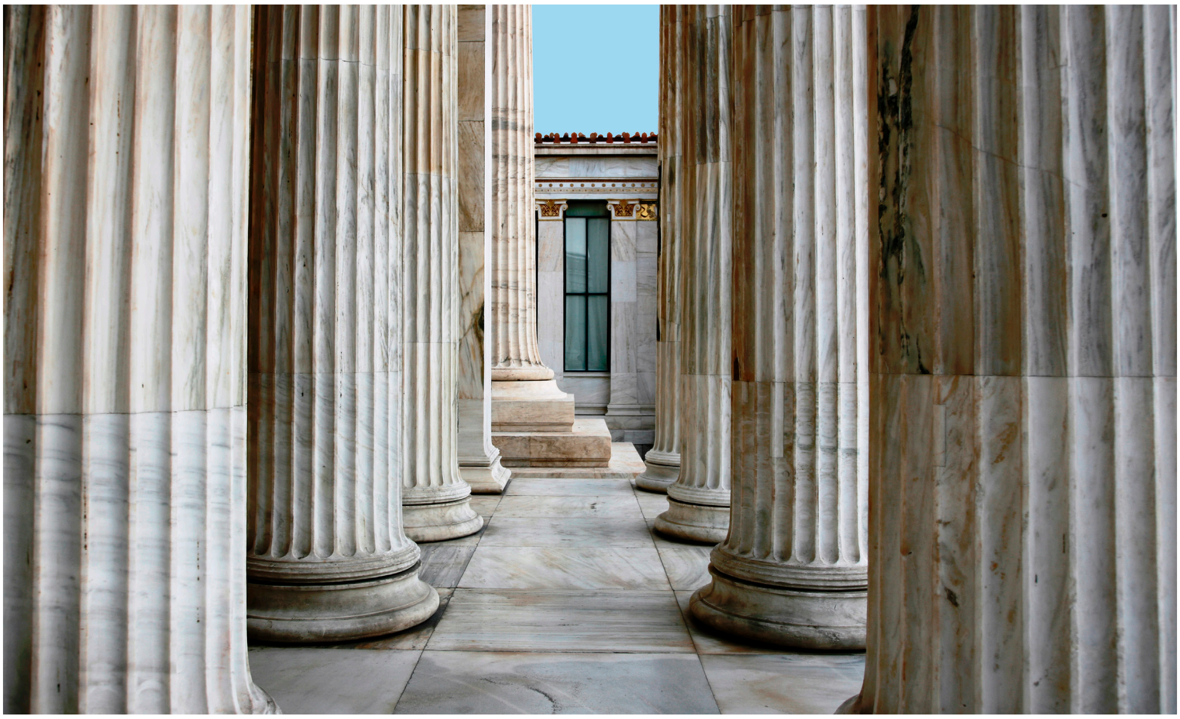
European Commission
Directorate-General for Economic and Financial Affairs

Enhanced Surveillance – Greece, November 2018

Communication from the Commission

and

accompanying Commission Staff Working Document



EUROPEAN ECONOMY

Institutional Paper 090

COMMUNICATION FROM THE COMMISSION

Enhanced Surveillance – Greece, November 2018

Background

Greece successfully completed its European Stability Mechanism (ESM) stability support programme on 20 August 2018. Following the end of that programme, Greece has been integrated into the regular economic surveillance framework for euro-area Member States under the European Semester for economic policy co-ordination. In order to cater for the specific needs and challenges of Greece, the Commission has activated enhanced surveillance for Greece under Regulation (EU) No 472/2013[1], effective as from 21 August 2018.[2] That decision acknowledges the fact that over the medium term, Greece needs to continue adopting measures to address the sources or potential sources of economic and financial difficulties, while implementing structural reforms to support a robust and sustainable economic growth.

Greece has affirmed its general commitment in the Eurogroup of 22 June 2018 to continue and complete reforms adopted under the ESM programme and to ensure that the objectives of the important reforms adopted under the financial assistance programmes are safeguarded. The authorities have moreover developed a Growth Strategy and plan to monitor its implementation.

The Commission will release enhanced surveillance reports on a quarterly basis, following a timetable that is aligned with key steps of the European Semester. In the context of enhanced surveillance, the Commission, in liaison with the ECB[3] and, where appropriate, the IMF, conducts regular review missions to verify the progress made; the ESM participates both in the context of its Early Warning System and in line with the Memorandum of Understanding of 27 April 2018 on working relations between the Commission and ESM. In preparation of this report, a joint mission to Athens took place on 10-14 September 2018.

This first enhanced surveillance report is issued alongside the 2018 autumn Semester package that includes an assessment of the 2019 draft budgetary plan sent by the Greek authorities to the Commission on 15 October 2018. Following the submission of the draft budgetary plan, a package of discretionary measures to be included in the 2019 budget has been finalised that meets the agreed primary surplus target of 3.5% of GDP. The Commission considers that the final package is a balanced approach to meet agreed fiscal and economic goals in a manner that is also supportive of social inclusion.

Enhanced surveillance provides a comprehensive framework for monitoring economic developments and the pursuit of policies needed to ensure a sustainable economic recovery. It

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

[2] Commission Implementing Decision (EU) 2018/1192 of 11 July 2018 on the activation of enhanced surveillance for Greece, OJ L 211, 22.8.2018, p. 1.

[3] ECB staff participated in the review mission in accordance with the ECB's competences and thus provided expertise on financial sector policies and macro-critical issues, such as headline fiscal targets and sustainability and financing needs.

includes an assessment of economic and financial conditions in Greece as well as an assessment of implementation of the general and specific reform commitments given by Greece to its European partners.[4], The specific commitments to complete key structural reforms started under the programme are in six key areas and have agreed deadlines up to mid-2022, namely (i) fiscal and fiscal-structural policies, (ii) social welfare, (iii) financial stability, (iv) labour and product markets, (v) privatisation and (vi) the modernisation of the public administration. Finally this enhanced surveillance report includes an update on sovereign financing conditions as well as a technical update of the debt sustainability analysis.

The Eurogroup on 22 June 2018 agreed that the package of debt relief measures for Greece should include incentives to ensure a strong and continuous implementation of the reform measures agreed in the programme. To that end, some of the agreed debt measures will be made available to Greece on a semi-annual basis up to mid-2022, subject to compliance with its commitments regarding reform continuity and completion and based on positive reports under enhanced surveillance. They include (i) the return of income equivalent amounts stemming from central banks' holdings of Greek bonds under the Securities Markets Programme and the Agreement on Net Financial Assets, and (ii) a waiver of the step-up interest rate margin for part of the loans provided by the European Financial Stability Facility. The two measures amount to EUR 1.3 billion and EUR 0.2 billion per year respectively.

Steady growth, but with risks and challenges

Greece is now experiencing a period of steady growth. Real GDP is expected to grow by 2% in 2018, strengthening to 2.2 % of GDP in 2019 and 2.3% in 2020.[5] Growth in 2019 is expected to be supported by the budget for 2019, which includes discretionary measures to reach a primary surplus of 3.5% of GDP in line with agreed targets. Domestic demand and in particular private investment is expected to become the driver of growth in the coming years with robust export growth expected to be offset by growth in imports on the back of strong investment growth. Recovery in the labour market is expected to continue as economic activity picks up and is supported by the reforms adopted under the programme. The unemployment rate fell to 18.9% in August 2018, down from 20.8% a year earlier, and down from 24.5% in August 2015, when the ESM programme started. Despite that positive trend, the unemployment rate is still very high, particularly amongst the young, with 38% for under-25, and almost three in four unemployed are long-term unemployed. The full rollout of the social welfare reforms aimed at improving the efficiency, effectiveness and adequacy of the Greek social welfare system could support an improvement in the social situation in the coming years. Wage developments have been moderate and for the future, it will be crucial that social partners and the Greek authorities keep wage developments aligned with increases in productivity to safeguard wage competitiveness gains and positive employment creation achieved under the programme.

