being made towards complying with the antitrust remedies and the end-2018 specific commitment.

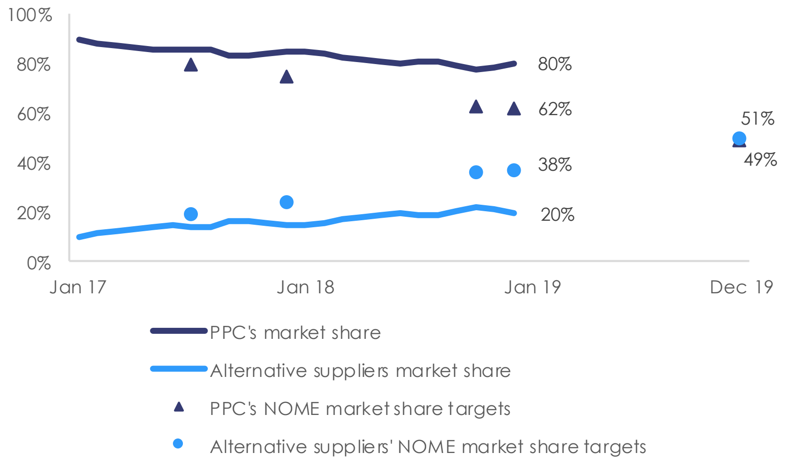
The lignite divestiture was considered at the core of all energy reforms, to open up the markets and attract further investment, and underpin other developments such as the Target Model. Reforms to energy markets were recognised for many years in the ESM and earlier financial assistance programmes as being fundamental to driving growth across the economy. The divestiture also constituted the antitrust commitment offered by Greece (and made binding by the Commission's decision C(2018)2104 of 17 April 2018). In brief, this a major setback in the delivery of a key structural reform, and solutions to this key structural challenge are inevitably being pushed into late 2019. Regardless of future progress, the current status of reform in this area could invite consideration of alternative actions, as well as considering reinstating the full NOME quantities from the correction system, given that the PPC market shares are still far above the 50% targets outlined in earlier agreements. Under the foreseen NOME review, the potential need for alternative policy or structural measures will be considered in this context.([24])

As regards the implementation of the Target Model for electricity (specific commitment mid-2019), Greece made important first steps with the publication in the Government Gazette of the spot (day-ahead and intraday) and balancing market rulebooks. The forthcoming translation of the rulebooks into English would be encouraging step towards opening the Greek market to other European market participants. The spot market's clearing rulebook is still due for approval. The Greek Exchange has joined the Price Coupling of Regions (PCR) initiative, which is an important step for the future coupling of the day-ahead market. However, large delays have been seen compared to original plans agreed in June 2018. It now looks like the Target Model should go live in September 2019, with the full launch of the intra-day, day-ahead and balancing market. Such delays are somehow to be expected given the scale of the project, but further delays will lose valuable time for the market to develop. As well as this, there has been very little progress regarding the development of a forward market and it is of importance that the next reporting period will see concrete progress as concerns submission and public consultation of the forward market rulebook. The implementation of the Target Model is a key step towards the integration with the European electricity markets and the increase of competition in the retail markets within Greece, so it is vital that it is well-designed and in line with the European regulations regarding elements such as the rules on price caps. Early assessments of rulebooks raise questions about price caps and progress to portfolio bidding. As the Target Model gears up for the dry-runs, it will be critical that market participants be better informed about the latest progress. Progress is being made towards coupling with the Italian market but for it to be completely operational, more effort should be put in increasing the availability of the interconnector between the two countries.

The last three months saw the NOME auctions continue, though this period still saw PPC's market share actually increase (in December 2018 the retail share of PPC stood at 80.29% compared to 78.63% in November). In June 2018 a correction mechanism was implemented to put additional PPC quantities into the auction, should the progressive market share targets not be reached, with this mechanism being gradually reduced then eliminated as the lignite divestiture progressed according to certain key steps being made. The authorities stuck to the agreed timing for changes to the NOME auctions. Given the delays with the lignite divestiture and that the second key step (the signing of SPA) had not yet been made by the time of the first auction, RAE duly proceeded to add the quantities originating from the correction mechanism to the auctions in 2019 in accordance with the existing framework. Regarding a separate concern, the fact that a growing amount of NOME quantities are put up for export rather than for opening the domestic market (the main intention of the system), RAE amended the code, being careful that single market rules were followed. The envisaged joint assessment of the NOME auction system should start soon, with the future of the auctions system looked at in light of the divestiture and development of the forward market within the Target Model. The implementation of measures agreed as part of the joint assessment of NOME is an end-2019 specific commitment.

([24]) 'Supplemental Memorandum of Understanding, 4th Review of ESM Pogramme' June 2018, page 27: https://ec.europa.eu/info/sites/info/files/economy-finance/draft_smou_4th_review_to_eg_2018.06.20.pdf

Graph 6.5: **Evolution of retail market share compared to targets**



Source: Hellenic Energy Exchange

As far as developments in the gas markets are concerned, real progress was seen with the restructuring of the Public Gas Corporation of Greece (DEPA). The DEPA restructuring law is due to be adopted in late February, setting the framework breaking up the main gas provision company into two specific entities, one covering commercial activities and another covering infrastructure (with this part to be further split between international projects and distribution), in line with unbundling rules.

A crucial element to consider in energy reforms is the continued financial problems of PPC and the related effects this has across different parts of the market. The collection of customers' arrears to PPC increased: monthly bills, e-billing and disconnection orders for customers who change suppliers are new steps currently being taken to improve this situation. Standard and Poor upgraded PPC's debt rating, in a positive step, and the European Investment Bank prepared a loan for the improvement of distribution networks. The absorption of PPC Renewables into PPC provided both a cashflow boost and an opportunity to shift its strategy towards renewables, though it is yet to be seen how this will play out. Despite these positive steps, great concerns remain about PPC's financial situation in the longer term, particularly with regards to be able to make investments in environmental improvements and renewable technologies.

As the market is still characterised at retail and wholesale level by PPC's presence as a monopolistic market player, constraints on competition still exist, with the knock-on effect this has on pricing. The authorities removed certain charges (such as the supplier surcharge and lignite levy), and PPC recently announced that retail prices would have to rise in order to reflect higher EU Emission Trading System CO_2 prices. On an industrial level, PPC is discussing with Larco, the State-owned nickel company, about making a deal on fixing electricity supply under certain conditions. At the same time, Greece needs to prove that the EUR 135.8 million that was seen as illegal State aid to Larco has been returned.

The Renewable Energy Sources (RES) account has maintained a strong surplus, helped by sustained high Emission Trading Scheme carbon prices. Greece has committed to increasing the share that from 60% to 65% the amount of total ETS revenues that will contribute towards the RES account. However, there are concerns expressed by many stakeholders in the renewables business that despite the accounting surplus, there are cashflow issues, which had resulted in some production not being paid in time. The authorities' efforts to clear previous years' accounts is a very important step and it is advised that no adjustments to the consumer charge (ETMEAR) are made before this clearing is finalised. The authorities could consider that suppliers should not receive returns if they have arrears in the system. Given the cashflow concerns, it is recommended that a cash statement be made as part of DAPEEP's (RES Market Operator- Διαχειριστή Ανανεώσιμες Πηγές Ενέργειας & Εγγυήσεων Προέλευσης) reporting on the RES account. With the transfer of responsibility for the account from ADMIE (Independent Power

Transmission Operator- Ανεξάρτητος Διαχειριστής Μεταφοράς Ηλεκτρικής Ενέργειας) to DAPEEP is it important to ensure that the staffing of vacant positions is completed in order for DAPEEP to have full capacity and to be provided with needed tools to ensure timely collection of revenues. The second RES auction took place in December 2018. This led to significant quantities being sold, at a lower price than the first auction. However, concerns remain about the ability of the auctions to help established projects.

