

THE HELLENIC REPUBLIC

REPORT ON FURTHER ACTIVITIES

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Introduction

Following our discussions in Paris and the EWG meeting, we would like to reiterate our firm commitment to continue the reform process and fulfill our program obligations.

We take stock of your comments raised in the meetings during the last few days. It must be pointed out that we are working on a very ambitious reform agenda, committing to deliver necessary reforms in a few months, which in other countries have taken years.

We are determined to walk the extra mile described in detail below, while recognizing we are facing inherent limitations. The proposal described herein exceeds the limits of our present reform capital and it should be interpreted as a last good faith attempt to mitigate your legitimate concerns for the credibility of the program.

We would like prima facie to address the issue of the IMF's role in the post European program - ECCL era. We recognize the existing limitations of the Fund's options and would foresee the Fund's involvement to continue on an EFF precautionary basis. This would ensure an orderly and credible exit and would further strengthen our credibility in capital markets. It would also allow us to continue systematically the reform effort. It is understood that the format and context of our cooperation will be amended to reflect the qualitative difference of the new relationship, while maintaining the same goal of improving our competitiveness through an ambitious reform agenda.

On the issue of the Budget, we recognize that we have a bona fide difference on the perceived balance of risks, i.e. we agree that we disagree. We propose to bridge this legitimate disagreement and move forward in the following way: On the one hand, we commit to specific contingent measures to take effect on 01/07/2015 in order to close a fiscal gap that may arise if our projections are not reached in the budget execution of the first 6 months. On the other hand, we immediately adopt additional fiscal measures on the VAT and other areas to close the gap. In addition, we provide more data and substantiation to some of the measures presented earlier this week. We trust that this proposal, regardless the huge difficulties it raises for us internally, proves our determination to successfully complete the review in a credible way.

Part A

New Fiscal Measures and Further Quantification

In our last Sunday's note "*Documentation of Budget Figures and Further Initiatives to Shield the 2015 Fiscal Targets*" we highlighted in section D new initiatives and sources of funding not included in 2015 Draft Budget. Here we emphasize three areas of reform that could lead to significant revenue increases: (A) higher VAT rates on hotels (not mentioned in the earlier report), (B) Social security savings (not mentioned in our earlier report) and (C) VAT lottery and other tax administration measures (mentioned in section D). These measures add **€980mln** to the 2015 revenues and promise to deliver higher amounts in the following years. Most of them are parametric.

1. VAT

To address the enormous VAT gap (€9.7bn or 4.7% of GDP in 2011, according to the EU/TAXUD 2013 study), we plan to implement an increase in the VAT rate on hotels, from 6.5% to 13%. This may also help in simplifying the existing structure and align the VAT rate on Hotels with the VAT of restaurants and catering, thereby eliminating arbitrage opportunities. A conservative estimate of the potential revenues amounts to a minimum of **€350 million**.

We must underline the fact that by bringing Hotel VAT up to 13% and simplifying the existing structure, we are seriously hurting price competitiveness of Greek Hotels, vis-a-vis all other Mediterranean countries, both EU members and non-EU members. It is true, of course, that there are many ways to offset this effect, mainly through further structural changes and direct investment. However, it is evident that all other measures to enhance competitiveness require both time and money to materialize and bring positive results, while tax hikes through a VAT increase bring negative effects momentarily.

2. NEW SOCIAL SECURITY SAVINGS

The Ministry of Labor has elaborated the following measures to achieve additional savings for social security funds that were not mentioned in our earlier correspondence:

- a) **Maintain nominal pensions at the level of 2015 for 2016 and 2017.** This is a parametric measure. It means that an increase in nominal pensions as of 1.1.2016 to partially offset the effects of inflation and account for GDP growth in line with L. 4024/2011 (Article 2, par 10) will not be implemented for 2016- 2017. Savings are estimated at €50million (0.18% of current cost) for 2016 and €140million (0.5%of current cost) for 2017. Long-term cumulative benefits from this initiative grow

exponentially and make a huge difference in the medium and long term sustainability of our pension system.

b) Validation of Family benefits paid to pensioners. Permanent savings accrue from this initiative. Based on the “Helios” data base, every month 664.862 (approximately 665 thousand) pensioners are receiving monthly family benefits of €38.6 per capita, i.e. around €462.5 million per year. Those benefits are paid for children based on their age and status, and for spouses. By implementing cross checks with the AMKA registry, the tax registry, and the student’s registry, non-eligible pensioners will be identified and the relevant benefits will be suspended. It is estimated that annual saving of 5%-8% will be achieved, i.e. €23.1-37million per year.

c) Full implementation of article 13 of law 3863/2010. Permanent savings accrue from this initiative. The specific article introduces specific cuts to pensions transferred to family members, 3 years after the death of the pensioner. According to the “Helios” database, the total amount paid to family members of deceased pensioners that are also receiving their own pension after 3 years of the death is €1.027 billion per year. Cross-checking and full implementation of the cuts specified in Law 3863/2010, are estimated to produce savings of between 8% and 12%, i.e. €82 to €123 million per year.

Estimations of additional Social Security Savings 1/

(amounts in mil. Euros)

Measure	2015	2016	2017
Maintain Pensions-suspend increase		50	140
Validation of family Benefits	30	30	30
Full Implementation of art 13, law3863	102.5	102.5	102.5
Total	132.5	182.5	272.5

1/ The table summarizes the savings based on average estimates in cumulative (not marginal) terms.

3. VAT lottery and other administrative measures.

This is an administrative measure with the potential to boost the efficiency of other initiatives in the area of VAT administration, hence it acquires parametric nature. The VAT lottery scheme will focus on the implementation of the @podeixi project developed by the European Commission’s Taskforce and the Demokritos National Research Center. There exists a detailed report, which contains an extensive documentation about the resounding success of similar programs in countries such as Portugal, Malta and Slovakia (including also the references to the significant revenue gain in Portugal amounting to 800 million EUR in the first six months, according to the Portuguese data, and to the very positive consequences in Malta in terms of substantially reducing the VAT gap). Administrative

measures such as electronic invoices and cross-check of business-to-business (B2B) invoices and retail sales will also yield tangible results in our fight against tax fraud and evasion.

If the additional revenues in the Portuguese case were 1.6 bln euros annually, at this stage, for Greece it seems **reasonable - albeit very conservative** - to assume that **at least** additional **500 mln euros** revenues, or less than 1/3 of the Portuguese case, will be generated in 2015 from the combination of incentives to individuals (VAT lottery) and more advanced and stricter administrative control (electronic invoices and B2B), subject to thorough implementation.

Please note again that the above items 1 through 3 of Section A of our response, add up to an amount of **€980 mln**.¹

¹ The issue of the restructuring of the tobacco fixed and ad valorem tax rates, will be reconsidered in the context of the government's combat against illegal merchandized trafficking.

Part B

1) Contingent Measures

Commitment to intervene in Mid-Year to correct unexpected deviations from the fiscal target.

In addition to the new fiscal measures and the further quantification outlined in earlier Part A, and the update of the documentation of the Budget figures and further initiatives that follow, we commit to specific contingent measures to take effect on 01/07/2015 to close any gap that arises if our projections were not reached in the budget execution of the first 6 months. These commitments to correct any unexpected deviations from our fiscal targets would include:

- Removing the solidarity surcharge discount of 30% for the years 2015 and 2016
- Imposing a luxury tax
- Increasing the excise taxes on alcohol and tobacco, if there is consensus that it would generate rather than reduce revenue

The agreed a priori enforcing penalty mechanism should we, contrary to our expressed commitment, fail to enforce the above, could be the distribution of the 2014 SMP profits. This is a hard consequence, ensuring that, if contrary to our projections we face unexpected deviations, we will implement the agreed contingent measures that amount up to more than **€500 million**.

2) Update of Documentation of Budget Figures and Further Initiatives to Shield the 2015 Fiscal Target sent on 22 November 2014 (new material marked in yellow color)

The Hellenic Government is unequivocally committed to achieve the goal of fiscal consolidation as specified in the Adjustment Program. Specifically, the 2015 Draft State Budget, which was submitted to the Hellenic Parliament on 21/11/2014, meets the Economic Adjustment Program target of a primary surplus of 3% of GDP in 2015.

We re-iterate that, according to our estimations, there will be no fiscal gap regarding the 2015 target for the primary fiscal outcome. We also emphasize that the adoption of overly conservative assumptions about the fiscal outcome beyond those included in the budget and, therefore, the imposition of an overly restrictive fiscal stance, would have adverse repercussions on the growth outlook of the Greek economy. This, in turn, would feed back negatively into the fiscal outcome.

The Draft Budget incorporates a comprehensive analysis of the risks that typically surround any projection. Notwithstanding the geopolitical tensions and economic headwinds in advanced economies, those risks are broadly balanced. Over the last few days, our specialized people

within the Ministry of Finance, have had teleconferences and exchanged e-mails that helped your technical teams to better understand our budgetary projections in both the Central and the General Government. In particular, your teams received information and technical notes on the State Budget Revenues (Other Direct Taxes, License receipts, Property taxes, Other Non-tax revenues, Green Fund and Excise Tax and VAT on Fuels) and on the Local Governments (LG's) latest budget execution data in a "t-report" format. This information shows that we have converged to your estimates in various categories and have updated our estimates based on the latest available information; if anything, our position that the 2015 Budget is realistic is now strengthened.

After our Sunday's (23/11/2014) note, the realism of the 2015 Budget in various previously disputed areas (other direct taxes, other income taxes, untaxed reserves, non-tax revenues) has been confirmed by the exchange of e-mails dated 23, 24 and 27 November 2014. Please find below the developments since Sunday regarding the specific initiatives mentioned in sections A to D.

A. Part of the gap is already closed following our interaction

Based on our interaction over the past few days, from a fiscal gap of €2.6bln that has been identified in earlier conversations as well as in your latest correspondence (15.11.2014), an amount of **€1.113mln or 43%** of your estimated gap is sufficiently addressed, hence it can be eliminated. This is due to a number of items that were clarified in the course of our interaction. Those items are briefly described below:

1. **Excise Tax and VAT on Fuels:** In these two revenue categories we differ considerably, namely, by 280 mln euros in 2014 and 312 mln euros in 2015. However, according to our latest estimates that are based on the 10-month Budget execution data for 2014, this gap has to become narrower, at approximately 90 mln euros in 2014. These new estimates are based on the fact that the upside risks we mentioned during your last mission have materialized. In particular, gasoline consumption has been stabilized, diesel-transportation oil has increased on average by 6.5% over the last ten months and diesel-heating oil exploded by +220% in October 2014 versus the same period of 2013. Thus, using this new information in order to update our projections, we conclude that the gap you have identified for 2015 should be narrowed by at least **229 mln euros**.

After our Sunday's note, responding to your technical teams requests, we have provided additional information regarding our latest estimates on the excise tax and VAT on fuels (your and our e-mails dated 23, 24 and 27 November 2014). In particular, on heating oil, we are gathering volume data on a daily basis that through November 20th show very significant y-o-y growth but we need to wait until we have the full month's data because the last days historically show the highest consumption (as is also the case in other tax categories). We will share with you the full November data early next week and are confident the substantial y-on-y rebound in consumption merits a revision in your projection.

2. **Property Taxes:** In your analysis there is a gap in the 2015 property tax collections because you forecast a gap in 2014, which it appears you assume will be replicated next year. We have three counter-arguments to this assessment.
- (a) GAO has provided you with the commonly agreed property taxes template, updated with the latest Budget execution data. These data confirm our estimates on new property tax (ENFIA), particularly with regard to a collectability ratio higher than 80%. This is because the receipts over the first two months of ENFIA's collection interval were quite strong. An amount of €1.175mn or 44.3% of the expected amount of €2.650mn has already been collected. Thus the Troika estimates on the quantification of ENFIA and, in particular, its overly low collectability ratio (66.5%) is unjustified. It ought to be corrected to a higher level, hence resulting in removing the remaining gap of **€200m** on ENFIA.
- (b) The 2014 ENFIA compared with the preexisting property and wealth tax regime (FAP plus EETA) has resulted in a substantial widening of the tax base by including non-urban real estate. Hence, it resulted in a decrease of the average tax per person. This fact should boost the collectability ratio both in 2014 and in 2015.
- (c) The earlier analysis refers mainly to 2014. However, next year, the disposable income of households, the profitability of enterprises and all asset values are projected to rise, implying higher property taxes as the collectability rises and the underlying base expands. Hence, our reported amount of **€200m** is an **underestimate** of how much the gap ought to close.