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

[5] The growth forecast reflects a fiscal package that is projected to deliver a primary surplus of 3.5 % of GDP in 2019. That forecast is different from the Commission's 2018 autumn forecast, which was based on a no-policy-change assumption given that the final package was not yet finalised at the time of its cut-off date. The forecast for 2020 continues to build on the achievement of the fiscal target.

Despite some positive signs, financing conditions remain difficult and could hinder recovery. Following, Greece's successful exit from the ESM programme, the creation of a very substantial cash buffer and agreement on a substantial package of measures to ensure the sustainability of public debt, Greece's sovereign credit ratings improved. However, sovereign spreads have stayed elevated amid a difficult external environment and domestic vulnerabilities. That context is posing particular challenges for the private sector. Overall, the balance of macro risks is tilted to the downside, linked to the potential for domestic policy slippages and a weak intermediation capacity of the banking sector as well as adverse external developments, including a marked slowdown in global trade.

The decade-long crisis in Greece has many legacy effects not only in the form of unemployment but also in the form of public and private debt and non-performing exposures (NPEs). The elimination of balance sheet or stock problems still requires years of sustained growth backed by continued implementation of structural reforms to reduce the overhang, during which Greece is likely to remain exposed to economic shocks.

A key issue to ensure the achievement of sustainable growth that requires special attention is the erosion of the capital stock. Greece's annual fixed investment fell by 65% between its peak in 2007 and trough in 2017. The gap in investment flows can be corrected within a few years, and central to doing so will be the efforts to enhance the business environment, especially relating to the justice system and property registration.

A 2019 budget in line with the primary surplus target of 3.5% of GDP

After discussions following the submission of the draft budgetary plan to the Commission, a package of discretionary measures to be included in the 2019 budget has been finalised by the Greek authorities: the Commission projects the 2019 budget to meet the agreed primary surplus target of 3.5% of GDP. As outlined in the Commission Opinion on the draft budgetary plan[6], the package respects the requirements of the Union's fiscal framework, as it ensures that a primary surplus of 3.5% of GDP and a general government balance of 0.2% of GDP are reached in 2019.

The package of discretionary measures differs from the fiscally neutral package of measures related to pension cuts due to take effect on 1 January 2019 that were pre-legislated in mid-2017. The Greek authorities plan to implement a freeze in pensions until 2022, but they will not proceed with the pension cuts associated with the immediate recalibration of so-called negative personal differences. In addition, the authorities aim to strengthen the social benefit system through the launch of a new housing benefit costing EUR 400 million in 2019. They also plan to reduce the social security contributions for certain categories of self-employed, to subsidise the social security contributions of employers for persons aged below 24, to cut the real estate (ENFIA) property tax, to lower the expenditure ceiling for the Public Investment Budget to levels which the authorities consider to be more realistic in light of persistent underspending, and to progressively lower corporate income taxes starting from 2020. The Greek authorities have not informed the institutions of plans to change the pre-legislated measure related to lowering the income tax credit foreseen for 1 January 2020.

[6] Commission Opinion on the Draft Budgetary Plan of Greece, C(2018)8016 of 21 November 2018.

The Commission considers that the final package of discretionary measures to be included in the 2019 draft budget is a balanced approach to meet agreed fiscal and economic goals in a manner that is also supportive of social inclusion, for several reasons.

- the package of measures leads to a primary surplus of 3.5% of GDP in line with the agreed targets;
- the implementation of the pre-legislated cuts in pensions is not needed, neither to reach nor to sustain a primary surplus target of 3.5% of GDP over the medium term. Moreover, the proposed freeze in pensions up to 2022 is projected to lead to the same level of pension spending as a share of GDP in the steady state compared to the outcome if the pre-legislated pension cuts are implemented in full in 2019. Provided the reforms enacted in 2015 and 2016 continue to be fully implemented, pension spending is projected to fall from 17% of GDP in 2016 to the euro-area average of 13% by 2027;
- it is estimated that the implementation of the pre-legislated pension cuts would reduce the main pensions of some 1.4 million retirees by an average of 14%. Distributional analysis shows that the implementation of the pre-legislated pension cuts would result in a significant increase in the number of pensioners at risk of poverty;
- the 2019 draft budget allows for a partial implementation of the pre-legislated measures to increase spending on other social benefits which target poverty risks amongst children and working-age families. Building upon a reform of family benefits in place since the start of 2018, the Commission welcomes the planned launch in 2019 of a housing benefit costing EUR 400 million: according to Euromod simulations, thanks to effective targeting that measure is projected to have a material impact on reducing poverty risks amongst the young and concentrated in low income cohorts. Combined, these measures amount to additional spending of 0.35% of GDP on social benefits other than pensions, which is equivalent to half of the increase foreseen in the 2017 pre-legislated package.
- the package of discretionary measures included in the 2019 budget includes measures that lower taxes on labour, corporates and real estate, and as such go in the direction of measures included in the pre-legislated package for 2020. Those measures could support growth, although their impact will be relatively modest given their scale and composition. However, the design of the measure to lower social security contributions for the self-employed, which includes a bigger reduction for certain categories of professionals calls into question the objective of the 2016 pension reform to have a unified approach across different types of contributors. Lower ceilings will not necessarily have an impact on the actual level of public investment in 2019 given persistent underspending for several years. Moreover technical assistance will be provided through the Structural Reform Support Service to help address structural shortcomings in the setting and monitoring of public investment projects by the Ministry of Finance.

The fiscal projection is subject to uncertainty. Spending under-execution has contributed to budgetary over performance in recent years, even though this is not a desirable outcome in terms of the budget process or the impact on growth. The reduction of the investment spending ceiling has reduced upside risks to the fiscal forecast related to possible underspending. As regards downside risks and although not under the direct responsibility of the Greek authorities, one particular issue concerns a series of recent court cases and rulings which have, or could potentially, render invalid some aspects of reforms enacted under the ESM and earlier programmes. They include cases/rulings related to pension reforms enacted in 2012, 2015 and 2016 as well as measures adopted in 2012 that abolished the 13th and 14th monthly salaries of public sector employees. The actual impact of rulings, including their fiscal impact, will depend largely upon the reasoning of the courts and may require corrective actions to be enacted so as to ensure that the structural features of the reforms continue to be pursued and fiscal targets are safeguarded. The Greek authorities should monitor fiscal risks, including court rulings, and are invited to take offsetting measures as needed to meet the medium-term fiscal targets in the context of the Medium-Term Fiscal Strategy (MTFS) and its annual updates.

The Greek authorities intend to adopt one-off measures that use part of the expected overshooting of the 3.5% of GDP primary surplus target for 2018 but no specific proposals have been provided. Such measures should only be considered provided there is a suitable safety margin to cater for possible future data revisions to the fiscal outturn. In the event of such measures being considered, priority should be given to the clearance of any remaining liabilities arising from court decisions, and full compatibility with policies monitored under enhanced surveillance would need to be ensured.

Fiscal structural reforms: progress with reform commitments

The authorities are advancing with the reform of the ENFIA property tax to gradually align the assessment of zonal values to market prices. Administrative capacity is being set up benefitting from technical support and a permanent framework law on valuation is under preparation.

As regards the independent revenue administration (IAPR), progress is mixed. Key performance indicators concerning tax debt collection continue to be achieved. However, delays and shortfalls are observed in some important areas. Most notably, the end-2018 staffing target of the IAPR may be missed due to delays in an external competition for tax administrators/customs officials and with the implementation of the mobility scheme. Furthermore, delays continue to be observed in finalising the IAPR Reform Action Plan, which sets out investments necessary to further strengthen the IAPR's capabilities, as well as in adopting the required enabling legislation to complete the human resources reform, which will introduce grading, remuneration and performance assessment tailored to the IAPR.