The development of RES energy also depends on generation and connection on the islands. The Energy in Islands Initiative will be a useful forum for discussing RES generation on islands and effective networks. A major project, connecting Crete with mainland Greece, potentially as part of the EuroAsia project, is still clouded by uncertainty as to its PCI status. Higher prices on islands are compensated through the Public Service Obligation

Looking further forward, in January, Greece submitted its draft National Energy and Climate Plan. Greece sets ambitious targets for carbon emission reduction and growth of renewable energy, particularly in electricity generation. This will take large investments and an eventual scaling down of lignite. Such promises come in the context of lignite plants running towards the limits of their allowed operating lifetime under the Industrial Emissions Directive framework regarding air pollution, with still no clear solution in sight. Short-term issues like that will need to be tackled in order to move on. The phasing out of lignite would have large socio-economic implications which need to be carefully considered.

Greece still has great potential to be a regional energy hub, and a number of ongoing projects related to gas and electricity are under consideration. An encouraging step forward was the inauguration in November of extra storage capacity at the liquefied natural gas plant in the Revithoussa terminal. Greece could make best use of this with faster progress towards coupling markets and expanding its RES capacity. The next few months is an important period for Greece to complete key reforms that will be the foundation for further progress as regards the economy as well as environment and climate.

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 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. Once the system is up and running, all water service providers will fill in the required information. Initial statistics on the performance of the system will be available by the end of March 2019, covering information for the year 2017. The system will include information on cost recovery, infrastructural investments and planned human resources, drinking water quality across the country, among others. The SSW will finalise a strategic and operational plan by the end of February 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 under preparation by the Ministry of Transport. The plan is covering all transport modes for the years 2027 and 2037, the necessary supporting planning tools as well as accompanying capacity building activities. A major problem is that contracts for new projects are delayed (Athens metro, Patra-Pyrgos motorway, Amvrakia – Aktio highway). Among the reasons of the delays are the abnormally low prices and the lack of capacity of contractors. Greece also urgently needs to start with the elaboration of sustainable urban mobility plans as these will be the condition for investment in urban transport.

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 1450 hectares is severely delayed.

The absence of a business plan with cost containment measures for the transport company of Thessaloniki, OASTH, is still a source of concern. The government nationalised the company in 2017, in order to undertake a substantial restructuring and generate savings on an expensive private concession. Preliminary balance-sheet information on 2018 operations, which will be validated by the general accounting office in March, shows positive signs, with an increase in revenues, a reduction in operation costs and public transfers. Yet, it is not possible to assess the sustainability of the progress and the nature of the measures undertaken in the absence of a business plan or guidelines defining the medium- and long-term strategy. The authorities have expressed the intention to liquidate the company and replace it with a new entity by the end of 2019, but no action has been taken so far.

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

7.1. HCAP

The Hellenic Corporation of Assets and Participations (HCAP) gathers under a single institutional structure a significant portfolio of assets and shareholdings in public enterprises. The overarching objective of the HCAP is to effectively manage those assets, preserve, develop and ultimately maximise their value, and to maximise the quality of the services provided to the Greek people as well as to contribute to reducing the financial obligations of Greece. The HCAP's centralised structure for managing public assets in the form of a holding company, sets the framework for stronger governance and professional management of public assets.

Greece made important commitments to European partners in June 2018 to continue and complete the important work of HCAP. More specifically, 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 transfer of the Olympic Centre (OAKA) to HCAP as well as the restructuring of the real-estate subsidiary (ETAD) by end-2018. Overall, the implementation of the strategic plan and the restructuring of ETAD have proceeded as planned, but the transfer of OAKA will be delayed due to practical complexities. Since the publication of the first enhanced surveillance report in November 2018, progress has also been made in various other areas: namely in (a) improving corporate governance in direct subsidiaries (i.e. the asset development fund (TAIPED), and ETAD) and preparatory work being done for the other subsidiaries (State-owned enterprises, SOEs); (b) the review and replacement of SOE boards (a mid-2019 commitment) and (c) the preparatory work for the implementation of the coordination mechanism that will govern the interaction between the authorities and HCAP regarding the mandates and objectives of the SOEs under HCAP.

HCAP is continuing with the implementation of the strategic plan of HCAP (continuous specific commitment monitored end-2018), 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 the period 2019-2021, implementing the strategic plan and setting quantitative and qualitative key performance indicators (KPIs) for its direct subsidiaries and the non-listed other subsidiaries. The KPIs which have been set, include the following areas: enhancement of economic and public value and financial performance, corporate governance, improvement of the quality of services and operational efficiency and innovation. HCAP has also elaborated the framework for monitoring the KPIs.

HCAP's real estate portfolio is managed by ETAD, which was restructured during 2018 with a view to significantly increasing its effectiveness in the management of real estate assets. The organisational restructuring process, elaborated with the assistance of external advisors, included the formulation of a new organigram and a process for staffing internally and (partially for senior level posts) externally the positions in the new organigram as well as reorganisation of procedures and functions within the company and the appointment of new business unit managers. The company structure now reflects the key stages of asset management that are considered necessary to develop the full potential of the real estate portfolio: identifying, registering and maturing the significant proportion of the portfolio which is unvalued and unused, and development and utilisation or disposal of recognised assets.

The specific commitment for end-2018 on the restructuring of ETAD by the end-2018 has been accomplished. Given the importance of the real estate portfolio, ETAD will have a thorough set of performance targets in 2019 in order to consolidate and test the effectiveness of the restructuring. The completion of the restructuring, the arrival of new management personnel, and clearer guidance on short and medium-term objectives, is expected to deliver improving operational performance at ETAD in 2019, and to lay the ground for significant value creation in 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.

HCAP continues its work on SOE 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 process for assessing the Board of the Athens public transport company OASA was completed in June 2018 and new Board Members have been selected for staffing the vacant positions; however the search is still ongoing for the key executive position. The effort for identifying suitable candidates has been more lengthy that initially expected, partly due to the low remuneration provided for a position with such responsibilities and skills requirements. The HCAP Board also selected the candidates for the posts of CEO, Chair and three non-executive members in GAIAOSE, an SOE active in the fields of railway property and rolling stock. The General Assembly of GAIAOSE appointed those candidates on 7 February 2019. Further, in the case of the Corinth Canal, the candidates selected by the HCAP Board of Directors (BoD) for three vacant posts (non-executive members) were appointed by the General Assembly of the Corinth Canal on 20 December 2018, including the Chair of the Audit Committee. The BoD candidates nominated by HCAP for two vacant posts at the Public Power Corporation PPC (chair of the Audit Committee and a second member) were appointed by the General Assembly of PPC on 17 December 2018. The BoD candidates selected by HCAP for two vacant posts in the water company EYATH – head of Audit Committee of EYATH and a second non-executive member – were appointed by the General Assembly on 21 February 2019. Candidates for the post of Chair of the Audit Committee have been selected for all SOEs and on-boarding will gradually take place in parallel with the process of assessing and staffing the new BoDs as a whole. 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 - continues to be challenging for HCAP due to legislative caps on the remuneration of SOE board members. 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, as manifest for example e.g. in the difficulties to renew the board of OASA described above. The authorities have agreed to address the legislative cap on the remuneration of SOE board members through the adoption of a legislative amendment in time for the third enhanced surveillance report.

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 plan has been prepared by ELTA's new management and it is under consultation.

HCAP has undertaken significant preparatory work for the implementation of the Coordination Mechanism, which will be a key focus area and challenge in 2019. 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 agreed to establish 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 agreed on the agenda, the time schedule and the prioritisation for dealing with the SOEs for the prompt implementation of the Coordination Mechanism. The implementation of the Coordination mechanism has been launched with the 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.