Further to your request, we have provided additional and updated information on ENFIA assessed and collected as well as the amount paid upfront (e-mails dated 24 and 27 November 2014). Moreover, we explained why the recent court ruling of the Council of State on zonal prices is not expected to materially affect the 2015 ENFIA revenues. In our view, this set of responses addressed your concerns and we continue to believe that **€200m** is an underestimation of how much the "gap" ought to close.

3. **Contingency Reserve:** When it comes to contingency reserves, we have two major arguments against your assumption that contingency reserves ought to rise by €200mn to €1.2 bn. This difference implies a closure of the gap by at least **200 million euros**.
- a) The first argument is based on historical information, namely, on the fact that in the previous years the contingency reserves were not fully spent. In 2013, 840 mln euros were been allocated to the contingency reserve, of which 706 mln euros were actually spent. In 2014, it is estimated that 920 mln euros will be allocated, of which it is expected that 750 mln euros will be spent by the end of the year. Thus, there is no need to artificially inflate the appropriations of the contingency reserve in 2015. We strongly believe that the 1.000 mln euros that have been incorporated in the 2015 Budget, are more than enough to deal with unforeseen circumstances.
- b) The second argument is based on the fundamental rule of economics that a contingency reserve ought to be higher if risk is rising and lower if risk is declining. This rule implies that in 2015, a year of high growth and declining risk, the contingency reserve ought to decline. Yet, you assume the contingency reserve ought to rise by €200m!

Ordinarily, the contingency reserve ought to decline, say to €800mn. In the Draft Budget, we kept the contingency reserve at the same level as in 2014, at €1bn. This is already a very conservative assumption. Thus, your **200 mln euros** higher appropriations seem to point to the wrong direction.

We maintain our estimates for a contingency reserve of the ordinary budget of €1bn compared to your estimate of €1.2bn, due to the following reasons:

- ii) Historically, spending from the ordinary budget contingency reserve the previous years amounted to €500-800 mln. For 2013 and 2014, this amount includes €300mln transferred to hospitals, to compensate for EOPYY's financing gap to hospitals, to cover the repayment of previous years' obligations. These supplementary grants to hospitals are not certain to occur in 2015 and the following years.
- ii) The judicial decisions expenditure annually amounts to €120 - 170mln. For 2014, this amount includes €30mn for the compensation to the Casinos construction company, and supplementary grants to OASTH due to arbitration decisions. We note that these supplementary grant to OASTH will cease in 2016.
- iii) Should we face adversities such as judicial decisions for refunding tax payers for ENFIA property tax, or refunding fines and surcharges for illegal buildings to property owners, we plan to treat this obligation as offsetting with other tax obligations of the individuals and it will not be financed from the contingency reserve. We underline that for a judicial decision to be considered an obligation of the budget, it must be definitive and irrevocable.
- iv) Should there be an adverse judicial decision to compensate in full the uniform personnel for the retroactive wages and pensions, then the incremental supplementary cash expenditure is estimated at €138 mln per year and will be covered from the contingency reserve appropriations.
- v) In 2013, €840mln were allocated from the contingency reserve to other expenditure lines of the budgets of the Ministries, of which €706mln were spent. For 2014, we estimate we will allocate an amount of €950mln, including the €222mln of extraordinary non-recurring contributions to the EU budget, that will be partially refunded with the amount of €133mln in 2015. Of this amount, we estimate that approximately €750-830mln will be spent.

Based on the above arguments, we consider €1bn to be sufficient for the contingency reserve of 2015 and the following years of the MTFs, even taking into account the EC-ECB-IMF position whereby this reserve is not only for the State but for the entire General Government.

4. **Accounting treatment of licenses' receipts:** Revenues from OPAP VLT's (gaming licenses) and telecom licenses should be included in a modified general government primary cash balance. Please note that, for 2014, the relevant amounts have been already received

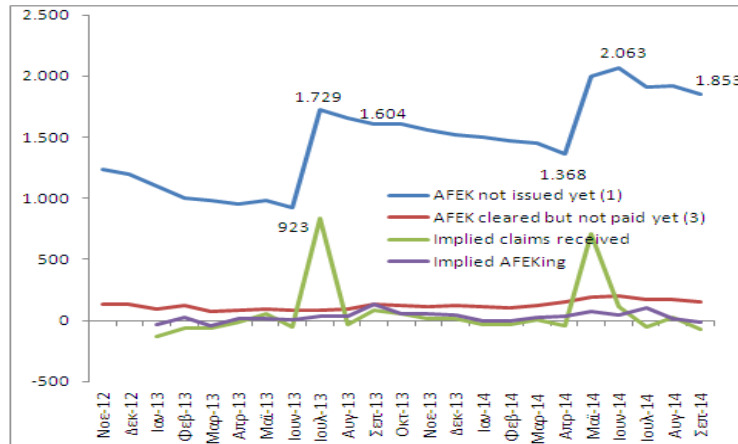
(114 mln euros in November 2014), and thus, the remaining gap between our estimates of **84 mln euros** in 2015 should be removed.

We have provided disaggregated data on privatization receipts upon your request (e-mails 24 and 27 November 2014). Although you have requested additional information on the October 2014 data (decomposition), it appears that our differences are negligible.

5. **Green Fund:** The Council of State has recently ruled that the Law 4178/2013 provisions on the “legalization” of previously illegal building establishments are in accordance with the Constitution. This milestone Supreme Court ruling, eliminates all legal obstacles and uncertainties in “penalizing” monetarily the offenders and, therefore, increases the participation rate to the Green Fund scheme to its full potential. Please note that only 40% of illegal buildings have entered into the scheme of Law 4014/2011 and Law 4178/2013. In the Draft Budget we made a very conservative estimate of the 2015 receipts. We had tentatively estimated the yield of this development to reach only **200 mln euros** of extra revenues, while you assume the revenues are zero. We will discuss this issue in greater detail later because the Green fund promises a lot more revenues in the future. Yet, for the time being, please mark that another discrepancy between your gap and our budget of €200mln should definitely be removed.

We have provided all the supporting material on which our analysis is based (i.e. profile of the monthly payments, categories of illegal buildings, average fine and administrative fee). Based on the exchange of e-mails (24 and 27 November 2014), €200 mln from the existing “gap” should be removed.

6. **Tax Refunds:** As MoF/GAO staff mentioned during the last teleconference with your technical teams, in accrual terms, we have increased our estimates for 2014 and 2015 by €200mln, in order to converge towards your more pessimistic projections. For 2015 in particular, we think this level is appropriate, if one takes into account: a) the historic series, b) the condition of the economy, c) the recovery of enterprises’ profitability which will act as a “brake” on tax refunds, d) the declining path (see diagram below) of the CIT stock after its peak (in May-June 2014), e) the fact that an important component in the over-shooting of tax refunds in 2014 is one-off factor (the problem with the mistaken classification of tax revenues as non-tax revenues). Thus, to our view, a further difference of at least **€200mln** has been addressed.



Tax refunds still constitute an area of difference. We have sent to your technical teams our analysis (e-mails dated 24 and 27 November 2014) but there is no convergence yet. However, we insist that a considerable amount of at least €200mIn should be removed for the existing “gap” since, as we mentioned in our e-mail dated 27 November 2014 “... If we assume that unclassified revenues by end-2014 will equal approximately €660mIn (linear projection) and that of this amount, the revenues that are reclassified by end-2014 are at least €200mIn, then this implies that there will be up to €460mIn in 2014 unclassified revenues that could be reclassified in 2015. Moreover, if we assume that the pace of reclassification in 2015 is the same as in 2014 and thus only €200mIn of 2014 non-classified revenues are reclassified into tax categories, then to ensure fiscally neutral treatment, these €200mIn will show up in both the relevant tax category and in tax refund payments. However, while your tax refund projection has implicitly assumed that these €200mIn will show up as refunds in 2015, you have not made an equivalent increase in taxes – which is not fiscally neutral...”.

Please note that the above items 1 through 6 of Section A of our response, add up to an amount of **€1.113 bln.**

B. New parametric measures taken and included in the 2015 Draft Budget

After you communicated to us your assessment of a €2.6bn fiscal gap, we did take measures to close your perceived gap. Those measures are already included in the 2015 Draft Budget. The measures promise to bring around **€336mIn** of extra savings, which further reduce the gap. Two of the measures are described below:

1. The projected **local governments’** (LGs) balance for 2014 will be that shown in the Draft Budget 2015, which implies a deviation from the MTFs 2015-2018 targets of approximately €200mIn. That amount derives mainly from PIB (reduced revenues and increased expenditures) and one-off overspending seen in operating expenditures and arrear

accumulation, due to the fact that 2014 was an election year. In 2015, however, it is projected that LGs **will meet the target of MTFs 2015-2018**, which represents an improvement of **€125mln vis-à-vis the Draft Budget 2015** and the latest EC-ECB-IMF projections. Operational and institutional tools are available for ensuring compliance.

For 2015, we estimate that LGs will meet the target of MTFs 2015-2018. The role both of Observatory and of Ministry of Interior is crucial in order to succeed these targets.

More specifically:

- The **Observatory of Financial Autonomy** of LGs is responsible for evaluating and providing an opinion on the draft budgets; monitoring and ensuring proper budget execution of LG entities on a monthly basis, as well as their broader compliance with the fiscal rules, targets and appropriation ceilings under the MTFs and the Comprehensive Framework for Action. Moreover, another responsibility of the Observatory is the identification of the LGs which face fiscal slippage and their inclusion under a fiscal recovery program. In this context, we are drafting a legal provision that (i) broadens the conditions under which an LG is obliged to enter a fiscal recovery program (e.g. not only in cases of deviation from budget targets, but also in cases where draft budgets aren't realistic); (ii) expands the obligations of LGs (e.g. drafting of fiscal data report which is evaluated by the Observatory, drafting of fiscal recovery plan in case of entrance, monthly and quarterly reports on the progress of fiscal recovery program) and corrective actions they should take, in case they are placed under a fiscal recovery program.

- The Ministry of Interior will set individual primary balance targets for each LG (with the technical assessment of the Observatory) which will be consistent with the sub-sector aggregate primary balance result set in the MTFs 2015-2018. Budget execution will be assessed against these targets on a regular basis and in case of deviation, one of the following options will be imposed to ensure compliance with targets:

- a. A legislative amendment will be passed introducing a reserve fund in the budgets of LGs to achieve the surplus target. The amount of appropriations in this fund may not be transferred for creating other expenditure code numbers of the budget. The amount of the reserve, as a percentage on the total regular revenues of each LG, will be defined by a joint decision of the Ministers of Interior and of Finance.

or

- b. In order to ensure LGs for 2015 will not present any deviation from the targets set by the *Medium-Term Fiscal Strategy*, it is suggested that the amount of the special grant for LGs be transferred after the end of the first half of 2015, based on the surplus achieved in relation to the fiscal targets that have been set. This proposal requires an amendment of the Joint Ministerial Decision of the Minister of Interior and Finance related to drafting of LG budgets for 2015.

2. We made a proposal for **restructuring the 20 state-owned enterprises** in the General Government with the largest fiscal burden and the Hellenic Aerospace Industry (EAV). The Government identified potential savings of **€146mln in 2015** from 9 entities. In addition, the spending review undertaken by GAO has found further savings in 2015, worth approximately **€28mln** from other entities or SOEs that are below the defined threshold. Relative to the latest EC-ECB-IMF projections, therefore, these savings should improve the fiscal balance in programme terms by **€174mln**.

We have sent a detailed explanatory note on SOE's which we understand you are still evaluating. Nevertheless, €121 mln or 70% of the total savings, concern two entities (OASTH and HAI), whose reclassification as General Government bodies has been confirmed and whose respective restructuring plans are already under implementation (OASTH) or in the pipeline (HAI).