Arrears clearance is also behind schedule. The authorities are implementing structural measures to address the sources of arrears accumulation and to clear arrears. That said, the clearance of arrears has not proceeded fully in line with expectations, as the end-August 2018 stock of arrears still stood at EUR 3.2 billion under the programme definition. A refined arrears definition for enhanced surveillance purposes shows a net stock of arrears of EUR 1.7 billion, taking into account new granular data as well as elements that are cleared through offsets or cannot be cleared due to legal or technical constraints beyond the authorities' control. Some EUR 1.1 billion of funds for arrears clearance have been transferred to government entities' accounts but remained there until end-August 2018, due to a delay in transferring the funds, which left the entities limited time for absorption. Those funds will need to be passed on to final recipients without delay. Looking further ahead, timely and full implementation of the agreed action plans will remain essential, in line with Greece's commitments.

It would be warranted for the authorities to implement actions to eliminate the backlog of claims made by banks under State-guaranteed loans. In that context, the authorities are invited to undertake a review of internal processes and capacity to ensure the timely and effective assessment and payment of claims under State-guaranteed loans at the latest by the end of the first semester of 2019.

A modern and sustainable social welfare system: progress with reform commitments

In recent years, major reforms have been undertaken to modernise all aspects of the social welfare system in Greece involving comprehensive reforms of pensions, health care and other social benefits. These reforms have received technical support from the World Health Organisation and the World Bank via the Commission's Structural Reform Support Service.

Progress is being made on the implementation of the 2016 pension reform, with the recalculation of pensions progressing in line with plans. The action plan for the unified main pension fund EFKA was updated with a view to fully complete its setup by mid-2020, in line with commitments.

Progress with health care reforms is more mixed. Although the authorities continue to implement many measures, there are headwinds stemming from stakeholder resistance/opposition and resource and capacity constraints. Those factors have slowed down progress with the offsetting and collection of clawbacks, the establishment of the primary health-care centres as well as the permanent establishment and staffing of the body responsible for centralised health-care procurement (EKAPY). The planned extension of deadlines for clawback collection that were themselves already long, or plans to pass from bi-annual to annual pharmaceutical repricing, would be a step in the wrong direction. The reforms to establish primary health care centres and centralised procurement are proceeding, but at a rate which is slower than foreseen. They need to be pursued with determination.

Progress is being made to carry forward the reforms of the social safety nets initiated under the ESM programme. The authorities have taken welcome steps towards the completion of the Social Solidarity Income scheme and in particular the labour market reintegration pillar; however, for the full functioning of that pillar, the on-going reform of active labour market policies needs to be completed, introducing a new delivery model to allow the provision of individualised services to jobseekers as well as the provision of social services. The authorities are also progressing with the completion of reforms of the disability benefit and transport subsidies. As part of the budget for 2019, a housing benefit with an annual budget of EUR 400 million will be introduced.

The financial sector: progress with reform commitments

Substantial measures have been taken during the ESM programme to strengthen the banking sector. During the first half of 2018, the average Core Equity Tier 1 ratio of Greek banks remained broadly stable at approximately 16%. Banks continued to reduce their reliance on Eurosystem funding; private-sector deposits have increased which gave room for a further loosening of capital controls as of 1 October 2018. Banks have broadly met their reduction targets for non-performing exposures (NPE), yet significant further efforts will be needed to accelerate the resolution of NPEs needed to meet targets in 2019. Overall, the banking system remains burdened by the heavy legacy of the crisis. In spite of recent improvements, the main task of cleaning-up banks' balance sheets remains to be addressed as NPEs still amount to just below 48% of total exposures and the bank-sovereign nexus remains strong both of which continue to weigh on banks' profitability. Bank lending activity remains subdued, which is a key factor. Banks need to focus on expanding their lending if they are to generate sufficient profits to cover the cost of NPE reduction. Net interest margins are healthy at around 2.5% but are under pressure.

Regarding the tools for NPE reductions, banks mostly made use of write-offs and NPE sales so far. The use of electronic auctions is improving, though it remains at a low volume compared to pre-crisis levels, with limited interest from third-party buyers. Banks retain 80% of assets sold through auction on their balance sheets. Continued monitoring of the effectiveness of the e-auction framework is needed and any identified impediments should be appropriately addressed. Uptake of the new corporate procedure remains slow as does the processing of household insolvency cases, although the latter is expected to see improvements following recent measures to increase efficiency and deter strategic default behavior. The volume and turnover of out-of-court workouts remain very modest as assessed against initial expectations, and both regulatory and technical measures are being taken to enhance the performance of the system.

The Greek authorities have indicated their intention to adjust the protection on primary residences under the Household Insolvency law, which is set to expire on 1 January 2019. As an adjustment would be a material change compared to the reform agreed in late 2015 and given the tight time constraint, more details are needed for a proper assessment to be made, and any legislative changes should only be undertaken following a dialogue with all relevant stakeholders. A possible adjustment should not impede the process of NPE restructuring, should have a narrower scope and should be combined with strict conditions, including property value criteria such that such protection better targeted on the most vulnerable in society. Another important principle is that any protection does not unduly impede the ability of banks to pursue strategic defaulters. Any proposals should eliminate practices whereby the framework is misused to block the conduct of already planned electronic auctions. The backlog of pending cases under the household insolvency law was reduced to around 135,000 as of September 2018. The pace of reduction needs to be further increased to achieve the elimination of the backlog of cases until end-2021.

Work to establish a divestment strategy for the Hellenic Financial Stability Fund (HFSF) is progressing and will need to be pursued further in the coming weeks, given the aim of finalising it by end-2018. The authorities have also committed to extend the mandate of the HFSF Selection Panel to be in line with the mandate of the HFSF.

Product and labour market reforms: progress with reform commitments

Reforms of labour market institutions and wage bargaining in recent years have helped Greece regain cost competitiveness and are contributing to increasing employment rates and falling levels of unemployment. The functioning of the labour market is further being supported by an action plan on undeclared work, the implementation of which is on track and should be completed by end-2019.

The choices to be made by social partners and the Greek authorities in the coming months will play a key role in determining whether wage bargaining in the post-programme period delivers economically sound outcomes consistent with supporting competitiveness and growth, or whether the shortcoming of the pre-crisis period materialise again. In particular:

- it is not feasible at this stage for the Commission to assess the impact of agreed changes to the collective bargaining framework that entered into force upon the expiry of the ESM programme. To date several collective agreements have been extended at sectoral level, resulting in wage increases in some sectors, such as tourism. A critical issue for the future is whether social partners, with collective agreements, can introduce adequate scope for flexibility that can adequately cater for firms facing specific challenges.

- the authorities are in the process of revising the level of the statutory minimum wage, which will take place in January 2019. It will be critical that any decision on the new level of the minimum wage is taken based on a genuine consultation with the social partners following the process enshrined in Law 4172/2013. To safeguard competitiveness and to keep unemployment on a downward path, the revision needs to be made on the basis of a rigorous analysis of the underlying economic and labour market situation.
- the authorities have indicated their intention not to preserve the sub-minimum wage that currently applies to persons aged under 25, which would imply a considerable increase in the level of the minimum wage for that group. The Commission considers that a final decision on that issue should be taken only after a full impact analysis is conducted demonstrating that the potential impact on employment prospects for young people is limited, given that youth unemployment levels remain high and the share of minimum-wage earners in the youth population also appears to be large (41% in 2017).

The pace of progress with reforms in the product markets is mixed, with advances in some areas being offset by delays elsewhere. The cadastre and forest map project is advancing with the appointment of management and the recruitment of dedicated teams to ensure progress. At the same time, enabling secondary legislation to define the installation and operation licensing procedures for activities in the sector of environmental infrastructures has suffered delays with respect to the October 2018 deadline provided for in the primary legislation and work would need to be accelerated to make sure the end-2018 deadline can be met. The Greek authorities have not yet enacted the law on private clinics, which is pending since July 2018. Further clarification is also awaited on the actual impact of the earlier reform to day clinics in terms of achieving new licenses.