Recent legislation in certain sectors appears 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. 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 impinged on the exercise of rights transferred to the HCAP. Taking into account recent secondary legislation for the 23 regional airports, 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 the Law 4389/2016.

The transfer of the Olympic Athletic Centre OAKA, which is an end-2018 specific commitment, has proven very complex involving multiple stakeholders as well as a series of administrative and procurement steps. These include procurement in relation to the repair or overhaul of significant facilities, in order to ensure that the asset is provided in a satisfactory condition. It is encouraging, that after delays, the project is now receiving concerted high-level attention. A high level meeting has been convened by the Minister of Finance in order to commence the initial technical work that is needed to assess the conditions and necessary refurbishments of the sports complex, and to prepare a new spatial plan that will allow for development of the site, including commercial development that would complement its athletics character. The authorities have sent a status report to the institutions with a proposed timeline of several steps, leading to a transfer to HCAP by the end of 2020; given the complexities and involvement of third parties, this adjusted timetable appears reasonable and the timing for the specific commitment should be adjusted to reflect the main stages of the proposed process.

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 specific commitment to Eurogroup partners in June 2018 to implement the ADP, which will be updated every six months, on a continuous basis, and to complete the transactions on the Athens International Airport (AIA) concession, the former airport site Hellinikon, and the Natural Gas Transmissions System Operator (DESFA) by end-2018. The commitments for mid-2019 concern the financial closing of the transaction on HELPE and the marina of Alimos. Further commitments were taken for the subsequent years.

Overall, there has been good progress as regards the transactions due to be completed by the end of 2018, and the ADP was updated by TAIPED in December 2018 and endorsed by KYSOIP on 15 February 2019 (FEK 461, 15 February 2019). More specifically, on the end-2018 commitments the state of play is as follows:

- **Natural Gas Transmission System Operator (DESFA, end-2018 specific commitment):** In December 2018, the last steps for concluding the transaction for the acquisition of 66% of DESFA (31% TAIPED, 35% Hellenic Petroleum - HELPE) were undertaken. Specifically, the 60-day creditor objection period required by law as part of the “in-kind” reduction of DEPA’s share capital in DESFA lapsed on 9 December, and on 19 December the energy regulator RAE issued DESFA’s final certification. The the inclusion of certain issues in the final certification decision has resulted in extended discussions with the investors and it is important that these issues are addressed in a timely manner and in accordance with EU law and practices. The completion of all corporate acts related to the transfer of shares and the actual transfer of shares to the preferred investor versus payment of a financial consideration of EUR 535 million (for the 31% share disposed by TAIPED, this corresponds to EUR 251 million), took place on 20 December 2018, signalling the financial closing of the transaction.

- **Athens International Airport (AIA, end-2018 specific commitment):** The required approvals for the transaction, namely from the European Investment Bank and the competent European authorities were given in December 2018 (the decision was issued by the Commission on 12 December 2018). The extension of the concession agreement was approved by KYSOIP on 21 January 2019 and the Minister of Finance signed the extension agreement on behalf of the Hellenic Republic on 24 January 2019. The AIA extension agreement was ratified by the Greek Parliament on 14 February 2019 and the payment of the financial consideration of EUR 1115 million plus an annual rate of 10.3% paid proportionally by AIA from 1 January 2019 until closing date, was done on 22 February, closing the transaction.

- **Hellinikon (development of the site of the former Athens International airport, end-2018 specific commitment)**: The authorities have continued the efforts to complete the conditions precedent to allow the transfer of shares to the developer, Lamda. Whilst overall progress is satisfactory, there are some delays concerning the award of the casino licence and the urban planning and environmental approvals. The main reason for the observed delays is the complexity of the project. More specifically, in the case of the casino licence, the delays were to be attributed (a) to the need for the amendment of the legislation on the casinos, which would make possible the tendering process for the award of the casino licence in Hellinikon and (b) the need to finalise the commercial policy of Lamda (i.e. the annual rent to be paid to Lamda by the casino investor). The amendment of the legislation on the casinos was enacted in December 2018. On the issue of the commercial policy, continuous deliberations took place between the Greek authorities and the investor and the issue has been resolved. The request for proposal for the award of the casino licence was forwarded on 19 February to the simap@publications.europa.eu so as to be uploaded on the EU site (TED- SIMAP). There were also delays in the case of the approval of certain urban planning and environmental studies, which mainly result from the need for adaptation of the studies to be submitted by the investors. Continuous deliberations took place between the Greek authorities and the investors to resolve the pending issues. Finally, the studies on the urban planning zone, the development zone, and the park were submitted by the investors to the Greek authorities, on 6 February 2019, whereas the Integrated Environmental Impact Assessment study followed on 18 February, opening the way for the urban planning and environmental approvals. If the authorities continue the strong efforts, financial closing could be expected by the end of the first half of 2019.

- **Rolling-Stock Maintenance Company (ROSCO)**: TRAINOSE (a fully-owned subsidiary of Ferrovie Dello Stato Italiane after its acquisition) submitted a bid of EUR 22 million for the acquisition of ROSCO in June 2018. The transaction was approved by the Court of Auditors on 3 September 2018. In mid November 2018, TRAINOSE notified the acquisition of ROSCO to the Hellenic Competition Commission (HCC) in order to receive merger clearance. The HCC's decision is expected by the end of February and the completion of the transaction is foreseen to take place by mid-March 2019).

Progress on other transactions in the Asset Development Plan which are due be completed in 2019 is more mixed, with progress on some projects being offset by delays and setbacks elsewhere. Many of these were reported on in the 1st enhanced surveillance report. Since then, and on a positive note, challenges related to regional ports have been resolved. In contrast, the transaction on Egnatia continues to be a source of concern. The state of play can be summarised as follows:

- **Marina of Alimos** (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. Satisfactory progress is being made in the tender for the long-term concession of the marina of

Alimos. Binding offers have been submitted on 14 February 2019. Currently, TAIPED is undertaking a due diligence of the documentation submitted by the bidders.

- **Hellenic Petroleum (HELPE,** a mid-2019 specific commitment): Agreement between HELPE and the Greek authorities on the issue of the Exploration Company was reached in late November 2018. According to the agreement reached, the Greek State will gain control of 51% of the company. Further, the two remaining bidders have proceeded to setting up consortia, i.e. Glencore-Carlyle and Vitol-Sonatrach. They are expected to submit their binding offer in early March 2019.

Despite the progress made, it will be challenging for the financial closing of the above two transactions scheduled to be completed by the target date of mid-2019.

- **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, an agreement on the final text of the required legislative changes was reached on 21 January 2019. The agreed legal amendments were enacted on 21 February. Thus, TAIPED can now proceed with subconcession transactions for the regional ports.

The authorities are in the process of taking steps to overcome numerous obstacles on the Egnatia motorway concession project (end-2019 specific commitment): 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 in the period from November 2018 to mid-January 2019 the transaction was effectively blocked. During the mission in January there were extensive discussions on the transaction and the authorities have implemented the following actions which should enable the transaction to proceed:

- A Coordination Committee composed of representatives of the Ministry of infrastructure and Transport, TAIPED and Egnatia S.A. was set up with the task to clarify pending matters and reach a common understanding with regard to matters related to the current status of the licencing of toll stations and tunnels, the budget needs of Egnatia SA and sources of financing operational, construction and maintenance needs. The Committee will convene on a regular basis. The first Coordination Committee meeting took place 5 February 2019.

- Adequate personnel, both in terms of level and skills, will remain in Egnatia S.A. so that the concession tender, the operation and the maintenance of the road are safeguarded. To this end, the Board of Egnatia S.A., which is the competent body, has specified the level of personnel as well as the specific persons that are required to remain in Egnatia S.A. It is noted, however, that TAIPED cannot confirm the adequacy of the level of personnel required to remain in Egnatia S.A. as proposed and decided by the Egnatia S.A. BoD, as there were vast divergent views within the Board of Egnatia S.A. The remaining personnel will be transferred to the Ministry of Infrastructure or other public entities according to the Expression of Interest issued by the Ministry on 27 December 2018. A letter clarifying this needs to be sent to Egnatia S.A. by the Ministry of Infrastructure.