3. **Rationalization of non-wage benefits.** A detailed assessment of public sector non-wage benefits by the General Accounting Office that has been shared with the EC-ECB-IMF structural reform teams, has identified benefits worth at least **€37mln per year** (as reported by Ministries until now). The Government proposes to cut or abolish benefits such as state subsidies for individual medical insurance/healthcare contracts, for transportation, post-graduate education, etc.

C. New initiatives and sources of funding not included in the 2015 Draft Budget, which are quantified

In this section, we propose new sources of savings, which ought to reduce your estimated gap even further. We first describe those that can be more easily quantified. They close the gap by an amount of **€1.195mln**.

1. **Green Fund Revenues:** The revenues from the Green Fund are a lot higher than what we have already included in the 2015 budget. They will also span a longer period than 2015. The figure for 2015, which further reduces the gap, is **€506mln**. Details of the Green Fund estimates are provided in attached memos. There is a short memo (in English) and a report (in Greek) from the Technical Chamber of Greece (TEE) on the normal flow of previously submitted applications and on the additional revenues that are expected in 2015. The analysis shows extra revenues on top of 200mln euros already budgeted, due to the positive Council of State ruling.

Based on TEE's analysis, we conclude that additional revenues of **€354mln** will accrue to the Green Fund in 2015. Please also note that, due to the increasing participation in the Law 4178/2013 scheme, we project **€102mln** additional State Budget revenues in 2015 as well (Budget Code 3746 "administrative fees to legalize illegal buildings" – these are down

payment fees) that had not been included in the 2015 Budget projections. There is another **€50mln** baseline difference between our two sets of estimates regarding the regular flow of penalties prior to the Court decision. Adding up the previous amounts, results in a figure of **506 mln euros** on top of the 200mln euros already budgeted.

As we already mentioned, we have provided all the necessary supporting material on the fiscal impact (e-mails dated 24 and 27 November 2014). In order to address your concerns on the implementation/participation into the scheme of law 4178/2013 and on the enforcement measures that are available, we highlight the following:

- To complete the sale or transfer (i.e. to one's children) of a property, the seller is obliged to provide an engineer's certification that the property is legal and that any illegal building extension has been declared under the scheme of L.4178/2013 and the associated penalties, of at least 30%, has been paid. In case that there are remaining fines/penalties (i.e. in installments), the buyer is responsible to pay them.
- After the deadline for application to the scheme, the local urban development agencies supervised by the MoEnvironment who are responsible for the enforcement of zoning laws, will undertake targeted inspections, starting with high-risk zones/areas identified using declarations of illegal establishments.
- From the 1st March 2015, the Property Identity comes into force, a fact which will accelerate the census of all properties in Greece with updated information on the area and condition of the buildings, and the value of each property. This will be monitored by the Zoning Inspectorate which has 2.200 inspectors and will create an incentive for property owners to enter the scheme before these inspections take place, as they will lead to higher penalties if illegal, non-declared extensions are found.

2. **A parametric freeze on the percentage allocation of discretionary expenditure.** To accomplish our expenditure target, we shall determine the percentage of distribution of the appropriations of the 2015 state ordinary budget provided for consumption expenditure and non-allocated expenditures to **90%**. Please note that, according to the Organic Budget Law (OBL) provisions, this percentage is determined by a Ministerial Decision (MD) of the Alternate Finance Minister. Apart from that, for discretionary appropriations, this percentage is not released before June or July or even later. Thus, this parametric measure will generate a saving of approximately **€150mln**. We are confident this policy will work because of our simultaneous conservative assumption on the size of the contingency reserve we discussed above.

The determination of the distribution percentage of budget appropriations is a common practice, ruled by the OBL provisions as a fiscal tool. A Ministerial Decision on the part of the Alternate Minister, defines the level of appropriations released each month, and thus controls expenditure commitments during the fiscal year. It is the prerogative of the Alternate Minister to allocate 90% of annual appropriations for consumption expenditure (excluding rental payments and military fuel) and simultaneously the obligation of Line

Ministries and their GDFSs to adopt this level of expenditure and not undertake additional commitments which would lead to arrears accumulation.

Our plan includes only discretionary expenditure (consumption) leaving aside other operational expenditure categories (grants payroll, etc.). In 2013, actual consumption expenditure amounted to 59% of budgeted appropriations between January - October 2013 and **79.6% for the full year. In 2014, actual execution through October 2014 is equal to 61% of budget appropriations, suggesting that execution for the year will be slightly above 80%.** This implies there is room for reducing appropriations in a targeted manner by 10% without creating arrears.

Taking into account the aforementioned arguments and actual budget execution in 2013 and 2014, we are confident that **permanent targeted savings** of approximately **€150 mln in accrual terms** are feasible for 2015 and future years.

The freeze will be introduced with a Ministerial Decision in January 2014, following the passage of the 2015 Budget in Parliament.

3. **Frozen Deposits:** There is a potential increase in revenues of the State or other General Government entities from the new legislative framework regarding frozen deposits of individuals/enterprises that have been charged for financial crimes against the State or other General Government entities (other than tax evasion). We include a very conservative estimate of 2015 revenues, which is based on only two cases that sum up to **€389mln**, thus excluding all other cases that will bring additional revenues.

According to the data gathered from courts and public prosecutors' offices, €508mln have been frozen, in Greece (€270mln) or abroad (€238mln). It is difficult to estimate the exact amounts that will be transferred to the State coffers because it is up to defendants to decide if they want to use the favorable provisions of the new legal framework or not. Nevertheless, we do expect that the bulk of the defendants will opt for the new scheme, especially since **€389mln**, out of the total €508mln, concern only two embezzlement cases. In these two cases, the individuals involved have already expressed their intention to participate. We emphasize that in the 2015 State Budget, we have not incorporated any revenue from this source. Also, it is important to understand that this law will not refer to cases of taxation, thus it will not touch on issues of tax amnesty. First, it excludes tax cases. Second, it only entails a shortening of prison sentences for participating individuals and not an annulment of the sentence; similar legal frameworks are in place in many countries.²

² Taking the opportunity of discussing legal issues, please note that the publication of large debtors' names raises a number of legal issues with respect not only to the Greek Constitution, but also to the European Union law. Law 2472/1997, in compliance with EC Directive 95/46, sets out strict requirements for the protection of personal data and establishes the Data Protection Authority as an independent authority charged with ensuring this protection. In addition, the 2001 constitutional amendments enshrined the protection of personal data, including the Data Protection Authority, at the constitutional level (Art. 9A and 101A Const.). In light of this, publication of large debtors' names should not overstep these legal boundaries. We are committed to exhausting the legal avenues, taking into consideration the Data Protection Authority's existing case law as

We understand that there is a concern regarding the treatment of these revenues. In our e-mail dated 27 November 2014, we clarified that the frozen deposits will be recognised as revenues when the actual payment with the suspect's consent takes place. Regarding your question if these amounts constitute revenues of the State or other entities, we also clarified that it depends on the kind of the offense and on whether the State or other legal entities according to article 1 of the draft law have suffered the damage. For example, one of the two big cases we mentioned in our Sunday's note, concerns damage to the State (PPC tax in particular). This concerns a PPC tax that has been assessed, collected (€175mln) by the company, but not transferred to the State.

4. **Reorganizations.** A number of reorganizations in key sectors could provide extra revenues in 2015. Below we mention five cases that can bring in approximately **€150mln**.
 - a) **System of clinical trials.** Greece is lacking significantly in comparison to other EU MS in relation to clinical trial revenues. A national plan has been made focusing towards modernizing and speeding up the timelines in EOF (National Agency) and Hospitals. A new Ministerial Decree is about to be signed and published with effect from January 2015. It is realistic to expect that the revenue may increase significantly next year and reach at least **€50mln**, given the backlog of studies in the pipeline, with more increases expected thereafter.

Further technical information:

Despite the fact that the country has many more, per capita, doctors in comparison to other countries, also has a significant number of hospitals and a very good research record from its academic units, in 2013 the revenues from clinical trials were €84mn, whereas according to EFPIA, the revenues in Finland of 5.3 million population were €264mln, in Sweden of 9.3 million population €864mln, in Belgium of 11 million population €1.9bn respectively. This is due to bureaucracy and lack of harmonization of administrative procedures.

A national plan has been developed focusing on modernizing and expediting the approval timelines in the National Ethics Committee, hospitals and the Regional Health Authorities (DYPE). A new Ministerial Decree is due to be signed and published, effective as of January 2015. Moreover, it is planned that the Clinical Trials department at EOF will be further reinforced in terms of human resources. This will allow for more clinical trials to be assessed simultaneously and a larger number of Good Clinical Practice (GCP) inspections to be planned and carried out by the competent authority. As a result, Greece could act as an attractive research pole where clinical trials can be conducted in a flexible, reliable, safe as well as time efficient manner. Hence, a significantly greater

well as European best practices, in order to ensure that the publication of large debtors' names will be made consistent with these legal concerns.

number of multinational clinical trials will be attracted bringing to the country considerable public and private revenue. The new Ministerial Decree is also favored by the pharmaceutical industry and will be issued after relevant consultation. In this direction, the pharmaceutical industry is willing to utilize the significant human and capital infrastructure of Greece and support local clinical research conduct.

The new regulatory environment is aiming at facilitating the approval process of clinical trials via enforcing the use of unified administrative document templates, applicable for public NHS and university medical hospitals, as well as hospitals of the ministry of defense and other private clinics. It also caters for the harmonization of approval processes and application documentation among Regional Health Authorities themselves, as well as with University Research Accounts. Moreover, the new regulatory environment will also provide for incentives associated with the implementation of clinical trials and the enforcement of strict timelines and KPIs at the level of the National Medicines Agency and at the level of hospitals and their administration. Amongst other KPIs set to evaluate the personal performance of hospital administrators, a designated KPI is introduced to assess the performance of each hospital, based on both the total number of clinical trials conducted as well as on the speed of the approval process. Also, the Ministry is tackling bureaucratic issues so that the hospitals will actually benefit from the dedicated fees related to clinical trials. Finally, the regulation concerning the honoraria of physicians acting as scientific advisors to the pharmaceutical industry will be updated. The aim is to ensure transparency of payments and introduce fees for the Regional Health Authorities which, from now on, will act as the financial management bodies for such agreements. Moreover, the Ministry is drafting legislation towards harmonizing local rules and procedures with the provisions of EC Regulation 536/2014, voted in April 2014. Thus, Greece will be ready to implement it in May 2016.

Hence, with the measures proposed, it is realistic to expect that the revenue may increase significantly next year by at least €50mIn, given also the backlog of studies presently waiting for approvals. Further increase is expected thereafter in the following years.

- b) **EOF.** This is the National Medicines Agency, which in 2013 had a revenue of €34 mln from fees related to applications for marketing authorization licenses, or withdrawals, or modifications of licenses either for drugs, or devices, or animal drugs, and beauty products. Nonetheless, there is presently a backlog of applications from 2013 and 2014. An open call is running to attract new specialized staff from the public sector in order to: (a) deal with the backlog of applications in 2013 and 2014, (b) become a reference country for marketing authorizations and (c) initiate bio-equivalence studies for approval of generic drug files. This initiative will deliver an extra **€15mIn** at least in 2015 and thereafter, under very conservative assumptions.

Further technical information:

Existing personnel (despite the severe reduction of human resources in the last five years) is making a tremendous effort. A call of interest has taken place in order to attract new specialized staff from the public healthcare sector. EOFs' target is to deal with this back log of applications in 2013 and 2014 as soon as possible.

Moreover, the leadership of EOF has already set up a team responsible to organize and prepare EOF so as to receive new applications where Greece will act as Reference Member State (RMS) in Mutual and Decentralized Procedures. This will be applied as soon as new staff comes on board. Taking into account the number of questions received so far related to EOF's RMS potential and the amount of fees required for such procedures, we expect that this new process will substantially increase the Organization's revenues. Finally, new actions will be introduced in order to initiate bioequivalence studies for approval of generic drug files.

EOF resources come from fees for various services provided under its authority, the fixed annual fees paid by the marketing authorization holders, medical devices inspection fees, contributories from cosmetic product sales, fines due to law violations as well as royalties from scientific literature releases. EOF is planning to improve and fulfill its mission mainly through the following activities:

EOF has prioritized all actions required in order to modernize its administrative functionality and increase its revenues while, concurrently, improving the Organization's offered services. The strategic planning is characterized by the following principles:

- Compliance to the Organization's mission,
- efficient asset utilization,
- prompt and exploitation of opportunities,
- risk assessment and management,
- undertaking the role of Reference Member State in the mutual recognition and decentralized procedures,
- planning and implementation of a new organization chart,
- total Quality through Continuous Improvement initiatives,
- Corporate and Electronic Governance,
- implementation of a comparative assessment system (benchmarking),
- quantitative and qualitative renewal of human resources.