Reforms in the energy sector are progressing. In spite of some delay due to third parties, the divestiture of the Public Power Corporation's lignite-fired generation capacity is expected to be concluded early 2019. Necessary actions for the launching of the Target Model by April 2019 are progressing with the relevant rulebooks ready for regulatory approval and other preparatory steps advancing according to schedule. It will be essential to maintain reform momentum. Ensuring that the Target Model actually allows for the entrance of new players and realistic pricing is essential to underpin the future development of the energy market, combined with measures that provide the required support for investment in renewable sources.

HCAP and privatisation: progress with reform commitments

HCAP, the Hellenic Corporation of Assets and Participations, continues to make progress in work on its asset portfolios and the restructuring of its subsidiaries. On a positive note, the restructuring of the real-estate fund ETAD is progressing, with the process on the critical issue of staffing entering its final stage. Various governance initiatives are continuing in the State-owned enterprises, and standardised reporting is under development. Some specific reform commitments face challenges. In particular, the transfer of the Olympic Athletic Centre (OAKA) will not occur by end-2018, partly due to complexity, the expanded scope of the project and delays beyond the government's control. The process of reviewing and, where necessary, replacing board members of State-owned enterprises is encountering some delays. Recent legislation may overlap with aspects of the coordination mechanism or affect HCAP's rights regarding certain assets. The effect of that legislation is under review, and adjustments may be warranted in order to preserve the objectives and balance of the framework. It will also be important to put HCAP’s preparations for the implementation of the coordination mechanism into action rapidly, to help manage the interactions between HCAP and Ministries on issues related to public policy objectives.

Overall, progress is made on the privatisation tenders scheduled to be completed by the end of 2018. In particular, the tender for the natural gas transmission operator DESFA is on track, whereas delays occured in the transaction on the Athens International Airport, making its financial closing by end-2018 very challenging. As regards the Hellinikon project, progress on all pending issues is significant. However, due to the complexity of the project, a delay is expected on the urban planning and environmental approvals as well as the award of the casino licence. If the authorities continue their strong efforts, the project could be successfully completed in the first quarter of 2019.

In contrast, however, significant delays are being experienced on some privatisation tenders due to be completed in 2019. Whilst satisfactory progress is being made on the marina of Alimos, an open issues still exists in the joint sale (along with the other strategic shareholder) of a majority stake (50.1%) in Hellenic Petroleum. The tender for the Egnatia motorway is characterised by systematic delays and problems, showing a lack of ownership. Virtually no progress is being made in the implementation of that transaction due to various delays attributable to either Egnatia S.A. or the Ministry of Infrastructure. Significant delays have also been experienced in the enactment of the legislative amendment for sub-concessions for the regional ports. The Greek authorities need to take urgent steps to address the sources of delays, as those delays offset the positive effects on investor sentiment that can emerge from tenders which are proceeding well.

Public administration and the justice system: progress with reform commitments

Work on the human resource management reform of the public administration is ongoing. In particular, the mobility and performance assessment schemes are progressing well: the third mobility cycle was launched mid-2018 and has shown a remarkable pick-up in participation suggesting that the administration is increasingly using the tool. The complex reform of the establishment of an integrated human resource management system is also advancing with a view to fully complete the system at the end of 2019. The establishment of digital organigrams has over-achieved its target and technical preparation work is ongoing for the full system. The legal codification reform is progressing. The 'National Council for the Codification of Legislation' has adopted a national strategy that sets out the overall approach to be applied by the Ministries when carrying out legal codification, including a unified Labour Code by mid-2020. Work to establish the National Gateway for Codification and Reform of Greek Legislation by mid-2022 is also progressing according to plan.

There has been only mixed progress on managerial appointments due by end-2018, with the appointment of Directors General almost completed while the appointment of Administrative Secretaries is lagging behind schedule. Work would need to be accelerated to meet the deadline the authorities committed to fulfil.

A recently adopted change in the remuneration policy of the Ministry of Finance lacks consistency with a past reform to establish a uniform wage grid. The measure introduces a new allowance for some staff in the Ministry of Finance, causing a differentiation in the wage levels paid to staff undertaking similar tasks across Ministries and public entities. While the initial fiscal cost may be small, the measure undermines the essence of the uniform wage grid and may lead to fiscal risks associated with demands for similar payments coming from other parts of the public administration.

The size of the public sector in Greece is now broadly on par with levels in other euro-area Member States, and a key challenge is to avoid a return to pre-crisis practices of excessive levels of hiring in the public sector. New hirings of permanent staff during 2018 appear to be broadly in line with the attrition rule of one new entry for every three exits: however, as concerns temporary staff, the latest data for 2018 suggests that there could be an increase compared to the levels of 2017 and thus careful monitoring is needed. For 2019 and up until 2022, the attrition rule in the hiring plan included in the MTFS is adjusted to 1:1, which will allow for new hiring to be made in priority areas whilst maintaining the overall size of the public sector at its current level. The authorities intend exceptionally for 2019 a conversion to permanent contracts for a specific group of temporary staff seen to cover permanent needs (e.g. teachers). Given that that conversion (7,500 in total) will be met with a corresponding reduction of temporary contracts, the wage bill will be maintained at its current level and thus there is no expected fiscal impact. The current hiring plan set out in the MTFS is based upon the projected number of exits from the public sector, mostly due to retirement. It is therefore vital that the hiring plan based on the 1:1 attrition rule in the MTFS is in fact respected, and accordingly that the planning and announcements of recruitments to the public sector is based on prudent estimates.

There has been mixed progress in efforts to increase the efficiency of the judicial system, which is key to strengthening the business environment and attracting investment in the aftermath of the crisis. The authorities are expected to complete the establishment of the first phase of the electronic justice system by end-December 2018, in line with the specific commitment made to the Eurogroup. The second phase will follow immediately after drawing on the lessons from the first phase. To that end, the project has been extensively redesigned and upgraded as of September 2018 and its budget has been increased from EUR 13 million to EUR 24 million, necessitating a revision of its timetable, which is a priori justifiable in view of its expanded scope. A development giving cause for concern has been the postponement from mid-October 2018 to mid-September 2019 of the entry into force of certain provisions of the recently adopted out-of-court mediation framework. That postponement seems unduly extended as the recent findings of the Supreme Court could be reasonably addressed in a shorter timeframe, given their limited scope.

In line with the request of the Eurogroup of 22 June 2018, the Commission has continued to monitor developments in relation to the legal proceedings against the members of the Committee of Experts (CoEx) of the Hellenic Asset Development Fund (TAIPED) and the former President and senior staff of the Hellenic Statistical Authority (ELSTAT). Regarding the CoEx case, in April 2018, the Council of the Athens Court of Appeal issued a ruling referring the case to a public trial before the Athens Court of Appeal for Felonies. The Supreme Court Prosecutor appealed that ruling and the Supreme Court Council recently examined the appeal. Its ruling is now awaited. In the excessive deficit procedure-related case against former ELSTAT President A. Georgiou, the Greek Supreme Court Council referred the case back to the Athens Court of Appeal Council in May 2018. In September 2018, the prosecutor proposed that the case should be referred to a public trial: the case is currently pending before the Athens Court of Appeal Council. The developments in both procedures continue to raise serious concerns and the Commission will continue to monitor them closely and to report back in the context of enhanced surveillance.

Overall assessment on progress with specific reform commitments due by end 2018

Part of the evaluation concerns the specific reform commitments annexed to the Eurogroup statement of 21 June 2018. There were 16 specific reform commitments to be achieved by end-2018 covering all six policy areas. To date, all of them are progressing but none has been yet completed. In many instances, it is not unexpected that reforms with an end-year deadline have not been completed by mid-November, which is the cut-off date for this first enhanced surveillance report. The pace of implementation is broadly on track or subject to only short delays on commitments such as adopting a budget in line with agreed fiscal targets, the relaxation of capital controls, the completion of the first phase of the e-justice reform, the HFSF divestment strategy, the divestment of the Public Power Corporation's lignite-fired generation capacity, the restructuring of ETAD and the end-2018 privatisation tenders, considering that the delay in the Hellinikon project is beyond the control of the authorities.