- The Ministry of Infrastructure and Transport has provided the technical specifications on the Ministry's e-toll system and associated arrangements to TAIPED on 4 February 2019.

- The environmental terms approving decision for the Kavala toll station was issued on 8 February 2019, enabling the launching of its construction.

- The construction works of the Strymoniko toll station continue; it is due to be completed by the end of March 2019.

A number of actions needed to put the Egnatia concession back on track remain to be completed. In particular:

- Some progress has been made on tunnel licensing, but more needs to be done. The Tunnel Licencing Authority (TLA) provided on 22 February 2019, a revised more ambitious timetable on the 24 files already submitted by Egnatia S.A. For five tunnels the position of the TLA should be given by 5 March 2019, whereas for the remaining there should be strict adherence to the revised timetable. Egnatia S.A. should submit the files with full documentation for the remaining 9 tunnels by the end of February.

- The Ministry of Infrastructure needs to approve the Egnatia budget for 2019 (as to be approved by Egnatia S.A.) as without this they cannot proceed to the launching of the construction of all remaining toll stations as well as to the maintenance works required from the perspective of the safety in the use of the road.

- On the toll pricing policy of Egnatia, and with a view to providing to the Commission all clarifications required, so that the Commission can proceed to its approval in the coming two months, a meeting is scheduled to take place on 5 March 2019 with the participation of all stakeholders. Further, all future communication with the Commission will be jointly agreed between the Ministry and TAIPED. The Ministry's response to the Commission until recently aimed at shifting the Commission’s approval of the toll pricing policy on Egnatia, and thus its implementation, to a latter point in time.

- The completion of the processes agreed with regard to the CEO and the Board of Egnatia S.A. It is noted that:

- Concerning replacement of the CEO, the CEO candidate provided by the Greek authorities will be subject to an external assessment, before being proposed to the parliamentary Committee. TAIPED has launched the process of assessment; The assessment is expected to be completed in the first week of March.

- As far as the chairman and the BoD of Egnatia S.A. are concerned, they will all be subject to an assessment by external consultants, as the terms of office of the current BoD expires by the end of February. TAIPED needs to launch the process of assessment.

8. PUBLIC ADMINISTRATION AND JUSTICE

8.1. PUBLIC ADMINISTRATION

In the period since the first enhanced surveillance report, progress with advancing public administration reforms has been mixed. The end-2018 specific commitment to complete the appointments of the senior management has been subject to significant delays, as no appointment of an Administrative Secretary has been made to date, though the appointment cycle for Director-Generals has been completed. By contrast, another potentially significant step towards modernising the public administration was taken with the recent adoption of a law to introduce more long-term recruitment planning and to closely link it with the medium-term fiscal strategy (MTFS). In addition, the authorities have committed to a 'road map' to a significant reform that aims to streamline the existing and highly scattered job qualification system ('*klados*') with the functions that are part of the job descriptions. Good progress continued to be made as concerns legal codification, but it is essential that an approval decision to launch the flagship project to establish a 'National Gateway for Codification and Reform of Greek Legislation' is taken as announced before end of February 2019. In terms of the size of the public sector, although the hiring target for permanent staff was not fully respected, the most worrying development during 2018 has been the rather sharp increase of temporary staff recruitments. Finally, intense discussions are ongoing with the authorities in terms of progressing with an important human resources (HR) reform relating to the public revenue administration. If the law amendment under discussion is adopted by early March 2019, it will allow the Independent Authority for Public Revenues (IAPR) to proceed with a first step that will establish a specific grading system to be linked to job descriptions. This is then expected to be completed through the adoption of a supplementary wage grid by end of 2019. Once the HR reform for IAPR has been completed, it could act as a pilot for a wider public administration reform.

8.1.1. Appointments of senior management positions

A key reform adopted as part of the ESM programme was the establishment of an objective and transparent selection process to allow for the most competent persons, including candidates from the private sector, for the most senior positions to be selected. This is an important step for depoliticising the public administration, which would contribute to modernising it and making it more efficient. A specific commitment was the completion of all appointments of Administrative Secretaries([25]) (69 in total) by the end of 2018. The process has been subject to significant delays, which the authorities attribute to several reasons, including the importance and high visibility of this appointment cycle, which is carried out for the first time. Another reason is due to the heavy workload of the Supreme Council for Civil Personnel Selection (ASEP) that is providing secretarial support to the assigned selection panels (nine members in each panel out of which three are ASEP members). Besides running parallel recruitment processes the selection panels have also been assigned with the responsibility of carrying out the appointments of other senior posts across the public administration (e.g. board members at state-owned companies). According to the last update provided by the authorities, three shortlists (each with up to three candidates per position) from the selection panel have been finalised and will be passed on to the respective Ministers to take the final appointment decision. Another three calls have completed their respective structural interviews. According to the authorities, the two selection panels should from now on be able to complete up to five shortlists per month, which means that all shortlists should be completed by end-2019.

Given the importance of this reform and considering the significant delays incurred, the authorities have committed to carry out an independent assessment and to follow-up on complementary measures. The assessment will allow to take stock of the selection process that is being carried out for the

([25]) This category covers besides Administrative Secretaries (17 in total), Deputy Administrative Secretaries (2 in total), Sectoral Secretaries (34 in total), Special Secretaries (15 in total) and Secretary General (1 post in total).

first time and to identify scope for improvements. The authorities have requested technical support from the Commission and agreed on the modality to undertake the independent assessment. This should allow for the assessment to be completed by mid-2019. Subsequently, recommendations suggested as part of the assessment should be adopted by September 2019.

In contrast, the process for appointing the Director-Generals (90 posts in total) has been completed. As concerns the selection process for Directors (390 posts), to date 47 appointments have been completed and the authorities estimate that this appointment cycle will be completed by March 2019. The appointment of Heads of Division (approximately 1,000 posts) is also delayed compared to original plans with the launch of the first calls expected during March 2019.

8.1.2. Improving the human resource management in the public administration

Continued solid progress has been made towards establishing an integrated Human Resource Management System (HRMS), which is a specific commitment for end-2019. More specifically, 512([26]) general government entities (approximately one third of the total) have completed their digital organigrams with over 113 000 job descriptions completed. Once the integrated HRMS has been completed it will allow for each job holder to have a position and specific job description assigned to her/him as well as setting out the entity/unit the job holder currently works for. However, it is observed that there is currently a discrepancy for a number of entities in terms of the number of actual positions (i.e. posts currently held by public officials and vacant posts) compared to the number job descriptions prepared. The authorities have acknowledged this shortcoming and are following up on it, for example through issuing circulars to inform the entities to fully complete this exercise, in order for each post to have a job description assigned. In the meantime, and in order to ensure proper and regular monitoring, the authorities are encouraged to add the actual number of positions for each entity in the monitoring tool used to track progress made in completing the digital organigrams and job descriptions.

Linked to the reform to assign job descriptions to each post is the review of the existing job classification system ('*klados'*), where the authorities have committed to a specific road map to proceed with its streamlining, in order to align it to the functions (24 in total) referred to in the generic job descriptions. This would contribute to a more efficient recruitment process as well as facilitating mobility across the public administration. However, given that the current system is fragmented and the need to apply a gradual approach, it is expected that the process will need a number of years to be completed. However, in order for this reform to be successfully implemented, the authorities need to ensure inter-ministerial collaboration as well as embracing the change management tools provided through the ongoing technical support in this area. Key steps for the short term include (i) linking the job qualifications ('*klados*') with functional domains (expected to be completed during the next reporting period); and (ii) working group established to select Ministries to be part of a pilot collaboration, including to update/validate the work carried out under point (i) (expected to be completed by mid-2019).