The achievement of organisational and strategic aims will result in a complete transformation of EOF's image and functionality.

The above-mentioned initiatives and the reorganisation of EOF will deliver an extra €15mln at least in 2015 and in the years to come, even under conservative assumptions.

- c) **Charging Fees for Health Care of Foreign Citizens.** Due to the fact that Greece has more than 20 million visitors per year, a large number of foreign citizens are being hospitalized and offered health care services in the public NHS sector. A plan has been devised and presently is under implementation to modernize and speed up EOPYY's submission of the European form-invoice of claims (E125) for healthcare benefits in kind and to dispatch the claims to the European citizens' country of origin in two months time. This plan in 2015 will deliver at least **€25mIn** extra, under conservative assumptions, as it will deal with all the back log of cases and will bring time lag down to 2 months.

Further technical information:

Given that Greece has more than 20 million visitors per year, a large number of foreign citizens are being hospitalized and offered health care services in the public NHS sector. Presently, there is a large back log of cases not being invoiced to other countries due to lack of infrastructure and red tape. Hence, a plan has been devised and is presently under implementation. The target is to modernize and speed up EOPYY's submission of the European form-invoice of claims (E125) for healthcare benefits in kind and dispatch the claims to each European citizen's country within two months time. EOPYY is currently lagging behind in the billing of health services and there is a large backload to be cleared.

In this context, a special committee/working group has been appointed at EOPYY for reorganization of the established Information System. The aim is to create the necessary functional requirements and introduce the essential electronic interoperability within the existing systems of the Organization. These provisions will accelerate the collection, control, management and dispatch of claims to the competent countries. In 2014, with the slow process in place, the current revenue of this process for EOPYY has been 50 million. It is expected to reach 60 million for the full year.

The afore-mentioned plan will be implemented in 2015 and will deliver at least an extra €25mIn, under conservative assumptions, as it will deal with all the back log of cases and will bring time lag down to 2 months.

The plan and the time-schedule for the achievement of this specific goal is already rolled out and within targeted timelines. By clearing the existing backlog of cases and speeding up the process, so that the time lag is reduced to two months, the above mentioned figures are feasible.

- d) **Evening Private Clinics at NHS Hospitals.** NHS hospitals have started operating in the evening offering diagnostics services, examinations and operations under a fee-for-service system. In this, public doctors are allowed to offer services for which they are reimbursed mainly by out of pocket and private insurance (13% of population)

payments. This system is under re-organization with the aim to develop its turnover by €20mIn, as services provided in the NHS are at a much lower cost to the private sector, whose overall turnover is about a billion.

Further technical information:

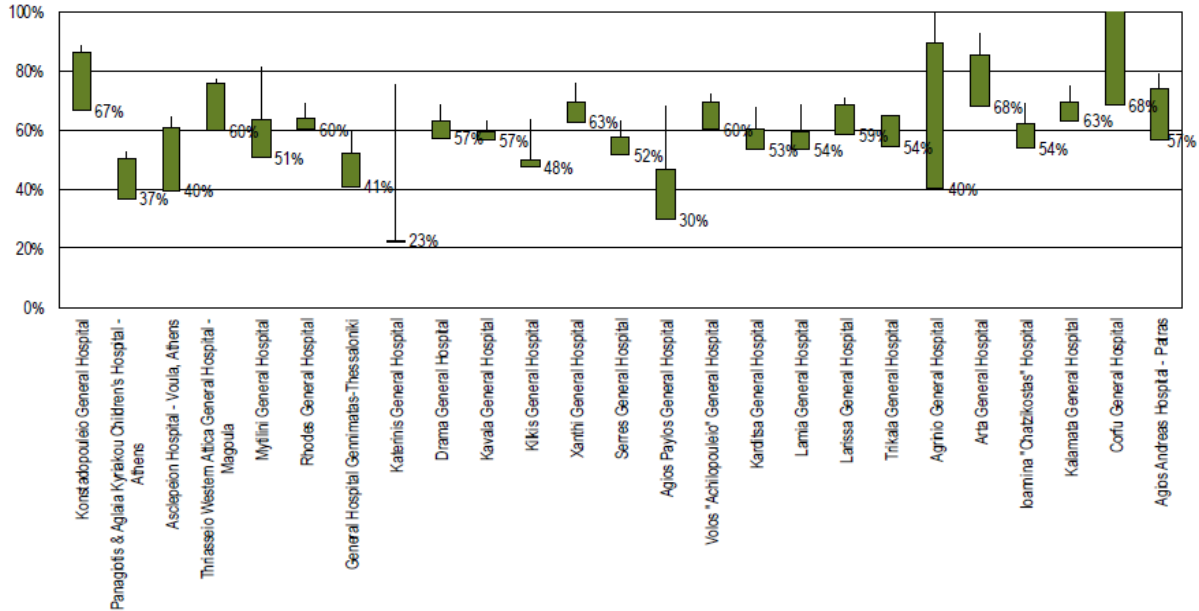
As shown below, the NHS occupancy rates indicate significant spare capacity, which can be used to attract a portion of the 800.000 patients seeking therapy in the private sector, where co-payments and out of pocket payments are quite significant. Hence, the system is under re-organization with the aim to develop and expand private practice clinics by introducing new legislation. The number of services in this context will be expanded, the processes will be simplified, and there will be financial incentives for hospitals and physicians. Moreover, there is a new framework for day case procedures that can be used for public hospitals to provide new services and attract extra revenue. Also, there are negotiations in place so that the NHS signs contracts with private insurers covering 13% of the population and which, at present, have contracts only with the private clinics. NHS could provide some of the spare capacity for the care of their insures.

In this context, law 4272/2014 was voted, giving the mandate and jurisdiction to the Central Scientific Committee of the Ministry of Health to submit proposals to the Minister for the modernization and re-organization of the evening operation of hospitals. These proposals include the type of services, their reimbursement and the incentives for the personnel involved. In the context of the above law, it is stipulated that hospitals may be organized to provide surgeries, operations and interventional procedures which require in-hospital stay. In particular, the law sets the framework for private insurers to contract with NHS hospitals and the processes needed, so that private patients who can afford out of pocket payments, can be treated in the context of evening clinics.

At present, about 800.000 cases per year seek care in the private sector and the total turnover of the private clinics is about one billion per year. This is financed by EOPYY, by only 30% and the remaining 70% is carried by private insurance money and out of pocket payments. Greece, despite the crisis, due to the waiting lists in the NHS, has still the largest portion (40%) of private expenditure in the total expenditure for health among EU member states.

It is expected that from this total turnover of 1 billion, a tiny share of **€20mIn** will be shifted alongside services to be provided in the NHS during afternoon practices. This will take place at much lower cost compared to the private sector for both insurers and patients. Apart from the demand-side incentives, there will be incentives for public providers and physicians and hence this figure will be easily attained.

Fig 45. Bed Occupancy, General Hospitals, 200-400 Beds



e) Cultural heritage.

The Greek cultural heritage is one of the most unexploited competitive advantages of the country. Until recently, Culture has been considered as a sector in constant need of non-productive investments for preservation. It is only in recent years that it is viewed as a primary income generator and an important input to the productive process. The government is committed to exploit and at the same time preserve and promote cultural heritage.

Until 2011, the overall income generated by cultural heritage reached less than €50M per year and lagged behind in absolute numbers (eg. UK National Trust £400M) and in other indices, namely average ticket prices (GR average <50% EU average), average sales per visitor (GR average <10% EU average), average income per visitor (GR average <30% EU average).

The income derived from the exploitation of Cultural heritage is estimated to reach **€137m by 2015** and **over €300m annually by 2017** (Graph 1), as described by two independent studies that of McKinsey Co and IOBE. TAPA, the competent authority, already implements a number of actions resulting in the achievement of the interim goal of 2014: by June 2014 visitors have increased by 27% and revenues from all streams by 21%.

Two models were thoroughly re-engineered: that of National Trust / English Heritage and the Réseaux des Musées Nationaux, in order to create a coherent strategic proposal. The result has been the elaboration and implementation of a detailed action plan which will increase revenue

streams from just one (*ticketing*) to four elements, that were either negligible or even not-existent until 2012: products, services, sponsorships and membership fees.

Estimations show that by the year 2017, the goal of €300mln will have been achieved. The breakdown of revenues per income stream is as follows:

- **Ticketing: €134mln** from **€41mln** today, only by reaching the European average income per visitor (**€19.7**) which today is only **€6.1** and by combating free-riding through new low-cost infrastructure and software, operational by April 2015.

Revenues from tickets increased by over 25% during 2014, reaching **€65mln** (*from €40M in 2012*). In 2015, we intend to further increase the ticket prices by 50% with free admission on Sundays once a month during summer (*six months period*) and twice a month during winter time. The revenues are expected to increase by **€35mln** and reach **€100mln** (*from €65mln in 2014*) by the end of 2015 and over **€130mln** by 2016 following the 2012 McKinsey study's provisions (*McKinsey (2012) Archaeological Receipts Fund (TAPA) Strategy Planning aiming at the promotion and exploitation of the Cultural Heritage of Greece*).

The estimation is based on the implementation of the following actions and trends:

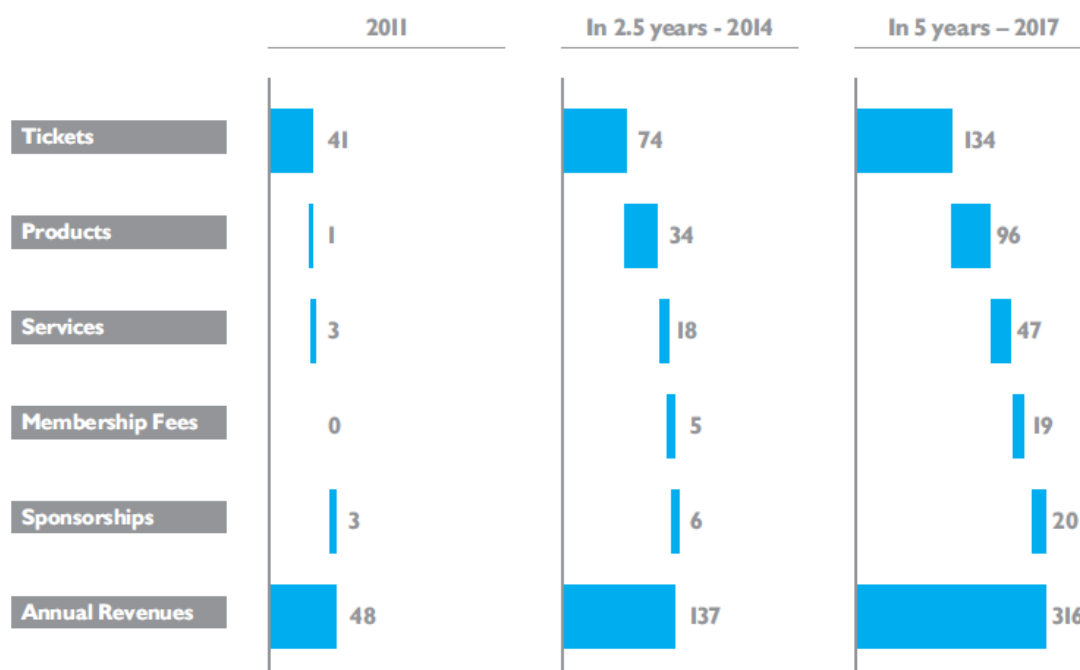
- Extending opening hours of museums and archaeological sites (*status: done*)
 - E-ticketing for the 33 most visited museums and archaeological sites (*status: tender to be issued by mid-December, full implementation by April 2015*)
 - Re-engineering of ticketing policy based on a. traffic, b. cultural significance and c. European ticket average (*status: new ticket policy is done and is to be implemented by April 2015*)
 - Extending tourist periods an expected increase in tourist flows
- **Products:** €96mln from €1mln, by introducing new product series, streamlining production costs of casts, creating an e-shop and an e-ticketing platform
 - **Services:** €47mln from €3mln, by creating on the spot dedicated services that enhance visitor experience (*i.e. guide and audio tours services*)
 - **Sponsorships:** €20mln from €3mln, by introducing a scheme that enables corporate responsibility programmes to easily incorporate cultural products and places
 - **Membership fees:** €19mln from 0, by establishing schemes like the “adopt a museum” initiative which are designed following successful domestic (*i.e. National Theatre, National Opera, Athens Festival*) and foreign examples

The above-mentioned estimations are only the direct benefits of actions related to structural reforms, since infrastructure enhancement projects (*interventions on monuments and archaeological sites, construction/modernisation of museum infrastructures, museum exhibitions, and contemporary cultural events*) have not been taken into consideration. In a Deloitte (*April 2014*), NSRF 2007-2014 funded study, it was calculated that the multiplier effect of culture to the Greek economy is of 3.44 and this is only a small part of the economic effects created by the overall functioning of cultural entities. It must be noted that culture-related public investment, is closely correlated to economic activities that are directly or indirectly

associated with tourism. The effects calculated by the study, represent part of the overall effects and refer to the economic activity produced by visitors to local tourism enterprises, indicatively including: enterprises providing accommodation, food and transport as well as retail enterprises.