However, there are delays for several specific reform commitments that would need to be addressed with urgency so as to ensure that all are completed as soon as possible and well before the issuance of the second enhanced surveillance report towards end February 2019. Those commitments include the staffing of the IAPR, arrears clearance, the roll-out of the primary health care system and centralised health-care procurement, the legal framework of the NPE resolution tools (and in particular the household insolvency law), the enabling secondary legislation to define the installation and operation licensing procedures for activities in the sector of environmental infrastructures, the transfer of the Olympic Centre to HCAP and the appointment of Administrative Secretaries.

Sovereign financing and debt sustainability analysis

Greece started its return to the sovereign bond market as from July 2017, with several issuances and a significant liquidity management exercise. Credit ratings have improved, inter alia in light of the Eurogroup agreement of June 2018, though they remain well below investment grade.

Despite the improved credit ratings, market conditions remain volatile, showing Greece's remaining vulnerability to shifts in market sentiment. The debt management agency plans to publish an issuance calendar for 2019. While issuances will serve to build market confidence and create liquidity for Greek bonds, they are not needed to meet short-term financing needs. Greece's cash buffer currently amounts to over EUR 26 billion, comfortably covering financing needs up to end-2020.

Given Greece's sovereign financing profile over the short to medium term, financing needs remain relatively contained due to its exceptional debt structure, with the amortization of medium- and long-term debt generally hovering at low levels of 2%-6% of GDP over the coming decade.

The sizeable cash buffer, favourable financing profile and agreed primary surpluses underpin Greece's repayment capacity.

A technical update of the debt sustainability analysis (DSA) shows that the assessment of the sustainability of Greece's debt has remained broadly unchanged from the last DSA published in June 2018. Implementation of the medium-term debt measures assures debt sustainability throughout the DSA horizon under the baseline scenario, keeping gross financing needs below the agreed threshold, i.e. 20% of GDP in the long term.

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COMMISSION STAFF WORKING DOCUMENT

Enhanced surveillance report – Greece, November 2018

Accompanying the document

COMMUNICATION FROM THE COMMISSION

Enhanced Surveillance – Greece, November 2018

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Contributors:

Chris Allen, Giuseppe Carone, Declan Costello, Fotini Dionyssopoulou, Francesco di Comite, Matteo Duiella, Christos Gofas, András Hudecz, Alexander Ioannidis, Dimitrios Karastogiannis, Paul Kutos, Veli Laine, Júlia Lendvai, Milan Lisicky, Vasileios Maroulis, Benedetta Martinelli, Vasilis Nikitas, Elena Pavlova, Zoltán Petrov, Miguel Angel Otero, Nevenka Tosici, Andreas Trokkos, Vasiliki Vasilopoulou, Rainer Wichern, Alkistis Zavakou. Assistance was also provided by Fotini Louka and Siofra Mc Donnell.

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Comments on the report would be gratefully received and should be sent, by mail or e-mail to:

Paul Kutos

European Commission

Unit ECFIN-F-2

CHAR 10/236

B-1049 Brussels

e-mail: ECFIN-GREECE-REQUESTS@ec.europa.eu

ABBREVIATIONS

ADEDY: Ανώτατη Διοίκηση Ενώσεων Δημοσίων Υπαλλήλων (Civil Servants' Confederation)
AFEK: Ατομικό Φύλλο Εκκαθάρισης (personal clearance certificate)
AIA: Athens International Airport
ANFA: Agreement on Net Financial Assets
APS: Asset Protection Scheme
ASEP: Ανώτατο Συμβούλιο Επιλογής Προσωπικού (Supreme Council for Civil Personnel Selection)
BoG: Bank of Greece
CDLF (ΤΠΔ): Ταμείο Παρακαταθηκών και Δανείων (Consignment Deposits and Loans Fund)
CET1: Common Equity Tier 1
CIT: corporate income tax
CO2: carbon dioxide
CoCo: contingent convertible bond
CoEx: Committee of Experts
CoS: Council of State
DEPA: Δημόσια Επιχείρηση Αερίου (Public Gas Corporation of Greece)
DESFA: Διαχειριστής Εθνικού Συστήματος Φυσικού Αερίου (Natural Gas Transmission System Operator)
DSA: debt sustainability analysis
DTAs: deferred tax assets
DTCs: teferred tax credits
EBRD: European Bank for Reconstruction and Development
ECB: European Central Bank
EDA Attiki: Εταιρεία Διανομής Αττικής (Natural Gas Distribution Company of Attica)
EDP: excessive deficit procedure
EFKA: Ενιαίος Φορέας Κοινωνικής Ασφάλισης (Unified Social Security Fund) EFSF
EFSF: European Financial Stability Facility
EIB: European Investment Bank
EKAPY: Eqnikή Kentrikή Arcή Promhqeiώn Ugeίaς (National Central Authority of Health Procurements)
EKAS: Επίδομα Κοινωνικής Αλληλεγγύης Συνταξιούχων (pensioners' social solidarity grant)
ELA: emergency liquidity assistance
ELSTAT: Ελληνική Στατιστική Αρχή (Hellenic Statistical Authority)
ELTA: Ελληνικά Ταχυδρομεία (Hellenic Post)
ENFIA: Ενιαίος Φόρος Ιδιοκτησίας Ακινήτων (unified property tax)
EOPYY: Eqnikoύ Organismoύ Uphresiώn Ugeίaς (National health insurance body)
EPA Attiki: Εταιρεία Παροχής Αερίου Αττικής (Natural Gas Supply Company of Attica)
ESA: European System of Accounts
ESKAEN: Εθνικού Συμβουλίου για την Κωδικοποίηση και την Αναμόρφωση της Ελληνικής Νομοθεσίας (National Council for the Codification of Legislation)
ESM: European Stability Mechanism
ETAA: Ενιαίο Ταμείο Ανεξάρτητα Απασχολούμενων (Independent professionals Social Security Fund)
ETAD: Εταιρεία Ακινήτων Δημοσίου ΑΕ (Public Properties Company)
ETMEAR: Ειδικό Τέλος Μείωσης Εκπομπών Αερίων Ρύπων (Special Duty for Reduction of Gas Emissions)
ETS: emissions trading scheme
EU: European Union
FDI: foreign direct investment
GAO: General Accounting Office (part of Ministry of Finance)
GDP: gross domestic product
GFN: gross financing needs
GLF: Greek Loan Facility
GSCO: General Secretariat for Coordination
HCA: Hellenic Court of Audit

HCAP: Hellenic Corporation of Assets and Participations
HFED: Hellenic Fund for Entrepreneurship and Development
HFSF: Hellenic Financial Stability Fund
HICP: harmonised index of consumer prices
HR: human resources
HRMS: human resource management system
IAPR: Independent Authority for Public Revenue
ICT: information and communication technologies
ILO: International Labour Organisation
IMC: inter-ministerial coordination
JMD: joint ministerial decision
KEPA: Κέντρο Πιστοποίησης Αναπηρίας (Disability certification centre)
KPI: key performance indicator
LCR: liquidity coverage ratio
MAR: Ministry of Administrative Reform
MFI: monetary financial institution
MoF: Ministry of Finance
MREL: minimum requirement for own funds and eligible liabilities
MTFS: Medium-Term Fiscal Strategy
MW: megawatt
NFC: non-financial corporation
NOME: Nouvelle Organisation du Marché de l'Electricité (electricity auction)
NPE: non-performing exposure
NPL: non-performing loan
NSRF: National Strategic Reference Framework
OAED: Οργανισμός Απασχόλησης Εργατικού Δυναμικού (Public employment service)
OAEE: Οργανισμός Ασφαλίσεων Ελεύθερων Επαγγελματιών (Self-employed Social Security Fund)
OAKA: Ολυμπιακό Αθλητικό Κέντρο Αθήνας «Σπύρος Λούης (Olympic Athletic Centre of Athens)
OASA: Οργανισμός Αστικών Συγκοινωνιών Αθηνών (Athens' public transport company)
OASTH: Οργανισμός Αστικών Συγκοινωνιών Θεσσαλονίκης (Thessaloniki's public transport company)
OCW: out-of-court workout mechanism
OGA: Οργανισμός Γεωργικών Ασφαλίσεων (Agricultural Insurance Organization)
OSDDY/PP: Ολοκληρωμένο Σύστημα Διαχείρισης Δικαστικών Υποθέσεων / Πολιτικές Ποινικές (Integrated Management System for Judicial Cases / Civil and Penal)
PCI: European Project of Common Interest
PCR: price coupling of regions
PDMA: Public Debt Management Agency
PIB: public investment budget
PIT: personal income tax
PPC: Public Power Corporation
PSO: public service obligation
RAE: Regulatory Agency for Energy
RAEM: Regulatory Authority for Passenger Transport
RES: renewable energy source
RFA: Relationship Framework Agreement
ROSCO: Rolling-Stock Maintenance Company
SME: small and medium-sized enterprise
SMP: Securities Markets Programme
SOE: State-owned enterprise
SPA: Single Payment Authority
SRSS: Structural Reform Support Service
SSI: social solidarity income
SSM: Single Supervisory Mechanism