The implementation of the mobility scheme is progressing. The pace of completing all transfers of the first cycle, launched in November 2017, has picked up during this reporting period (163 out of around 200). Encouragingly, the transfers of the second cycle, launched in April 2018, seem to be going faster compared to the first cycle (88 out of 149).([27]) Further, the third cycle was launched in August 2018 and is expected to be completed by mid-2019 (specific commitment). For this cycle some 5440 vacant posts (out of which 4754 concerning transfers) were published originating from 165 entities and attracting 5333 applications. The next, i.e. the fourth mobility cycle, is expected to be launched by end of February 2019. Given the steady increase of entities that can participate (i.e. have completed their digital organigram and job descriptions) the trend of increasing number of vacancies posted and applications received is expected to continue. Finally, it is observed that a law amendment adopted (FEK A 212/2018, Art. 89) once again

([26]) These are the general government entities that have completed both their digital organigrams and job descriptions in accordance to data provided by the authorities. In addition, 153 other entities have completed their digital organigram, but not yet the job descriptions.

([27]) 149 refers to the number of posts for which selections have been completed. Out of these posts, until today 89 transfers have actually been done. Number of selections expected to increase to reflect actual number of vacant positions.

extended the duration (until 28 June 2019) of the secondments made prior to the enforcement of the mobility scheme. According to the authorities this is the last extension granted.

Finally, the next round of performance assessments (covering 2018) is expected to be launched by March 2019. The reason for the slight delay is due to a need to upgrade the online platform. The authorities have also indicated that compared to the previous year it is expected that the HR departments of each Ministry will be allocated additional time to ensure that all staff that should take part in the performance assessment is properly registered. The authorities have also presented a tentative timeplan on the introduction of the so called e-goal setting, with a pilot application expected to be initiated within 2019. According to the authorities the initial goal setting will take place at division/unit level.

8.1.3. Better regulation and coordination

Continued good progress has been made in terms of legal codification, including the preparation of four thematic codifications covering (i) process simplification, (ii) disciplinary law, (iii) mobility, and (iv) e-government. Further, the approval decision is expected to be taken by end-February 2019 for the 'National Gateway for Codification and Reform of Greek Legislation'. This will allow for the tender of this flagship project (EU-funded with an estimated budget of around EUR 2 million) to be launched during the next reporting period. As per the updated implementation plan provided by the authorities it is expected that the project will be completed in two years' time. Next key steps will include in particular the adoption of specific legal provisions for the 'Central Codification Committee' that are expected to be submitted to the Parliament by early March 2019. Given the significance of this reform that is expected to go beyond mapping out all relevant legislation in a given sector, but to also proceed to consolidate and where appropriate annul existing legislation, it would be useful for the authorities to consult with key stakeholders (e.g. social partners) when it comes to prioritising the sectors (e.g. environment, taxation). As concerns inter-ministerial coordination, the authorities are encouraged to provide an update in time for the next enhanced surveillance report on progress in implementing the inter-ministerial manual adopted in June 2018.

The process for completing the codification of the body of labour law by mid-2020 is on-going. The authorities are expected to define in the coming weeks a clear timeline for the unified Labour Law Code and the Code of Labour Regulatory Provisions for adoption by the Parliament.

8.1.4. Strengthening recruitment planning and the internal capacity of the Ministry for Administrative Reconstruction

New legislation passed by Parliament includes specific provisions to introduce a more strategic recruitment planning (incl. strengthening the capacity of ASEP) and establishing new structures at the Ministry of Administrative Reconstruction (MAR). The law (adopted on 30 January 2019, Law 4590/2019, FEK A 17/2019) foresees four-year recruitment plans that will be coupled with the MTFS and the budget allocated for new hirings, while updated annual plans will also be consolidated and submitted by MAR each year. It will be important to ensure that the four-year as well as annual hiring plans are submitted in time for the MTFS and draft annual budgets to incorporate these accordingly. The law also establishes a special secretariat at MAR that will allow for a comprehensive monitoring and evaluation of the effectiveness of reforms as well as providing targeted technical support to general government entities, in order to ensure that the reforms are implemented appropriately across the public administration. Further, the new structure is expected to facilitate the implementation of public administration reforms that are part of the Growth Strategy, such as the process registry and internal control function. In this regard it will be important to avoid a duplication of mandates, for example regarding the allocation of responsibility between departments to oversee projects carried out under the EU-funded operational programme on public sector reform. In summary, the adopted law is an important step in the right direction towards continuing the process of modernising the public administration.

8.1.5. Controlling the size and cost of the public sector

Since 2010, a reduction of permanent staff in the public sector was achieved by introducing limits to hirings through a freeze of recruitments in 2010 and the application of an attrition rule thereafter, which was gradually eased. For 2018 the attrition rule was set to 1:3 (i.e. one entry for each three exits). Similarly, a significant restriction was placed on temporary personnel of general government entities (excluding legal entities of private law), which the authorities committed to maintain at the 2016 level (i.e. 47,584) for the period 2016-2018.

Table 8.1: **Evolution of public sector staff and wage bill (2009-2018)**

	Permanent staff	Temporary staff burdening the budget (1)	*of which temporary staff of General Government (excl. legal entities of private law) (2)*	Elected staff	Other categories	Total
2009	730 234	153 087	148 634	21 286	3 366	**907 973**
2010	700 962	109 968	105 961	21 286	3 262	**835 478**
2011	674 012	57 853	54 590	12 113	3 088	**747 066**
2012	654 781	41 869	38 807	12 031	3 053	**711 734**
2013	618 572	22 626	20 316	13 252	3 103	**657 553**
2014 (3)	576 856	12 833 (4)	12 833 (4)	6 188	2 891	**585 935**
2015	600 484	56 385	49 800	7 149	4 773	**668 791**
2016	598 870	58 053	47 584	8 057	4 851	**669 831**
2017	602 908	59 731	47 433	8 248	5 728	**676 615**
2018	601 103	64 911	49 126	8 887	6 027	**680 928**

(1) Includes all temporary contracts in General Government entities and legal entities under private law. For 2009-2013 the figure refers to the stock at the end of each year, whereas for 2014-2017 the figure is a yearly average (Jan-Dec) and for 2018 the figure is the Jan-Oct average
(2) The temporary staff of General Government entities (excl. legal entities of private law) is subject to a ceiling
(3) 2014 figures are not comparable because data on personnel of legal entities of private law (permanent & temporary) are not available in census database
(4) Data on temporary staff not burdening the budget is not available for 2014. The figure of temporary staff for 2014 derived based on the cencus database comment that the number of temporary staff not burdening the budgets is 45 000 for 2014(which equals the approvals of 2013 for this type of personnel)
Source: Apografi database

The number of public servants slightly increased in 2018, driven mainly by a sharp increase of temporary staff (see Table 8.1**).** Permanent staff has remained broadly stable since 2015. However, according to the latest updates from the authorities, the actual hirings in 2018 exceeded the attrition rule by 1,075 persons, also reflecting the lower than expected exits mainly due to a reduction of retirements. This excess recruitment will, according to the authorities, be offset in 2019. The number of total temporary staff has significantly increased in 2018. While this is largely driven by temporary staff employed at legal entities of private law (see next paragraph), census data for 2018 also show that the temporary personnel of general government entities (excluding legal entities of private law), i.e. covered by the ceiling applied([28]), exceeded the set ceiling by close to 1,550 persons.