Graph 1: The implementation of the cultural heritage exploitation plan may contribute more than € 300 million in the following years

Annual income deriving from cultural heritage exploitation (EUR mil.)



Graph 1: Source: McKinsey (2012) ARF Strategy Planning aiming at the promotion and exploitation of the Cultural Heritage of Greece

D. New initiatives and sources of fiscal savings not included in the 2015 Draft Budget, which are not yet quantified

Below, we continue with **initiatives** that will further shrink the perceived gap. We have left them last in our sequence of proposals for practical reasons, as they are not easily quantifiable as the earlier ones.

- 1. VAT lottery.** Based on European and international best practices and drawing upon the technical assistance offered by other EU Member States, we plan to intensively work on developing and implementing within 2015 a VAT lottery scheme, in order to boost the collection of receipts by taxpayers. We consider this as a crucial weapon in order to tackle VAT fraud and evasion and increase compliance, thus significantly increasing public revenues. As an indication of the potential impact of this initiative, please note that the implementation of a similar initiative in Portugal (an economy of comparable size to the

Hellenic economy) is estimated by the **Portuguese** Tax Administration to have yielded **€800m** of extra VAT revenue in half a year! Consistent with comparative experience, the lottery scheme will also be of significant importance in further reducing the VAT gap; for instance, the implementation of a similar scheme in Malta, has resulted in a reduction of the estimated VAT gap from 1.1% of GDP in 2000 to just 0.3% of GDP in 2011.

Please see Part A, “New Fiscal Measures and Further Quantification”.

2. **Farming income.** There may be a hidden source of tax revenue from individuals posting to be farmers, thus enjoying the lower tax rate on farmers. Although this may not be a huge source of revenue, it is worth pursuing. We realize that the 2014 PIT declaration data indicate a substantial increase of farming income, amounting to an additional €1.2bn compared to 2013. While the Income Tax Code includes a very strict definition of farming income (Art. 21 par. 3) also vis-à-vis EU regulations, we need to urgently assess potential factors contributing to this increase. In particular, the SGPR will work intensively with the Ministry of Agriculture services to cross-check the available data on cultivated areas and identification information on farmers. This cross-checking will require approximately two weeks. Any discrepancies that will result from this cross-checking, will result in enhanced tax audits and sanctions in implementation of the Tax Procedure Code.
3. **Tobacco taxes.** While a number of studies indicate that tax rates on tobacco in Greece have currently reached their top possible rates, we are planning to re-examine the structure of these taxes with a view of immediately identifying and remedying potential distortions that have a detrimental effect on public revenues.

Please see Part A, “New Fiscal Measures and Further Quantification”.

4. **Additional income tax revenues.** Additional income tax revenues from the completion of the reform of tax incentives and their integration into the Income Tax Code (September structural benchmark)
5. **Tax administration gains.** With the expansion of e-garnishments to large debtors in 2015, the introduction of VAT carousels, and the broadening of the definition of tax fraud/evasion with changes to the Tax Procedures Code (September structural benchmark).
6. **Savings from the implementation of the 2010 pension reform** (Laws 3865/2010 and 3863/2010) as of 1.1.2015.

Please see Part A, “New Fiscal Measures and Further Quantification”.

7. **Impact of improved private sector liquidity on tax collection rates.** The economic recovery and easing of credit conditions for enterprises and households in 2015-16 following the asset quality review of the financial sector, will likely have a positive impact on tax collection rates, a fact which has not been taken into account in current projections.

3) Measures to Increase VAT Compliance and Enforcement

We are committed to implementing a comprehensive range of measures towards increasing VAT compliance and enforcement and thus further tackling the VAT Gap, such as:

i. Measures to modernize national VAT administration:

1. In the area of *VAT identification, registration and deregistration*:

- Improving the quality of the information available in foreign languages on the requirements and process of VAT registration;
- Systematically cross-checking the registration application against other sources of data (e.g. company register and internal databases);
- Developing an end-to-end process for registration, especially by implementing post-registration monitoring programs for risky traders and effective deregistration processes for missing traders;
- Improving the quality and regularly updating the data contained in the VIES system.

Based on legislation enacted in August 2014, the VAT registry system is in the process of being cleaned up of inactive companies. Beginning in early 2015, the new legal framework will be fully implemented to enable deregistration for purposes of VAT in case of tax evasion.

2. In the *area of customs vis-à-vis VAT*:

- Ensuring that all information on a transaction for customs purposes is transmitted to the VAT Administration.

3. In the area of *VAT refund*:

- Ensuring a standard effective period for VAT refund in order to ultimately achieve refund in a period between 30-45 days.

In addition, a risk-based audit system has been established to allow companies with a fully compliant filing and payment history to receive refunds immediately. A SGPR's decision providing for a "Green List" of such companies was issued earlier in November 2014. In early 2015, the system will be further improved, in consultation with the EC/ECB/IMF technical assistance.

4. In the area of *VAT audit and investigation*:

- Ensuring across-the-board application of a risk-based strategy for the selection of taxpayers to be audited;
- Taking all necessary measures to promote e-audit;

In this vein, a fully dedicated VAT anti-fraud unit has been already established within the SGPR's Tax Investigations Unit. In recent weeks, the personnel of this unit underwent comprehensive training, including a pilot project with the support of technical assistance from the Belgian Tax Administration. While the conclusions of this project will be presented in mid-December, a number of ten potential carousel cases have been

already identified and are currently in the process of being audited. In early 2015, the VAT anti-fraud unit will be further strengthened.

We are also introducing a central VAT monitoring database, crosschecks for B2B transactions and retail sales on a quarterly basis and we are also considering the implementation of a VAT lottery scheme based on the Portuguese model, in order to further increase VAT compliance.

5. In the area of *tax dispute resolution*:

- Considering the implementation of an optional arbitration process after the internal dispute resolution stage in order to minimize judicial appeals.

6. In the area of continuous assessment of *VAT compliance*:

- Assessing on a regular basis the effectiveness of measures put in place to tackle VAT fraud and evasion, including the development of the VAT gap over time.

ii. Measures to enhance cross-border cooperation, including greater use of the improved possibilities offered by the Regulation 904/2010, such as:

1. Ensuring a quicker reply to requests for information;
2. Providing feedback, spontaneously or on request;
3. Promoting participation in administrative enquiries;
4. Committing to an extensive use of multilateral controls;
5. Further developing joint audits;
6. Implementing common risk analysis and an effective feedback mechanism within Eurofisc;
7. Providing more resources for enquiries, controls and automatic exchange of information.

iii. Tougher stance against evasion and stronger enforcement at national level, including the possible use of new tools against VAT fraud, such as:

1. The *Quick Reaction Mechanism* adopted by the European Commission in June 2013, in order to enable immediate measures to be taken in cases of sudden and massive VAT fraud;
2. The *Reverse Charge Mechanism*, including a temporary reversal of liability for the payment of VAT from the supplier to the customer, with the aim of closing off carousel schemes and other types of VAT fraud.

iv. A set of simplification measures, including:

1. Measures that facilitate electronic invoicing, included in the new legislation on Accounting Law (Law 4308/2014), drafted in close consultation with the EC/ECB/IMF technical assistance, to enter into force on January 1, 2015;
2. Special provisions for small businesses, including both the implementation of a VAT threshold amounting to 10.000 EUR, as of the 1st of January 2015, as legislated in August 2014, as well as seriously considering an immediate substantial increase of this threshold.

3. A simplified VAT declaration, drafted in consultation with the EC/ECB/IMF technical assistance that is in force since August 2014.
4. The introduction of a cash-accounting scheme for businesses with a turnover up to 500.000 EUR per year (in force since October 2014), to be extended to 2 million EUR per year (starting in January 2015).
5. VAT islands' rates, Article 109 of the VAT Directive (2006/112/EC) includes a set of transitional provisions until the adoption of the definitive VAT arrangements. The application of rates up to 30% lower than the standard rates in Northern and Southern Aegean is based on Article 120 of the VAT Directive and explicitly forms part of these transitional arrangements. In light of this, we will review these special regimes, in the context of the European VAT reform within the timetable followed by the European Commission. We note in this respect that the discussion on a VAT reform is currently underway at the European level as reflected, for instance, in the European Commission's ideas on how to ensure a simpler and more effective VAT system, published on October 30, 2014.

Part C

Pension reform

We have thoroughly studied your comprehensive paper on how to reform the Greek pension system. During the past five years the Ministry of Labor has worked constructively with you to deal with a fragmented pension system, as created over the course of decades. We appreciate that you acknowledge the significant reforms been done that have broadly addressed the long term imbalances. Furthermore, we share the vision for a transparent, actuarially fair and modernized Greek pension system, which ought to be corrected from distortions and disparities. We share the vision to further streamline pension funds increasing efficiency and to further improve the design, providing incentives to stay and contribute in the labor force. Addressing short and medium term imbalances will further solidify our pension system from a fiscal perspective and this is, indeed, critical today.

Against this shared vision, your analysis is very comprehensive and a strong helping tool to design the next steps of the reform. There are though a few issues that, if taken into account, would help guide policy design in order to address challenges ahead.

- a. Higher subsidies to the pension system are also necessitated by adverse projected demographic trends of the Greek population and not only related to policy shortages in the previous years.
- b. It can be discussed whether medium-term projections adequately take in mind: a) improvements in the macroeconomic outlook compared to 2012-2013 data, which correspond to the trough of the depression, b) adjustment that pensions have gone through in the past 4 years. The long term perspectives of our pension system seem to lend support to this argument.
- c. Gradualness is a key principle in all modern societies' pension reforms and, in our case, a lot has been done in cooperation with your experts.

Despite the above arguments, our strategic alignment is proven by measures that we have implemented as a result of our cooperation, as well as by additional initiatives we undertook at the Ministry of Labor, such as:

- i. The design and implementation of the systems "HELIOS" and "ARIADNI" which shed light on the intricacies of the social security system and provide full transparency.
- ii. Institutionalizing the obligation of the monthly submission of APD.
- iii. Consolidating the contributions to the supplementary funds.
- iv. Introducing the monthly cross-check of declared contributions through APD and paid contributions.
- v. The automatic offsetting of contributions and tax refunds.

- vi. The completion of 50% of the codification of the social security law (approximately 40.000 pages and 8.000 laws and secondary legislation), as well as the completion, as of November 2015, of a new code with simple and consolidated provisions.
- vii. The automatic offsetting of contributions and payments (income returns, VAT, etc.) or European grants (i.e. OPEKEPE).
- viii. The cross-checking in order to identify pensioners that continue to work.
- ix. The cross-checking in order to validate the payment of family benefits and the full implementation of the elimination of pensions to family members after 3 years following the death of the pensioner, as has been explained and measured in a relevant note.