SSW: Special Secretariat for Water
TAIPED: Ταμείο Αξιοποίησης Ιδιωτικής Περιουσίας του Δημοσίου ΑΕ (Hellenic Republic Asset Development Fund)
TOMY: Τοπική Μονάδα Υγείας (Primary Health Care Unit)
VAT: value added tax
WAM: weighted average maturity
WB: World Bank

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EXECUTIVE SUMMARY

Greece has been integrated into the European Semester and the Commission has activated enhanced surveillance for Greece under Regulation (EU) No 472/2013. This enhanced surveillance report is issued alongside an assessment of the 2019 draft budgetary plan. A revised package of discretionary fiscal measures has been finalised by the Greek authorities. The Commission considers that this respects the EU's fiscal framework and will meet the primary surplus target of 3.5% of GDP and the pursuit of economic goals in a manner that is supportive of social inclusion.

Real GDP is expected to grow by 2% in 2018, strengthening to 2.2 % of GDP in 2019 and 2.3% in 2020. The unemployment rate fell to 18.9% in August 2018, down from 20.8% a year earlier, and down from 24.5% in August 2015, when the ESM programme started. Despite that positive trend, unemployment is still very high, particularly amongst the young. Financing conditions remain difficult with macro risks tilted to the downside. The decade-long crisis in Greece has numerous legacy effects in the form of high levels of unemployment, public and private debt, and non-performing exposures (NPEs): years of sustained growth and continued reform implementation are needed to reduce the overhang. A key issue to ensure the achievement of sustainable growth that requires special attention is the erosion of the capital stock.

The package of discretionary measures differs from the fiscally neutral package of measures related to pension cuts due to take effect on 1 January 2019, and which were pre-legislated in mid-2017. The Greek authorities plan to implement a freeze in pensions until 2022, but they will not proceed with the pension cuts associated with the immediate recalibration of so-called negative personal differences. In addition, the authorities aim to strengthen the social benefit system through the launch of a new housing benefit costing EUR 400 million in 2019. They also plan to reduce the social security contributions for certain categories of self-employed, to subsidise the social security contributions of employers for persons aged below 24, to cut the real estate (ENFIA) property tax from 2020, to lower the expenditure ceiling for the Public Investment Budget to levels which the authorities consider to be more realistic in light of persistent underspending, and to progressively lower corporate income taxes starting from 2020. The Greek authorities have not informed the institutions of plans to change the pre-legislated measure related to lowering the income tax credit foreseen for 1 January 2020.

The Commission considers the proposed package to offer a balanced approach. The pre-legislated cuts in pensions in 2019 is not needed to reach a primary surplus target of 3.5% of GDP and the proposed freeze in pensions up to 2022 will lead to the same level of pension spending as a share of GDP in the steady state. The implementation of the pre-legislated pension cuts would reduce the main pensions of some 1.4 million retirees by an average of 14% and would result in a significant increase in the number of pensioners at risk of poverty. The overall package supports poverty reduction by providing for a material increase spending on social benefits, notably housing. It contains measures that lower taxes on labour, corporates and real estate, measures which support growth, albeit modestly, given their limited scale. The Commission is concerned about fiscal risks resulting from recent Court cases and rulings which have, or could potentially, render invalid some aspects of earlier reforms.

As regards fiscal-structural policies, the authorities are advancing with the reform of the ENFIA property tax to gradually align the assessment of zonal values to market prices. However, progress with reforms concerning the independent revenue administration (IAPR) is mixed, with delays in meeting staffing targets and in finalising the IAPR reform action plan. Arrears clearance is also behind schedule.

There is progress in modernising the social welfare system, with the recalculation of pensions going in line with plans. Progress is nonetheless more mixed with regards to health care reforms, due to headwinds stemming from stakeholder resistance/opposition and resource and capacity constraints. The authorities have taken welcome steps towards the completion of the Social Solidarity Income scheme and in particular the labour market reintegration pillar.

As regards the financial sector, during the first half of 2018, the average Core Equity Tier 1

ratio of Greek banks remained broadly stable at approximately 16%. The banking system however, remains burdened by the legacy of the crisis, and despite recent improvements, NPEs still amount to just below 48% of total exposures. The Greek authorities plan to extend the protection on primary residences under the Household Insolvency (Katseli) law, but no details have yet been provided. The divestment strategy for the Hellenic Financial Stability Fund (HFSF) needs to be pursued further.

Reforms of labour market institutions and wage bargaining have helped Greece regain cost competitiveness and are contributing to increasing employment rates and falling levels of unemployment. Choices to be made by social partners and the Greek authorities in the coming months will play a key role in determining whether wage bargaining now delivers economically sound outcomes, or whether the shortcomings of the pre-crisis period materialise again.

The pace of progress with reforms in the product markets is mixed. The cadastre and forest map project is advancing, but there are delays elsewhere on installation and operation licensing procedures, and on private clinics. Reforms in the energy sector are progressing, albeit with some delay on the divestiture of the Public Power Corporation's lignite-fired generation capacity and the launching of the Target Model.

HCAP, the Hellenic Corporation of Assets and Participations, continues to make progress in the work on its asset portfolios. The restructuring of the real-estate fund ETAD is progressing. However, the process of reviewing, and where necessary replacing, board members of State-owned enterprises is encountering delays. Regarding privatisation, there is progress on the tender for the natural gas transmission operator DESFA and the extension of the concession for the Athens International Airport. The Hellinikon project could be successfully completed in the first quarter of 2019. However, there are still significant delays on the sale of Hellenic Petroleum and in the tender for the Egnatia motorway, a project that is characterised by systematic delays and problems.

Work on the human resources management reform of the public administration is ongoing on issues such as mobility, performance assessment and the establishment of an integrated human resources management system. Despite it all, there has been mixed progress on managerial appointments, as the appointment of Administrative Secretaries is lagging behind schedule. A change in the remuneration policy of the Ministry of Finance lacks consistency with a past reform to establish a uniform wage grid. The size of the public sector in Greece is now broadly on par with levels in other euro area Member States, so a key challenge is to avoid a return to pre-crisis practices of excessive levels of hiring in the public sector. New hirings of permanent staff during 2018 appear to be broadly in line with the attrition rule, but close monitoring is needed with regards to the number of temporary staff. Going forward, it is vital that the hiring plan based on the 1:1 attrition rule in the Medium Term Fiscal Strategy (MTFS) is respected, and that announcements of recruitments to the public sector are based on prudent estimates.