The category of temporary staff employed at legal entities of private law, which is not part of the ceiling for temporary staff, has seen an increase by about 50% over the last two years. According to the authorities this increase was largely explained by an extension of the perimeter of the Single Payment Authority (SPA) to staff for which the expenditure is covered by the Public Investment Budget (PIB)([29]). As a consequence, and in order for the SPA to execute the payment, the staff concerned had to be also registered in the census ('*apografi*') database. Although the adopted legal provision is in principle a positive measure, as it extends the SPA's mandate to also cover this category, the fact that the census had omitted in the past a rather large number of public sector employees raises potential concerns. In order to ensure that the census provides an accurate and complete overview of the number as well as flows and the financing source, the authorities have confirmed that they will take action to ensure that all public sector employees will be registered in the census and to make the necessary adjustments to the reporting framework of the census during the next reporting period.

([28]) Average number of temporary staff for 2016 (i.e. 47584) should be seen as the ceiling for 2017 and 2018.
([29]) FEK B 4936/2018

Recent hiring announcements by the authorities raise concerns regarding the achievement of the authorities' staffing and wage bill targets for 2019. The Medium-Term Fiscal Strategy (MTFS, 2019-2022) has set an attrition rule of 1:1 for permanent staff, and the wage bill projections implicitly build on a stable number of temporary employees (see Table 8.2). The respective ceilings cater for the planned conversion of temporary to permanent contracts for 4,500 teachers and 3,257 employees for the 'Home Assistance' Programme as per the authorities' announcements. In addition to these conversions, the authorities have set out plans to hire 9,030 permanent staff during 2019. If these hirings were to be realised, the ceiling for permanent staff as set by the attrition rule would be exceeded by more than 1,800 (including the offsetting of excess hirings for 2018). Moreover, the increasing trend of temporary staff recruitment seen in 2018 also raises significant doubts as to whether the temporary staff ceiling, which, following the conversion, foresees a reduction by 14% in 2019, will be achieved, in line with the MTFS wage bill targets. It will therefore be key for the authorities to continue paying close attention to the evolution of the public sector headcount, keeping within the replacement rule (1:1 from 2019 onwards) for permanent hiring but also reining in the trend of increasing temporary staff. The Commission will continue to pay close attention to the evolution of the public sector as to avoid a return to the pre-crisis excessive number of public servants.

Table 8.2: **Hiring limits of permanent personnel and indicative ceilings for temporary personnel to be monitored in the Enhanced Surveillance Reports (2018-2022)**

	2018 (2)	2019	2020	2021	2022
Permanent staff - new hirings (as per Hiring Plan in MTFS): compliance with attrition rule (1:3 for 2018 and 1:1 for 2019-2022) (1)	6 048	14 908	7 983	8 702	8 597
Ceiling of temporary staff burdening the budget - total number of staff contracted (1)	64 911	57 154	57 154	57 154	57 154
of which					
Temporary staff of General Government entities	49 126	41 369	41 369	41 369	41 369
Temporary staff of public entities of private law	15 785	15 785	15 785	15 785	15 785

(1) 2019 figures include corresponding reductions of 7757 persons due to the hirings of 4500 teachers and 3257 persons in "Home assistance" program.
(2) 2018 figures are based on the latest updates from authorities. Note, November and December 2018 data not yet made publicly available through 'apografi'2018 figures are based on the latest update from authorities.
Source: European Commission

Finally, as highlighted in the first enhanced surveillance report (November 2018), concerns remain related to policies which risk undermining the uniform wage grid. For a more detailed description of the possible implications and the associated fiscal risk (see Section 3.1).

8.2. JUSTICE

The first phase of the Integrated Judicial Case Management System (OSDDY/PP), an end-2018 specific commitment, was completed on time and the activation of the second phase has begun. The objective of the project is to support courts and prosecutors' offices in the administration of criminal and civil processes, to provide services to the public and assistance in the operational functions of the courts. It provides the ability to monitor online the progress of any case pending in the participating courts. The scope of the first phase covered 41 courts, covering the major metropolitan areas and all degrees of jurisdiction up to the Supreme Court. The results perceived so far are acceleration, reduction of bureaucracy and, to a certain degree, elimination of paperwork, as well as the elaboration of standardized and more reliable statistics. The second phase, to be finalised by mid-2020 will cover the rest of Greece, also building on the experience acquired during the roll-out of the first phase. The project was extensively redesigned and upgraded as compared to its initial layout and its initial budget was doubled, reaching EUR 24 million. Its timetable was commensurately extended.

Based on the progress achieved so far, it is critical to ensure that efforts be deployed towards the speedy and thorough implementation of all actions of the project, and more broadly, of the ongoing three-year strategic plan for Justice. The acceleration of judicial proceedings, the upgrading of court functions and services, the securing of accurate and complete data in a homogeneous and standardized form, allowing for the effective monitoring and problem resolution, the adoption of a number of legislative texts of major institutional significance in the form of newly elaborated codes (Penal Code, Code of Penal Procedure, Code on the Organisation of Courts of Justice, Code on Judicial Employees) and the completion of long-standing initiatives (revision of the judicial map, adoption of provisions on legal aid) are of decisive importance in the context of the contribution of Justice to strengthening the business environment and attracting investment in the aftermath of the crisis.

Setbacks to the operation of the new framework of out-of-court mediation, an important reform adopted under the ESM programme, need to be remedied as soon as possible. As detailed in the previous enhanced surveillance report, the authorities adopted a postponement of the entry into force of the provisions on mandatory mediation, from mid-October 2018 to mid-September 2019, in deference to a Greek Supreme Court opinion to the effect that the provisions in question are unconstitutional and incompatible with Union law in certain respects, mainly related to the financial burden on the parties and to the professional qualifications of mediators. Given the limited scope of the Supreme Court's findings, the issues identified should be addressed without delay. It is important that the concerns of the Supreme Court be addressed in the shortest possible time through the adoption of the required amendments to the law on mediation so as to ensure the availability of the full spectrum of mediation options to the public, in compliance with Greece's commitment to continue the implementation of all key reforms adopted under the ESM programme.

In line with the request of the Eurogroup of 22 June 2018, the Commission has continued to monitor developments in relation to the legal proceedings against the members of the Committee of Experts (CoEx) of TAIPED and the former President and senior staff of the Hellenic Statistical Authority, ELSTAT. Regarding the CoEx, the Supreme Court Council admitted the appeal against a ruling referring the case to a public trial, and referred it back to the council of the Court of Appeal; in January 2019, the latter's prosecutor submitted his proposal to the council, concluding in favour of a dismissal of the charges against the defendants. The case is currently pending before the Court of Appeal. In the case against former ELSTAT President A. Georgiou related to fiscal statistics, there have been no further developments to those described in the previous enhanced surveillance report. The Commission will continue to closely monitor developments in both procedures to report back in the context of enhanced surveillance.

In the area of anti-corruption, the authorities have continued their efforts, led by the General Secretariat for Anti-corruption (GSAC), on a number of areas included in the National Anti-corruption Action Plan (NACAP) for 2018-2021. Most notably, GSAC is currently finalising three legislative initiatives that should be ready to be submitted to the Parliament during the next three months, concerning (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. Further, following the good progress over the last years in the area of political party financing, this year's election cycle([30]) will be the first time the new legislation is implemented/enforced. Regarding actions that are part of the NACAP, the setting up of a coordination mechanism for corruption cases will warrant particular attention in the coming months. The authorities are also encouraged to complement their bi-annual progress reporting on the implementation of the NACAP by (i) integrating recommendations provided by international institutions and organisations (e.g. GRECO and OECD); and (ii) following up on specific policy advice provided by the technical support provided through the Commission. Finally, as concerns the action relating to the role and operations of the anti-fraud coordination service (AFCOS) aiming to ensure cooperation between the legislative, administrative and investigative branches of the public administration relating to the protection of the EU's financial interests, discussions are ongoing with the Commission on the steps needed to be taken to allow for this action to be closed by the time the next enhanced surveillance report is issued.