We welcome our common strategic approach and we reconfirm our commitment to the following main strategic objectives, as were agreed in the previous evaluation:

- (i) Reduce administrative costs and fragmentation.
- (ii) Improve self-sufficiency of consolidated pension funds by increasing efficiency and reducing the reliance on state transfers.
- (iii) Improve the design of the pension system in order to strengthen actuarial fairness and neutrality and provide incentives to contribute and participate in the labor force.

Our commitment to the three goals is proven by a number of initiatives we have undertaken. The successful implementation of KEAO is a primary example. This is a very important reform towards the consolidation of pension funds, the reduction of administrative costs and improvement of efficiency. Based on KEAO's success and the fact that contributions will be collected by the tax administration in 30 months' time, we suggest the establishment of the national center for pension awards, "ATLAS", as was presented during our last meeting. We believe that, the combination of consolidating contributions to tax authorities and the creation of the "Atlas" is the quickest way to achieve a real consolidation for the two main functions of the pension system. Therefore, we propose the hybrid model (scenario 3 of KEPE's Study).

Although we believe that the scenario of bringing all funds under IKA (scenario 1 in KEPE's study) has merit, our deep understanding of the Greek reality, leads us to the conclusion that better and quicker results will be achieved with a hybrid model, which consolidates all basic operations in horizontal structures. This option avoids the difficulties of an alternative huge consolidation project that ought to be able to preserve for some time the current funds as separate sub-sectors. As we previously mentioned, all initiatives for administrative improvements and consolidations will be legislated in December 2014.

We agree that harmonization of contribution and benefit payment procedures and rules of operation of funds, is of great importance. Hence, the Greek government has established a

harmonized environment for benefit rules to be effective from 2015 onwards under law 3863/2010. The Integration of filing, payment and collection of social security contributions and taxes is an undergoing project fully supported by the government. We suggest that the harmonization of contributions would be part of this project.

We agree, as a matter of principle, on the introduction of a new harmonized contribution system based on actual incomes for self employed, which will replace the current basis of imputed income. Based on the current timetable, we suggest that the design of the new harmonized system should start after the completion of the business case study, since data and results will be important. We agree that the harmonized contribution base should be in place by December 2016 and be fully operational by July 2017, providing and safeguarding the cash adequacy of the funds. The new system will address all issues concerning contributions, as raised in your paper. We stand ready to legislate principles of this reform in December 2014. Given this opportunity, we would like to stress our commitment to the project by informing you that under the "Atlas" project, we are currently working for the implementation of a central registry of contributors that would be ready in 2015 Q2, six months ahead of the original plan. We also agree to eliminate privileges that allow for early retirement, under the condition that we provide a small transitional period for employees with mature retirement rights. Duration of the period and maturity of rights could be quickly agreed on a technical level. In addition, the list of hazardous occupations eligible for early retirement as well as alternative pathways to retirement could be further streamlined (see below).

In addition, we have proposed to postpone the increase of pensions until 1/1/2018. We have included savings accruing from this initiative to Part 1. We believe that valorization rules for past contributions for contributory pensions could be discussed at a later stage. Rules for valorization should be limited at most to the observed increases in average wages that would help to maintain living standards.

Furthermore, through the codification of the social security law, by November 2015, we shall have a consolidated, simple and rational collection of legislation about the social security system.

The review and rationalization of the system of minimum, basic and targeted pension components in both the old and the new pension systems, taking into account wage developments and incentives to work and contribute, is a subject in which we share many common ideas. We agree to focus on eliminating parameters that can create unfair treatment and disincentives to work and contribute as described in your position paper. More specifically, we agree:

- To move towards a clear separation between insurance and welfare elements of the old-age income support framework. Just after the completion and evaluation of the GMI pilot, we could study new requirements for granting basic benefits for those who are born after 1-1-1975 and do not have a sufficient contributory history (less than 15 years). We would then work towards an eventual harmonization with the Guaranteed Minimum Income system and move payments to the state budget, as suggested.
- For those who are born after 1-1-1975 and have contributory history more than 15 years and less than 20 years, the benefits would be linked to their contributions. We stand ready to legislate this in December 2014.
- To redesign the entitlements for basic pensions above the contributory minimum (15 years) in order to provide sufficient incentives to contribute and participate in the labor market, especially at the lower end of the income distribution. Our proposal is to broaden the social security contributions' basis of the Funds, by a transitional increase of the current (4.500) minimum number of daily wages to 6.000 for the newcomers in the pension system, born after 1-1-1975. We stand ready to legislate this in December 2014.
- To review and re-design the framework of EKAS and proceed with its re-establishment. In particular, we intend EKAS to be a transparent, equitable and measurable income transfer to support low pension citizens deriving from the welfare system instead of the social security system. An actuarial study will be completed by the end of 2015 Q1, which will allow the public policy consideration to determine the terms and conditions in order for EKAS to be distributed in a targeted and fair manner, and in order to avoid unfairness and inequalities of the past. It must be clear that the intention is to rationalize and streamline EKAS in order to truly support low pension citizens and not its abolishment. We stand ready to legislate this in April 2015.
- To provide incentives to contribute and eliminate imbalances in the system. The existing legal framework provides for favorable age retirement limits and/or for a shorter insurance period for specific categories of insured persons (the so-called noble SSFs, family protection frames, hard and arduous occupations, as well as specific professions of a special profile), as compared with the rest of the insured population. For all the above mentioned categories, a gradual and transitional elimination of favorable age limits is proposed and their alignment with the general retirement limits (62-67), with a final date of 1-1-2019; for those who would retire at 2019, we propose an extension to the age-limit by 2 years and for those who would retire at 2020 an extension to the age-limit by 4 years. We stand ready to legislate this in December 2014.

Part D

Key Structural and Product Market Reforms

The Ministry of Development is proceeding eagerly on a number of fronts to fulfill the structural benchmarks and promote competitiveness and long-term growth. Below we describe our actions and time line in a number of fronts: OCW, insolvency, the backlog of Law 3869/2010, the Insolvency administrator, product market reforms, OECD toolkits, administrative burdens, licensing, etc. Regarding the work on reforms, we commit to push further in the course of 2015 the set of studies to other sectors beyond the previously agreed OECD toolkits. We are in contact with the technical teams on a number of other fronts as well.

A. OCW

We have advanced quite a bit. Relative secondary legislation (2 MDs) will be issued by mid December in consultation with the technical teams.

B. Insolvency

The recently enacted OCW law could be seriously considered as a basis for the law preparatory committee on corporate insolvency code to introduce new pre-pack proceedings (i.e. extraordinary procedure of special administration). Moreover, we could revise the corporate insolvency code in order to be aligned with the rankings in the new Civil Procedure Code, when adopted. Draft provisions on these issues could be ready by end December.

C. Backlog I. 3869/2010

Currently, over 100.000 cases pending before district courts all over the country. Court dates as long as 2028. Hence, there are significant perils for the stability of the economy and an unsatisfactory filtering of strategic defaulters.

Causes:

1. Comprehension difficulties for District Courts judges , arising out of technical/ financial issues
2. Lack of out of court settlement culture
3. Inadequate response on behalf of the financial institutions, which increased the magnitude of the problem
4. Strategic Defaulting/ Fraudulent Debtors.

Strategic objectives:

- Acceleration of court decision making processes (focus on pending cases)

- Enhanced system effectiveness.
- Standardization of processes and documents.
- Filtering between applicants in need of protection and strategic defaulters.
- Cultivation of a solid “payment culture”

Actions to be done

Dealing with the Backlog

1. All cases will be transferred from regional/peripheral magistrate courts to central magistrate courts (especially important for Attica and Thessaloniki) in order to increase system efficiency through economies of scale, specialization and better learning curves.
2. Such transfer, coupled with enhanced court infrastructure, would result in the setting of new hearing dates for all pending cases in central magistrate courts.
3. The new hearing dates will be acquired after an application of either the debtor or the creditor for all pending cases with a hearing date after 01-01-2017.
4. The application will be costless.
5. If the application is filed by the debtor no bailiff service should be needed, creditors can be notified through public data books held at the magistrates secretariats.
6. If the application is filed by the creditor (one out of all), the new hearing date will be serviced to the debtor only.
7. Possibility of extra human resources (judges) is an issue that will be decided amongst the GC.

Dealing with the temporary order

1. The application should be followed by a new hearing date for the temporary injunction.
2. A legislative amendment to the context of the law will restrict the interim injunction to the main residence and the amount of monthly installments should be decided according to objective measurements (reasonable living expenses) and the debtors personalized conditions.
3. The temporary order issued will be re-assessed after a fixed period of time, so that it can be adjusted to current financial conditions.
4. Strong scrutiny of the aforementioned clauses is necessary to limit possible constitutionality issues.

Segmentation of Applications

The applications filed or to be filed will be categorized based on the demand, and will be introduced to courts according to:

- a) asset less debtors
- b) debtors with primary residence only
- c) debtors with assets beyond the main residence

Strategic role for a “sui generis” out of court procedure (OCW)

1. Would award automatic full stay for a limited set period of time
2. A conciliator is allowed to make settlement proposition and in case of failure a report is sent to the court with the content of the proposition and parties reaction to it.
3. Sanctions and the cost of litigation are attributed to the parties in fault of the failure, if the court decision is in line with the rejected out of court proposal.

D. Insolvency administrator

A draft law for the establishment of an insolvency administrator profession will be prepared by end 2014. The Ministry of Development has already provided you with the main elements of the proposed reform. The Ministry’s proposal involves the creation of a new professional body that will admit professionals that are able to satisfy minimum qualification requirements as to skills that are necessary for the performance of insolvency administration. As those qualifications touch on both accounting and law, it is expected that the new professional body will consist of accountants and lawyers who specialize in turnaround and insolvency (according to INSOL principles). It is expected that the new professional body will have a degree of self government, especially as regards admission, the establishment of a code of ethics for the profession and handling of disciplinary issues. It is therefore envisaged that a professional may have a dual adherence to professional bodies, e.g. a law professional may be both a member of a domestic bar association (or equivalent qualification) and also be a member of the proposed insolvency professional body. The fundamental rules will be set by statute; subordinate matters may be dealt by subordinate legislation (presidential decree or ministerial decision).

As already set out in the outline of the proposed reforms, we envisage the establishment of two levels of qualification, depending on the size of the insolvency estate to be administered and/or the type of proceeding. It is possible that members of the legal profession who are already qualified to handle insolvency administrations, will be permitted to be appointed for the lower level but shall be given a deadline by which to satisfy the new certification requirements.

The recently enacted OCW law may be seen as an indication of progress in the same direction as it envisages, in the chapter dealing with the newly introduced special administration proceeding, that the special administrator must be either a lawyer who is conversant with financial matters, or an auditor or an accountant who has a certain professional certification. This same group is expected to be the pool of professionals from which the members of the new body will be selected (at their option through a training and certification process).

E. Product markets reforms

Continuous reforms under national initiative and ownership is **our priority**. With the support of Member States, Commission services and International Organizations, **reforms are being successfully implemented**.

The Greek Government remains strongly committed to structural reforms on product markets. A new framework streamlining the functioning of the market has been introduced offering further flexibility in opening hours, in season sales, offers and promotions; a new framework for interurban transport has also been established to enhance competition; measures to address rigidities in fuel markets have been adopted; a new legislative framework for technical professions has been introduced; the fees in private schools and closed professions have been liberalized, in particular accountants and chauffeur services in leasing passenger cars for private use as well as shuttle services. Moreover, a major project, supported by OECD, "**Competition Assessment Toolkit Project 1**" identified and evaluated regulatory barriers in Greek legislation in four sectors of the economy: tourism, retail trade, food processing and building materials. It took almost two years for this project to be completed with the vast majority of OECD recommendations adopted last spring.

The **second competition assessment** (*Toolkit 2*) conducted by OECD in four key sectors (manufacturing, wholesale trading, e-commerce, telecommunications) is assessing obstacles to competition and formulating policy proposals for legislative changes, is under implementation, with the active participation of experts of the public sector. By the **end of December 2014**, the first phase will be completed and results will be presented in manufacturing sub-sectors, namely textiles, machinery-equipment, beverages and coke-petroleum products.

An **additional competition assessment** (*Toolkit 3*) with the presence on the ground of experts, in other key sectors, such as **education, agriculture, fishing and real estate**, would be appreciated/could be considered, so as to further enhance competitiveness.

In parallel, the implementation of the framework law on investment licensing, began, via the issuance of the secondary legislation for the abolishment of operation permits.