Progress with reforms to increase the efficiency of the judicial system is also mixed. One concern is the postponement of the entry into force of certain provisions of the recently adopted out-of-court mediation framework. The Commission has continued to monitor developments on legal proceedings against the members of the Committee of Experts (CoEx) of the state-owned asset development fund TAIPED and the former President and senior staff of the Hellenic Statistical Authority (ELSTAT).

Overall, there are delays in the sixteen specific reform commitments due for end-2018. These should be addressed to ensure completion by the second enhanced surveillance report of end-February 2019.

Despite the improved credit ratings, market conditions remain volatile with Greece remaining vulnerable to shifts in market sentiment. Financing needs remain relatively contained, whilst the sizeable cash buffer and favourable financing profile underpin repayment capacity. A technical update of the debt sustainability analysis (DSA) shows that the assessment of the sustainability of Greece's debt has remained broadly unchanged from the last DSA published in June 2018.

1. INTRODUCTION

Greece successfully completed its European Stability Mechanism (ESM) stability support programme on 20 August 2018. Following the end of that programme, Greece has been integrated into the regular economic surveillance framework for euro-area Member States under the European Semester for economic policy co-ordination. In order to cater for the specific needs and challenges of Greece, the Commission has activated enhanced surveillance for Greece under Regulation (EU) No 472/2013,([1]) effective as from 21 August 2018.([2]) That decision acknowledges the fact that over the medium term, Greece needs to continue adopting measures to address the sources or potential sources of economic and financial difficulties, while implementing structural reforms to support a robust and sustainable economic growth.

Greece has affirmed its general commitment in the Eurogroup of 22 June 2018 to continue and complete reforms adopted under the ESM programme and to ensure that the objectives of the important reforms adopted under the financial assistance programmes are safeguarded. The authorities have moreover developed a Growth Strategy and plan to monitor its implementation.

The Commission will release enhanced surveillance reports on a quarterly basis, following a timetable that is aligned with key steps of the European Semester. In the context of enhanced surveillance, the Commission, in liaison with the ECB([3]) and, where appropriate, the IMF, conducts regular review missions to verify the progress made; the ESM participates in the context both of its Early Warning System and in line with the Memorandum of Understanding of 27 April 2018 on working relations between the European Commission and ESM. In preparation of this report, a joint mission to Athens took place from 10-14 September 2018, followed by technical missions in October and November 2018. This first enhanced surveillance report is issued alongside the 2018 autumn Semester package that includes an assessment of the 2019 draft budgetary plan sent by the Greek authorities to the Commission on 15 October 2018.

Enhanced surveillance provides a comprehensive framework for monitoring economic developments and the pursuit of policies needed to ensure a sustainable economic recovery. To this end, this report includes:

- an assessment of economic conditions in Greece (chapter 2);
- an assessment of implementation of reform commitments given by Greece to the European partners (chapters 3-8). More specifically, Greece made a general commitment in the Eurogroup([4]) of 22 June 2018 to continue the implementation of all key reforms adopted under the ESM programme and to ensure that the objectives of the important reforms adopted under the financial assistance programmes are safeguarded. In addition, Greece also made specific commitments to complete key structural reforms started under the programme in six key areas by agreed deadlines up to mid-2022, namely (i) fiscal and fiscal-structural policies, (ii) social welfare, (iii) financial stability, (iv) labour and product markets, (v) privatisation and (vi) the modernisation of public administration;
- an update on sovereign financing conditions and debt sustainability analysis (chapter 9).

The Eurogroup on 22 June 2018 agreed that the package of debt relief measures for Greece should include incentives to ensure a strong and continuous implementation of the reform

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

([2]) Commission Implementing Decision (EU) 2018/1192 of 11 July 2018 on the activation of enhanced surveillance for Greece, OJ L 211, 22.8.2018, p. 1.

([3]) ECB staff participated in the review mission in accordance with the ECB's competences and thus provided expertise on financial sector policies and macro-critical issues, such as headline fiscal targets and sustainability and financing needs.

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

measures agreed in the programme. To this end, the implementation of some of the agreed debt measures (return of SMP-ANFA income equivalent amounts, the waiver of the step-up interest rate margin for part of the EFSF loans) will be subject to compliance with Greece's commitments on continuity and completion commitments and based on positive reports under enhanced surveillance. The return of SMP-ANFA income equivalent amounts would be made available to Greece in semi-annual tranches of some EUR 640 million up to mid-2022. The waiver of the step-up interest rate margin, for part of the EFSF loans, would reduce interest payments by some EUR 220 million annually. It would be waived on a semi-annual basis until 2022 and permanently after 2022.

2. MACROECONOMIC DEVELOPMENTS

Greece has exited its ESM programme with steady growth and the challenge is now to ensure that such growth strengthens and is sustained. Real GDP accelerated in the first half of the year, with growth reaching 2.1 % y-o-y compared to the first half of 2017. It was reached through a very strong first quarter growth of 2.5 % y-o-y, corresponding to 0.9 % q-o-q growth (seasonally adjusted), and more moderate growth in the second quarter of 1.8 % y-o-y, corresponding to 0.2 % q-o-q. Growth was supported mainly by the very strong export performance: both goods and services exports exhibited over 8 % growth in real terms, while imports remained subdued. Private consumption continued to grow in the first two quarters, providing a further boost to GDP growth. Investments, however, fell considerably compared to a high base driven by large equipment purchases in 2017. Construction on the other hand shows signs of a rebound, as both residential and non-residential real estate investments showed growth in the first two quarters after several years of continuous decline.

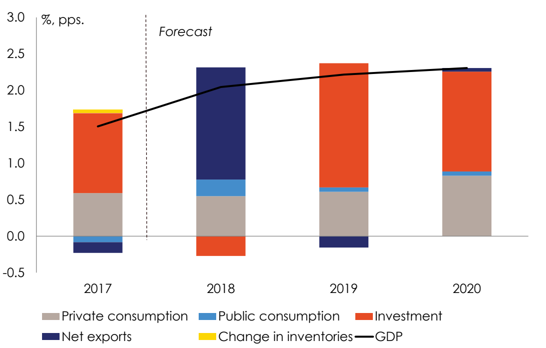
High frequency indicators suggest that activity accelerated in the third quarter of 2018 compared to the second. The average Purchasing Managers Index increased slightly in the third quarter. Although it is below its recent peak of the first quarter, it is still signalling robust expansion in the manufacturing sector. That expansion is fuelled by increase in both domestic and foreign demand, and is accompanied by active hiring despite falling outstanding business. The Economic Sentiment Index shows a continuous increase over the previous quarters, reaching a post-crisis high in the third quarter. The increase was mainly driven by a marked improvement in the retail trade sector, which probably reflects the very good performance of the tourism sector, while consumer sentiment was also improving slowly, although it still remains below its historical average.

Real GDP growth is expected to reach 2.0 % in 2018. The expansion is expected to continue to be driven mostly by private consumption and net exports, while investments are forecast to fall in view of the high base in 2017. The performance of private consumption in the first half is enough in itself to make it an important contributor from the demand side. However, there appears little room for further growth of private consumption this year, as the household savings gap remains large and there are no signs of growth in retail lending either. Investment is expected to contract in 2018, as the rebound in construction is seen as insufficient to balance the contraction in equipment investment. Net exports are set to become the main contributor to growth in 2018 as export growth is expected to outperform in 2018 its already strong performance in 2017, and imports expected to remain subdued as investments fall (see Graph 2.1).

For 2019, the growth forecast in this report reflects a fiscal package for 2019 that is projected to deliver a primary surplus of 3.5 % of GDP in 2019. This is a change from the Commission's 2018 autumn forecast, which was based on a no-policy-change assumption given that the final package was not yet finalised at the time of its cut-off date. For the outer years, the forecast continues to build on the achievement of the fiscal target.