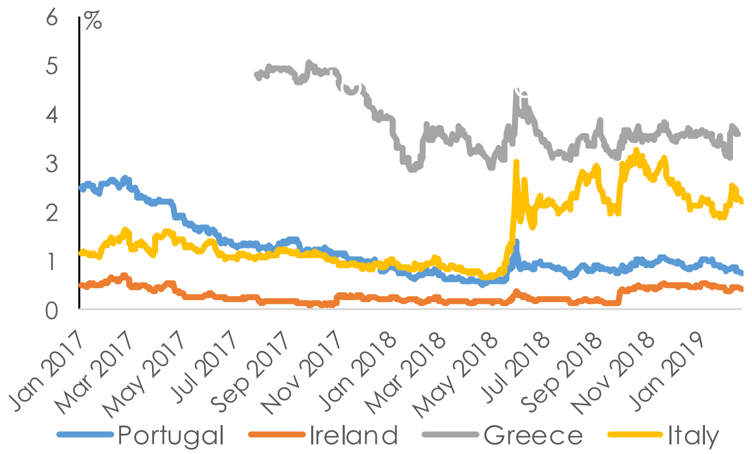
([30]) Regional and local elections to take place in two rounds on 19 and 26 May (the 2nd round taking place at the same date as the elections to the European Parliament). National elections will need to take place by October 2019.

9. SOVEREIGN FINANCING AND CAPACITY TO REPAY

9.1. SOVEREIGN FINANCING

Greece raised EUR 2.5 billion by issuing a 5-year government bond at the end of January 2019. This was the first bond issuance by Greece since February 2018, i.e. the first issuance after the end of the ESM programme. The transaction attracted demand over four times in excess of the issued amount. This allowed the yield to be 3.6%, lower than the originally planned range of 3.75-3.85%, although still elevated. The coupon rate of the bond is 3.45%, and it matures in April 2024. The new benchmark rallied after the syndication and was traded at about 3.2% end-January. Although there was no imminent need for the Greek government to raise funds to cover its financing needs, introducing new benchmark bonds is indeed helpful in rebuilding the Greek yield curve and creating a more liquid government bond market. At the same time, the impact of the still elevated yields on debt sustainability should continue to be carefully considered.

Graph 9.1: **5-year government bond yield spreads to the Bund**



Source: Macrobond

State liquidity, is sufficient to cover the financing needs for at least two years even without new issuances. According to data provided by the authorities, the financial buffer provided by State deposits stood at EUR 26.8 billion at the end of 2018 and driven by amortizations it is projected to reach EUR 16.1 billion by the end of 2019 even without new issuances.([31]) The debt servicing needs for 2020 are estimated at EUR 10 billion, thus the estimated cash buffer would cover the State debt-financing needs well into 2021.

([31]) Assuming no net issuances of short term debt except for repo operations with maturing intragovernmental loans that need to be deposited in the treasury account of the Bank of Greece.

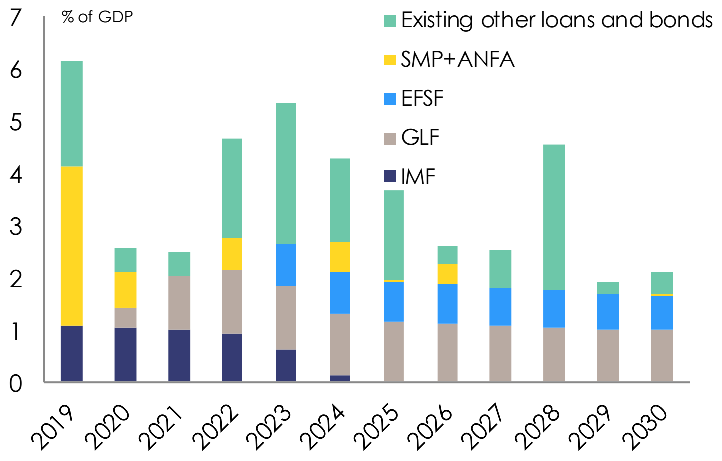
Table 9.1: **State financing requirements, sources and financial buffer in 2018 and 2019**

EUR billion	2018	2019
Funding requirement		
State cash balance ('-' = surplus)	3.5	4.7
Amortisation (excl. short-term)	4.6	11.7
of which IMF	1.7	2.1
of which Eurosystem	1.9	5.8
Other (including funding for arrears outlfows)	2.0	0.0
Total requirements	**10.1**	**16.4**
Funding sources		
Market financing (medium-/long-term + repos)	12.9	3.7
Official financing	21.7	0.0
Other (including privatisation)	1.3	2.0
State deposit financing	-25.9	10.8
Total sources	**10.1**	**16.4**
Financial buffer	26.8	16.1

Estimates assuming no further market issuances for medium or long-term debt and no medium term debt measures
Source: European Commission

Greece' sovereign financing profile remains favourable in the medium term. There have been no significant changes in the roll-over risks of Greece's public debt since the enhanced surveillance report published in November. Greece still benefits from a debt structure with extremely long average maturity and favourable interest rates. Graph 9.2 shows the medium and long-term amortizations of the existing loans and bonds. Even if the actual amortizations are expected to be higher due to the interim bond issuances, financing needs are expected to remain relatively contained in the short and medium term. Also, the ample cash buffer built at the end of the ESM program will contain roll-over risks in case market access is hindered.

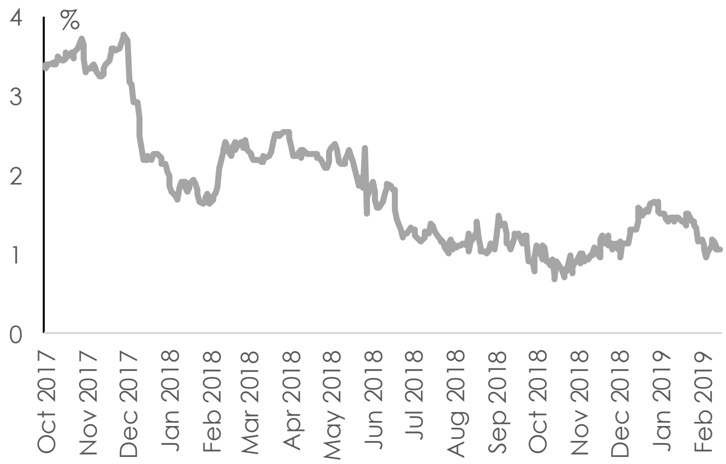
Graph 9.2: **Medium and long-term amortisations**



Source: PDMA, IMF, ESM, European Commission

Despite the successful exit from the program in August, Greece's yield spreads remain elevated. The spreads of ten-year government bonds compared to German Bunds have widened further since October 2018 by around 20 bp and averaged around 4% in January 2019. Spreads had spiked in early January at about 4.2%, but receded by to around 3.75% in the wake of the successful bond issuance at the end of January, which corresponds to the yield dropping from 4.4% to 3.9%. While Greek spreads were affected by adverse developments in Italy from mid-2018, underscoring Greece's vulnerability to external shocks, they remained elevated later in the year while Italian spreads started to moderate. This suggests that some of the risk premia embedded in Greek yields are related to domestic factors, and may signal investor concerns over weaknesses in the banking sector as well as the commitment to reform continuity.