E.1. OECD toolkit 1

Competition Assessment Toolkit 1, identified and evaluated regulatory barriers in Greek legislation in four sectors of the economy: tourism, retail trade, food processing and building materials. It took almost two years for this project to be completed, with the vast majority of OECD recommendations adopted last spring: **90%** of the proposals of toolkit 1 has been adopted by the Greek Government. The remaining **10%** of the proposals is under further research/examination.

We are currently preparing as agreed the studies on OECD toolkit 1. Furthermore, especially on trucks, and in accordance with OECD recommendations, we will abolish the provisions providing only for one license, for a truck of private use of maximum gross weight of 4000 kg, to transport companies and transport agencies, for the transport exclusively of the company's own package materials (2 OECD recommendations).

E.2. OECD toolkit 2

Competition Assessment Toolkit Project 2 is a huge project. We all realize it was impossible to have results in 5-6 months, as written in the Memorandum. However, OECD, TFGR and SG for Industry, have done their best so as to have the first findings of **phase 1** already presented. In the sectors of manufacture of textiles (*NACE 13-15*) & machinery and equipment (*NACE 28*) OECD screening has identified very few provisions to be investigated. In the sector of manufacture of coke and refined petroleum products (*NACE 19*), recent law changes address HCC opinions and ECJ decisions. Regarding manufacture of beverages (*NACE 11*), legislative initiatives could be taken (*by end January*) according to preliminary findings on the areas of 1. Separation of activities, 2. Minimum requirements, 3. Production limits, 4. Obsolete legislation.

As regards phase 2 (*wholesale trade, telecommunications, e-commerce and the remaining sub-sectors of manufacturing*), TFGR is in close cooperation with OECD so as to agree on TORs of the second contract. Given the high priority of the project, shortened deadlines have already been negotiated. However, there is a broader issue of the overall bilateral framework agreement between EU Commission and OECD, which is expected to be finalized by the end of the year. Following this agreement, the EU Commission will immediately proceed with contracting the phase 2 of OECD toolkit 2 (*see Mr. Reichenbach's letter, as already copied to you*).

An alternative to the above technical difficulty is to finance the second phase of the program by own resources, in order to accelerate the total performance of the program. We are therefore ready to commit ourselves in signing the contract on February 2015, while completion of the program and the adoption of the relative legislation will be over by the end of June 2015.

E.3. Potential OECD toolkit 3

An **additional competition assessment** (*Toolkit 3*), with the presence on the ground of experts, in other key sectors, such as **education, agriculture, fishing** and **real estate**, would be appreciated/could be considered, so as to further enhance competitiveness. It is very crucial to start the appropriate preparation by the end of April 2015, in order to launch the new framework (*Toolkit 3*) by July 2015.

E.4. Administrative burdens

Committed to our reform strategy, we will adopt by end December the 2 OECD recommendations on Company Law, as included in the OECD study on administrative burdens and have already been presented to you. 1. Use flexibility in EU legislation to simplify financial

statements of small and micro companies 2. Reduce the number of companies required to have their financial statements externally audited.

E.5. Licensing

The JMD abolishing the operational licenses for 103 economic activities has already been signed. Three more MDs abolishing horizontal approvals or certifications are being prepared and will be issued by end December.

– **Fire safety certificate - active fire protection** (*JMD / MoD- MoPOCP- MAREG*)

– **Approval hygienic suitability** (*JMD / MoD- MoH- MAREG*)

– **Approval of suitability** (*JMD / MoD- MoRD- MAREG*)

It needs to be highlighted that by abolishing the fire safety certificate, we simplify licensing procedures even for medium and high risk activities.

It should be highlighted that the WB review has not yet been completed. It is therefore not possible to proceed with legislative initiatives concerning medium and high risk economic activities. A full inventory has not yet been completed, and WB is only at the beginning of the review work, while the targets in terms of licenses reviewed (decision memos) as mentioned in the action plan have been built based on an estimate of the resources available and the time and efforts required for high quality review work, taking into consideration the experience of other countries. A teleconference or even a meeting with World Bank could be arranged in order to present all details on the next steps of the project.

F. Transportation

F.1. Privatizations

The Greek Privatization Program is a major pillar of development and financial consolidation in Greece. The commitment of the Greek Government on privatizations is given and strong.

- **Piraeus & Thessaloniki Ports:** There will be an effort for the concession agreement of the Piraeus Port (OLP), to be uploaded to the tender's Data Room until December 8, 2014, provided that a full financial assessment of the value of the concession is concluded by the financial advisers of TAIPED. Subsequently, in December, HRADF will announce to the prequalified investors the binding bid submission date which is expected within Q1 2015. The concession agreement for **Thessaloniki port** will follow a month after the Piraeus port concession, that is, by the end of December. HRADF will announce to the prequalified investors the binding bid submission date, which is expected in late Q1 2015. Note that we are trying to accelerate the above procedures in order to complete the tender procedures until mid of February.

- **Regional Airports:** November 24-25, 2014, HRADF completed the assessment on the qualification of the 3 bidders' technical proposals and unsealed their financial offers. Tender awarded to **Fraport - Slentel consortium** for a consideration consisting of a very considerable **€1,2bn upfront payment**, > €1,2bn in annual payments of €23mn inflation-adjusted and **28.5% EBITDA** sharing for the life of the concession. Next Steps:

The process includes the following steps:

- Approval by the Court of Auditors,
 - State aid clearance by DG Comp,
 - Issuance of Ministers' Cabinet Act and
 - Parliament Ratification of the concession agreement (*End Q1 2015*)
- **Railways:** Investors requested an extension of the 2nd round for the submission of comments on SPA and other key documents and the moving of the submission of binding bids to February 2015. The Ministry of Infrastructure's bill will be ready for Parliament Ratification in December 2014. The Approval of SPA by HRADF and other documentation by TRAINOSE/EESSTY BoD's respectively, by January 2015. We will receive the final bids in February 2nd.
 - **Motorways/ EGNATIA:** The Joint Ministerial Decision regarding new toll stations **has been signed and published** in the Government Gazette (*17 Nov. 2014*). In addition, Egnatia SA will finalize the agreement with Piraeus Bank for the restructuring of the loan in default within January 2015. We estimate that we will have the Approval by DG Comp on state aid compatibility of the three vertical axes following. The Ministry's submission of relevant notification, until February 2015. The expression of interest **will be launched in end of Q1 2015**. This dead line is obviously depended on DG Comp's final approval.

F.2. New Regulatory framework

- a. **Ports:** MOU commitment was that RAP would be operational by 1/1/2015. The Current progress is as follows:
 - The Regulatory Port Authority/RPA was established with the **law 4150/2013**.
 - Approval of Presidential Decree (*PD*) for the Organization & Rules of Operation for RAP.
 - Draft PD was submitted to Court of State in September. Discussions have taken place in the last three weeks between the competent section of Court of State and RAP, in order to clarify certain issues. From all accounts so far, it appears that the Court of State will have some comments/recommendations for amendments to the PD. We are awaiting official response by the Court of State.

- As soon as PD is approved and published in the Official Gazette, we will issue a call for staff to be drawn from qualified state employees. In anticipation of the official call, a preliminary (*unofficial*) call for expression of interest has been issued for the staff of the Min. of Shipping and the organizations it oversees so as to inform interested staff of the upcoming official call.
- All other preparatory actions (e.g. selection of offices, collection of fees from port organizations) have been completed. Improvement works in the offices have been initiated.

The RAP will be in full operational mode at the end of February 2015.

b. **Airports:** The Hellenic Civil Aviation Authority (HCAA) is the competent public authority, within the Ministry of Infrastructure, Transport and Networks, for the organization, development and control of the civil aviation system of Greece. Currently, it manages 39 airports, of which only the Athens International Airport has been granted by contract. Through legislation arrangements in 2011 and 2013, the HCAA **was restructured** in line with international and European standards, **providing the anticipated separation of management, regulatory and supervisory responsibilities**, mainly for air navigation services, **creating air navigation services provider and independent supervisory authority**. At the same time, the foundation for the development of airports through concessions were laid, while HCAA would retain supervisory and regulatory functions, concerning the preparation and promotion of primary legislation, specific operating regulations, guidance material, etc. in order to control the new management bodies, the certification and supervision of airports safe operation and the safeguarding and improvement of all services quality provided to them.

The majority of the regulations has already been adopted by the HCAA. The completion of this procedure will be completed at the end of February.

G. Cadastre

All contracts from the 2008 tender have been awarded and running for the areas where all participants had been eliminated by court decisions. A new tender has been announced and the Committee is completing before the end of the year the evaluation of the suitability of the participants.

Most of the contracts from the 2011 tenders **have been awarded**. The evaluation of the new (2013) tender has been completed and for 6 of them, the participants have been asked to bring the necessary documents for signing the respective contracts.

The funding of the above, will be covered by reassignment of unutilized **NSRF funds**. For the remaining 2013 contracts, the **Greek government is consistently working** in order to find the **necessary funding to proceed with the contract awarding**.

The business plan for the final cadastral offices has been drafted and the two pilot final cadastral offices have been established in **Piraeus** and **Thessaloniki**. The Ministry of Environment has adopted the main planning proposals of EKXA's business plan, regarding the number and distribution of the final cadastral offices as well as services to be offered to citizens locally through the municipalities and/or certified professionals.

In addition, a **ministerial decision is to be signed**. It will make the submittal of notarial deeds to EKXA's databases for all the new deeds mandatory, following the completion of the relevant web-service from EKXA.

For the production of the remaining Forest Maps, both EKXA and the Ministry are working in order to find the necessary funds to proceed with the tendering. In addition next month EKXA will proceed with the suspension and certification of forest maps in certain areas of Attiki.

H. Energy

H.1. Electricity market liberalization

a. Reforms to increase competition in the market and reduce prices

- _ **Measures Affecting Electricity Cost for Industry:** Following clearance by DG COMP, the Joint Ministerial Decrees for implementation have already been signed by YPEKA Minister and have been sent to MinDev and Minfin. It is expected that they will be signed with the next two weeks while implementation can start immediately. Also, following clearance by DG COMP, the ministerial decree for implementation of Interruptibility Contracts is at the final stage of preparation. It is expected to be completed in December, so that the first auctions can occur on January.
- _ **Capacity Assurance Mechanism:** A revised scheme, with a significant restructuring and cost reduction, is under preparation and is to be consulted before formal submission for compliance to DG COMP, by Monday 1/12, so that it can be formalized and brought into force shortly afterwards, aiming at finalizing it before the expiration of the current scheme, end of December.
- _ **Transition to TARGET MODEL:** Regarding the implementation of the target model, a detailed roadmap is presented on the documents of public consultation which is to be concluded on the 8th of December. The basic document will be finalized by RAE, LAGIE and ADMIE, by the end of FEB 2015. Then, the development of necessary codes (secondary legislation) but also the necessary organizational infrastructure (*IT etc.*) will commence. It is expected by the end of 2015, that all secondary legislation will be

prepared. By the end of 2016, the completion of the IT infrastructure is expected. In the meantime, RAE will also run a contestability exercise, in order to identify possible market power existence and develop the appropriate regulatory measures for its mitigation.

- **NOME:** Concerning NOME, the final scheme, based on the proposal by RAE, is to be agreed at the end of August 2014, and finalized by the end of the year. Three months for the preparation of the auctioning procedures, the legal documents, the contracts and the adjustments of LAGIE's Systems will be required for conclusion. Nevertheless, in case the scheme needs to be notified as State aid measure, then an additional one month will be required.

b. Small-PPC spinoff

The engagement of the technical consultant is expected to occur in December. The delay is caused by the fact that the number of participants in the tender is large. It is expected to be recovered in the **first quarter of 2015**, through a parallel implementation of several actions. The blueprint of the new company will be completed approximately by early March. It is anticipated that the final target of the initial time plan **can be respected**. The tender will be launched in June 2015.

c. ADMIE

Uploading of the second version of the Sale Purchase Agreement on the virtual data room (VDR), is foreseen for December 5th and SHA for December 10th (*delays have been caused by the delayed reply of the State Legal Council*).

The provisions needed for proceeding to the next steps, are included in the Gas Law. If the law is voted by December 22nd, the final text of SPA-SHA will be uploaded on January 13th (*the law needs to be in force for this action to take place, as it entails approval of PPC's board*).

Binding offers can then be expected in January 30th, 2015.

Approval of **Preferred Bidder by PPC's BoD** in February 13th, 2015 (*Friday*).

Approval of **Preferred Bidder by General Assembly** in March 6th, 2015 (*Friday*).

H.2. Gas market reforms

The draft law has been sent to the GAO and their report is expected within next week. The law will then be introduced to Parliament. Unless major revisions are requested, the law will be introduced by Friday, **December 5th**. Voting will be effected before Christmas.

I. Better regulation

With the introduction of the ex-ante consultation process, a major reform of the legislative process is attempted, in order for the government to deliver better results in implementing its priorities. The first milestone of this reform is the publication of a circular, introducing the ex-ante consultation process to all government agencies.

Regarding the circular of the ex-ante legislation process, the final draft is under review by the General Secretary of Coordination and the General Secretary of Government. All your comments and recommendations have been adopted. The review process will be finalized by Tuesday, **December 2** and the circular will be communicated by Wednesday, **December 3**.

The final draft has been sent to your technical team.

J. Framework Law on public procurement

The reform in the field of public procurement, consists mainly on the implementation of electronic procurement platform and on the implementation of **new Law 4281/2014**.

Under the framework of the Partnership Agreement, an action plan for the fulfillment of the General ex ante Conditionality “Public Procurement” has been agreed, ensuring the implementation of the reform, with specific actions to be taken- bodies responsible and deadlines. Regarding e-procurement, progress reports will be submitted by the Greek authorities to the Commission on aspects of its operation by specific deadlines (*starting April 2015*), following the assessment of experts evaluating progress and identifying possible areas for further improvement. It should **be highlighted** that the whole public sector in Greece uses the e-procurement platform for supplies and services.

The effective implementation of public procurement **Law 4281/2014** on the award of public supply, service and works contracts and concessions, is ensured by the preparation and subsequent issuance of the secondary legislation by **May 2015**. On its successful application, training programmes will also be adopted (*first by the end of 2014*) for bodies involved and relevant progress reports will be submitted to the Commission. In addition, guidelines and standard tender documents will continue to be issued to facilitate the implementation.

Regarding the reform of the remedies system as provided in the Law, an implementation plan will be submitted to the Commission by **May 2015**, so as to ensure entry into force of the new remedies system (*prejudicial control*), by end 2016. The transposition of the new EU public procurement directives will follow by **April 2016**.

Moreover, the creation of Central Purchasing Bodies in the line Ministries is under consultation between them and the Ministry of Development, so as to proceed with the relevant decisions starting by **February 2015**.

Part E

Installment Schemes

We reiterate our commitment to strengthen both the payment culture and the debt collection capacity. We commit to legislate on suggested amendments to the Fresh Start and the Basic schemes. Regarding the New (October 2014) scheme, we are willing to discuss ways to address shortcomings in a way that is both politically and legally feasible. We will fully implement agreed initiatives for increasing compliance, especially of large debtors, in order to ensure effectiveness of the tax and SSC installment schemes. In addition, we shall ensure that, as already provided by the law, installment schemes will be consistent with provisions of the OCW mechanism.

The new 72/100 installment payment scheme, both for tax and SSC obligations, has already produced significant results in just a few days: Tens of thousands of new participants, several hundred million of debt and tens of millions of new payments. The large majority is of new compliance. As far as participants switching from previous schemes are concerned, their majority had already ceased payments at some point in the past due to liquidity constraints. Clearly, the new settlement scheme has provided additional breathing space to the private sector, without damaging the earlier settlement arrangements, while generating significant additional cash inflow for the State.

Regarding issues raised in your note, it is important to point out that we have already implemented a significant number of initiatives and adopted some of your proposals. We are willing to supplement existing legislation or undertake any other actions deemed necessary for enhancing the existing legal instruments to improve the collection mechanism and promote compliance on the payment of tax debts.

We have considered your views and the principles presented in our meeting and, taking into account both existing legal commitments and rights after the implementation of the laws 4305/2014 and 4307/2014, we note the following: We share the view that **upfront enforcement** is important to encourage tax compliance. We continue to take enforcement measures in order to ensure collection including for those debtors, who may be eligible for the new installment scheme, as already provided in the legislation. It goes without saying that for those debtors, who will not participate in the installment scheme until March 31st, 2015, as well as those who will not settle their debts after the April 1st 2015, we will enforce the pertinent legislation and practice.

- 1) With respect to multiple seizure thresholds, we would like to emphasize that Greek tax legislation provides for a threshold, regarding a minimum amount of 1500 euro, which

cannot be seized. This threshold applies only for salaries and pensions, and not to any other income of the taxpayer. As for the restriction on the seizures on salaries up to 25%, while it does not apply in practice, we will reexamine it during the KEDE amendment process.

- 2) We also believe that enforcement should focus as a matter of priority on high wealth individuals and large debtors, who are not eligible for the installment scheme. The introduction of a maximum threshold of debt (of 1 million euro) for eligibility to the scheme also proves the intention of the Greek tax administration to continue and focus its efforts to large debtors. In this regard, we will work constructively with you on the basis of the proposals provided to you on November 18, 2014.
- 3) The suggestion to link eligibility in the scheme with capacity to pay and duration of installments is correct in principle but difficult to enforce in practice. Public administration does not have the resources that would be required to conduct in-depth analysis of solvency. Your suggestion to utilize technical assistance in this task would cause significant delays, while risks to the budget from non-payment are imminent. Simple statistics, such as the debt to income ratio, shown in data presented to you previously, reveal no statistically significant differences between participants and non-participants in older schemes. This provides comfort that the factors which deterred participation were the overly restrictive requirements and punitive terms these schemes featured, as well as liquidity constraints of debtors, and not a systematic difference in solvency profiles. In any case, basing analysis on the debt to income ratio would a priori exclude a large part of persons involved in unofficial activities, thereby depriving the State from revenue (and also an indirect way to uncover hidden incomes). In addition, the income of a person or legal entity can vary widely across different periods, thus basing estimations of future incomes on historic data is a poor projection method. For all these reasons, it is advisable to follow a stricter approach in enforcing compliance that would work as a self-selection process.
- 4) **Strong enforcement measures** (garnishment of claims and bank deposits, enforced sale of assets, and denial of issuance of tax/SSC clearance certificate) are already in place under the current provisions for those, who do not enter into an installment scheme in place or have defaulted. Tax Administration ensures that enforcement will be taken if the debtor defaults on either public debt, or private debt (if they benefit from OCW, which entails a cross-default clause), or current tax liabilities and SSC.
- 5) In case a debtor **drops-out**, either from installment schemes, OCW or current tax and SSC liabilities, **enforcement measures** will be taken, unless private creditors have already initiated the liquidation process or the special administration procedure under the OCW law (art. 68 I. 4307/2014). In addition, any benefits granted under the installment scheme are

annulled and the debt revives in its entirety. This later sanction also applies to debtors that fail to comply with any future (new) tax obligation (even tax returns) or to properly pay or settle any future tax debts. The law also already provides for confiscation and forced sales of assets of non-compliant persons and legal entities; the enforcement role of these provisions will be improved from the new Civil Code Procedure, which will facilitate the auction process.

- 6) We agree that the **CBR fines should apply only when they are lower than respective TPC fines, otherwise lower TPC fines should apply** and we are willing to consider relevant legislation. It should be nevertheless acknowledged that certain CBR fines are related to tax evasion whereas other surcharges are also imposed, the combination of which has an adverse impact to the total debt. In any case, we are willing to discuss the issue.
- 7) Regarding suggestion to disallow switch from old regimes to the new regime, the way to go is to provide positive motives for staying in shorter duration regimes; this has already been done for the Fresh Start. We now commit to do the same for the basic scheme and legislate immediately as a matter of urgency. The same fact that longer repayment period bears interest (a nominal interest rate of 4.5%, i.e. a real interest rate of 6.6% currently) and smaller write offs is a strong deterrent for people that can afford to pay quicker. To clear any misunderstandings, it should also be noted that the October scheme provides for shorter payoff periods as well and not only for 72/100 installments, as some members of the troika have suggested.
- 8) More specifically, with respect to **debtors** already in the Fresh Start scheme, the Law provides for an incentive for such debtors to remain to the above scheme (same interest rates with the October scheme, extra 20% reduction in surcharges if they stay in the scheme) and a disincentive to increase the number of the installments (lower write-offs). Moreover, we had to ensure equal treatment between the debtors already in the Fresh Start and those, who will enter the new installment scheme, in accordance with the Constitution of Greece. A prohibition of participants in older regimes to apply in the new scheme would result in legal disputes of the installment scheme by the debtors with unfavorable results for the Greek State.
- 9) Regarding **the Basic Scheme**, we agree to adopt your proposal, including amending the level and form of the interest rate.
- 10) The proposed **eligibility criteria for self-employed, legal entities with liquidity problems and individuals** require at this point in time extensive amendments to law 4305/2014 raising serious legal and especially constitutional concerns (equal treatment with respect to the differentiation between the self employed, salaried individuals and legal entities).

- 11) Your proposal for **debts under 15.000,00** is already provided in the law.
- 12) Given limitations regarding equal treatment, we could creatively think of providing positive motives for tax payers to choose shorter durations of repayment, e.g. an appropriately revised Fresh Start scheme to include debt up to 1 October 2014 with a slightly more attractive interest rate structure compared to the New scheme.
- 13) We have already addressed the issue of **OCW compatibility of debtor treatment** across schemes as L. 4307/2014 provides for the obligation to first settle tax debt and SSC debt and then private debt. It also provides that the OCW law will be consistent with the current or any future form of the installment schemes law. By this way, the Government has taken any proper action to address opportunities for forum shopping and increase tax and SSC compliance.
- 14) We express our **commitment to work closely with you so as to address the issues regarding large debtors (with debts above 1million euro) and enhance transparency along the lines of your suggestions, including any legislative initiatives.** We are looking forward to studying in depth the recommendations of the technical assistance and to working closely with your experts. It is noted, that transparency is one of the priorities in the public administration, subject to the pertinent legislation providing for the protection of sensitive personal data.

It is clear that the government cannot go once again back to Parliament in order to rectify the existing law (New Scheme), but it is equally clear that we can promptly legislate new measures, which will discourage shifts from the basic scheme to the new one, seriously improve tax compliance and strengthen tax enforcement particularly for non-compliance of "large" tax debtors.

Conclusion

Over the past few months, we made enormous progress in the sensitive areas of Labor reform, Public Administration reform, Wage grid, Energy sector, Revenue Administration, or Licensing. This is already acknowledged. The current proposal is an honest attempt to move beyond those areas and bridge our bona fide disagreement in all remaining areas.

On the fiscal front, where our perceptions of a fiscal gap differ, we propose to bridge our differences through the immediate adoption of new measures. We also provide a more detailed documentation on the measures we corresponded to you in last Saturday's e-mail. At the same time, we give a concrete contingency package commitment to close a potential fiscal gap in case our fiscal projections do not materialize as planned during the first six months of budget execution.

On the reforms front, we offer a wide array of aggressive and ambitious policies. On VAT reform, we decided to move quickly and simplify the current structure, aligning the VAT rate on hotels with the VAT on restaurants and catering. Moreover, we provide a comprehensive range of measures towards increasing VAT compliance and enforcement. On Pension reform, we propose a number of ambitious measures, the majority of which we intend to legislate in the course of this review. Indeed, some of them cure long standing distortions. On Key Structural and Product Market Reforms, we provide a thorough analysis of the outstanding issues, together with a special focus on energy and transportation.

Finally, on the installment schemes, we have included the best proposal we can make under the current circumstances.

This is a full package proposal. Following the EWG Chairman's strong recommendation of Thursday night, we opted to make an all-out proposal instead of a gradual negotiation maneuvering. We do recognize that in some areas - due to justifiable reasons - we may have not fully mitigated your concerns. However, this ought to be compensated by alternative - more ambitious than initially planned - proposals in other areas.

This is realistically the very maximum we can offer in a genuine attempt to swiftly move forward and close the review in a credible way.

Looking forward to seeing you in Athens,

Gikas A. Hardouvelis