Graph 9.3: **Greek spread of 10-year government bond yield over Italy**

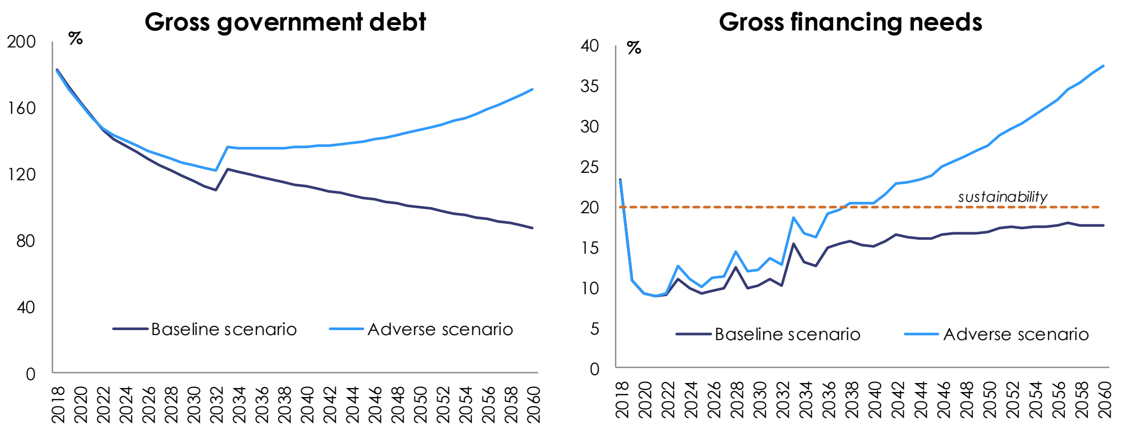


Source: Macrobond

9.2. DEBT SUSTAINABILITY

A technical update([32]) of the debt sustainability analysis shows that the assessment of the sustainability of Greece's debt is broadly unchanged. Changes since the last technical update undertaken in November 2018 are due to the updated macroeconomic projections and interest payment forecast updates. Assuming full implementation of all medium-term measures politically agreed in June 2018,([33]) the baseline scenario shows the debt remaining on a downward path until 2033, when the deferred interest are to be capitalised and included in the debt (EDP definition), which results in a hike of public debt. After 2033, debt declines further but remains above 100% of GDP until 2050.

Graph 9.4: **Main results of the debt sustainability analysis**



Source: European Commission

([32]) The technical update includes: updated GDP data and macroeconomic scenarios, updated assumption on risk free rates, updated interest and amortization payments on Greek Loan Facility as well as other, non-official loans, and an updated arrears clearance schedule.

([33]) The abolition of the step-up interest rate margin related to the debt buy-back tranche of the second Greek programme as of 2018; the use of 2014 SMP profits from the ESM segregated account and the restoration of the transfer of ANFA and SMP income equivalent amounts to Greece (as of budget year 2017); a further deferral of EFSF interest and amortization by ten years and an extension of the maximum weighted average maturity (WAM) by ten years, respecting the programme authorized amount.

Greece's gross financing needs (GFN) will hover around 10% of GDP until 2032. Later, GFN starts to increase slowly, but is projected to remain around 18% of GDP at the end of the forecast horizon. In the adverse scenario debt remains on a downward path until the end of the deferral period, but then starts to increase and becomes explosive from 2037 onwards. Under that scenario, GFN reaches 20% in the late 2030's and then remains constantly above it.

Table 9.2: **Main results of the DSA calculations assuming full implementation of the medium term measures, and the main underlying assumptions**

		2018	2019	2030	2040	2050	2060	Average 2019-60
Debt (% of GDP)	Baseline	182.8	172.2	115.8	112.4	100.0	87.6	
	Adverse	181.9	171.1	125.2	136.3	146.2	171.4	
GFN (% of GDP)	Baseline	23.3	10.9	10.2	15.0	16.8	17.7	
	Adverse	23.2	10.9	12.2	20.4	27.6	37.6	
Primary surplus (% of GDP)	Baseline	3.7	3.5	2.2	2.2	2.2	2.2	2.4
	Adverse	3.7	3.5	1.5	1.5	1.5	1.5	1.7
Nominal growth (%)	Baseline	2.5	3.2	3.0	3.0	3.0	3.0	3.1
	Adverse	3.0	3.4	2.8	2.8	2.8	2.8	2.9
Re-financing rates (%)	Baseline		3.8	5.1	4.7	4.3	4.0	4.6
	Adverse		3.7	5.4	5.4	5.6	6.0	5.4

Source: European Commission

ANNEX

Progress with the implementation of mid-2019 specific commitments commitments to the Eurogroup (Eurogroup annex 22 June 2018)

Commitment	State of play and next steps
Mid-2019	
Tax policy ENFIA. Greece will undertake, by mid-2019, a nationwide valuation exercise of property tax value based on market values.	The legal framework for the new system of property valuation has been established, a Property Tax Valuation Unit has been set up, and two key IT projects have been initiated to map electronically zonal boundaries and to systemise the collection of real estate data.
Public financial management: Greece will continue to implement reforms in the area of public financial management, avoiding the accumulation of new arrears and will, by mid-2019, complete the implementation of reforms identified by the Hellenic Court of Auditors (HCA).	Work is ongoing although some measures are lagging behind. Discussions are ongoing to pinpoint further measures in addition to the ones already in the pipeline, inter alia through streamlining payment processes.
Health care – Clawbacks: Complete the full offsetting and collection of the clawback by June every year for the previous calendar year.	The calculation of the clawback for hospital pharmaceuticals 2018 is expected to be finalised by February 2019. For outpatient pharmaceuticals, by April 2019 EOPYY should be able to start the 2018 offsetting. The clawback for health services providers for 2018 has been calculated and should be published in the March 2019.
Social safety nets. Greece will complete the reform of social safety nets launched under the programme; to this end it will apply to all disability benefits the new approach for disability determination based on both medical and functional assessment by mid-2019.	The pilot project testing the new procedures for disability assessment is progressing, and these should be extended gradually to the rest of the country by June 2019. There is a risk of delays with the definition of the new methodology for a functional assessment of disability, due to the slow collection of data from the pilot.
Cadastre. Greece will complete the drawing of the remaining forest maps by mid-2019	The reform of the cadastre is progressing, with currently 41% of the country covered by definitive maps; and 11 % of the country has finalised maps in the process of ratification. A further 46% of the country maps are being processed by consultants and 2% of the country delayed due to tender failure.
Energy. The Target Model will be fully launched by	Prior steps, such as setting up Henex Clear and preparing some of the rulebooks (for the spot markets- Intra-Day and Day-

Commitment	State of play and next steps
mid-2019	Ahead and for the balancing markets) have been achieved. There has been very little progress regarding the development of a forward market, which is planned to open after the spot markets and balancing markets open. A full launch is currently expected by October 2019; however, there are concerns that this could be even further delayed, perhaps into to 2020.
HCAP. The review/replacement of all SOE boards will be completed by mid-2019	Review / replacement of ELTA and GAIAOSE board of directors (BoD) completed. Appointing professional members in the BoDs in the bigger non-listed SOEs (in particular executive members) continues to be challenging. The authorities have agreed to address the legislative cap on the remuneration of SOE board members that leads to obstacles in attracting applicants through the adoption of a legislative amendment in time for the 3rd enhanced surveillance report.
Tenders. The transactions on HELPE (including transfer of remaining shares to HCAP) and Marina of Alimos will be completed by mid-2019	**HELPE:** The two remaining bidders have proceeded to setting up consortia Glencore-Carlyle and Vitol-Sonatrach. They are expected to submit their binding offer in early March. The fact that there are only two bidders in the final phase is not positive for the outcome of the process. • **Marina of Alimos**: Submission of binding offers by the interested Investors on 14 February.. Currently, TAIPED is undertaking a due diligence of the submitted by the bidders documentation.
Public Administration - Appointments. Greece will complete independent assessment of this process, including follow-up measures	The authorities have requested the support of Commission services to carry out this independent assessment. Agreement in principle as concerns how this assessment will be carried out. Assessment expected to be initiated shortly and to be completed by mid-2019. Recommendations and expected follow-up by the authorities (incl. legal revisions) should be completed by September 2019.