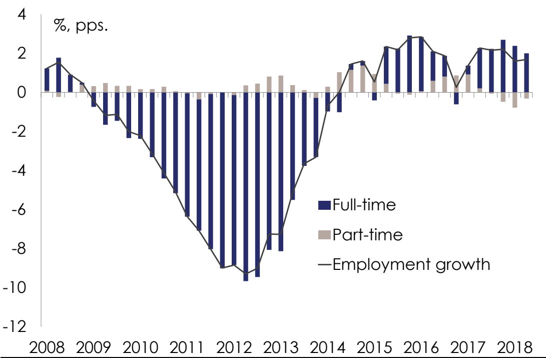
Growth is expected to further increase to 2.2% in 2019 and increase to 2.3% in 2020 before slowly decreasing as output reaches potential in 2023. Domestic demand and in particular investment is expected to become the driver of growth in the coming years, assuming that reform implementation continues after the end of the programme. Private consumption is forecast to accelerate only modestly until 2020 and then remain stable, as part of the gains in disposable income will have to be used to reduce the household sector's financing gap. Export growth is forecast to remain robust. However, as import demand is expected to increase on the back of strong investment, net exports' contribution to growth is set to remain low or even slightly negative in 2019, and becoming neutral afterwards.

Graph 2.1: **Contributions to real GDP growth**



Source: Commission services

Graph 2.2: **Employment growth**



Source: Commission services

The labour market situation continues to improve, though unemployment remains high. In Greece, the recovery of employment began at the second half of 2014, much earlier than the recovery of growth suggesting that labour market reforms have had a positive impact. In 2018, gains in employment have come from an increase in full-time jobs, also providing support to households' disposable income and private consumption (see Graph 2.2).

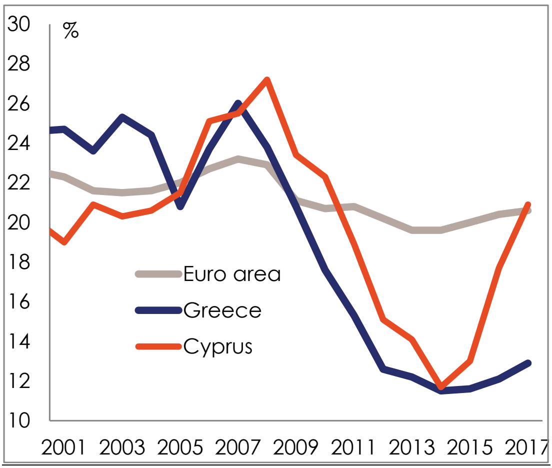
Unemployment fell to 18.9% in August 2018, down from 20.8% a year earlier, and from 24.5% in August 2015. In spite of the improving trend, the unemployment rate remains very high, especially for youth unemployment (37% for under-25s) and long-term unemployment (72% of all unemployed in the second quarter of 2018). Given such a slack in the economy, wage increases have been modest. Wages as approximated through compensation per employees are expected to remain below 1% in 2018 and rise only very gradually afterwards. The social situation is expected to continue improving in the coming years, thanks to the combined effect of the economic recovery, and the full rollout of the social welfare reforms aimed at improving the efficiency, effectiveness and adequacy of the Greek social welfare system.

Inflation is slowly increasing, but price pressures remain moderate. Headline HICP inflation has been increasing in recent months, reaching 1.8% in October, mainly because of rebounding energy prices. Core inflation dropped to 0% in June, and has recovered only to 0.4% in September. Inflation is expected to reach 0.8% in 2018 and to increase to 1.3% in 2019 as energy prices accelerate further and to drop to 1.1% in 2020 when energy prices are expected to moderate, while core inflation is increasing only slowly year by year. As the output gap closes in the later years, inflation is expected to increase accordingly.

Despite some positive signs, financing conditions remain difficult and may hinder recovery. Following an agreement on medium-term debt measures and Greece's successful exit from the ESM programme, Greece's sovereign credit ratings have improved. Despite those improvements external financing conditions remain challenging as the decline in sovereign spreads has reversed since the beginning of 2018 the year due to domestic and external factors. Those developments may hinder the banks' capacity to raise capital, and may increase the cost for corporates of borrowing to finance investment.

The balance of risks is tilted to the downside. The outlook assumes that reform implementation will continue, providing credibility and a good investment climate. Consumption growth is an upside risk for 2018, should consumer confidence gains prove to be permanent. However, downside risks dominate the forecast: domestic policy slippages as regards the implementation of reform commitments given to European partners may hinder economic growth, and jeopardise the regaining of investor confidence. The high level of non-performing loans continues to weigh on the intermediation capacity of banks, a pre-requisite for the financing of the projected investment growth. Finally, adverse external developments related to international financial markets and geopolitical developments (including in Turkey) as well as a marked slowdown in global trade may also hamper Greece's recovery.

Graph 2.3: **Gross fixed capital formation as % of GDP**

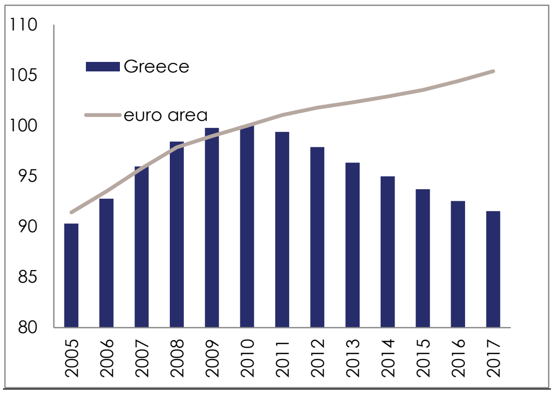


Source: Eurostat

Although Greece's decade-long crisis is over, many of its legacies will still have to be dealt with for many years to come. First and foremost, Greece's public debt is still the highest in the Union, and even after the full implementation of the medium-term debt measures, its level will remain above 100% of GDP for a number of decades. Second, unemployment remains very high, and although it is expected to continue to shrink fast, unemployed who have been out of work for many years still represent a non-negligible part of the population. Long-term unemployment – apart from its social costs – is also detrimental to human capital, and increased efforts will be necessary to help those people rebuild their skills and re-integrate them into the market economy. Third, the very high level of non-performing exposures is a strong limitation for the financial sector that will ease only very gradually.

Another very important legacy of the crisis that needs special attention is the erosion of the capital stock. Greece's annual fixed investment fell by 65% between its peak in 2007 and trough in 2017 (Graph 2.3). Even if gross investment started to grow in 2016-2017, net investment rates are still negative, i.e the capital stock of the country is still shrinking (Graph 2.4). The experience of Cyprus shows that the gap in investment flows can be corrected within a few years, and this is exactly the next challenge Greece has to solve. The poor business environment (especially relating to the justice system and property registration), however, will need further improvement to make that aim achievable for Greece.

Graph 2.4: **Net capital stock (volume index, 2010 = 100)**



Source: AMECO

Table 2.1: **Main features of the macroeconomic scenario (with fiscal measures)**

		2017	2018	2019	2020	2021	2022
		Annual percentage change					
Real GDP		1.5	2	2.2	2.3	2.1	1.8
Private Consumption		0.9	0.8	0.9	1.2	1.2	1.2
Public Consumption		-0.4	1.2	0.3	0.3	0.4	0.4
Gross fixed capital formation		9.1	-2.1	13.6	9.9	7.8	5.6
Exports (goods and services)		6.8	8.4	5.7	4.4	3	3
Imports (goods and services)		7.1	3.7	6.2	4.2	2.9	2.9
Contributions to GDP growth:	Domestic demand	1.6	0.5	2.4	2.3	2.0	1.7
	Inventories	0	0	0	0	0	0
	Net exports	-0.1	1.5	-0.2	0	0	0
Employment growth		1.5	1.8	1.8	1.4	1	0.7
Unemployment rate		21.5	19.6	18	16.6	15.4	14.4
GDP deflator		0.6	0.5	1.2	1.3	1.6	1.8
Harmonised index of consumer prices		1.1	0.8	1.3	1.1	1.5	1.7

Source: European Commission

3. FISCAL AND FISCAL-STRUCTURAL POLICIES

3.1. FISCAL POLICY

3.1.1. Fiscal developments in 2018

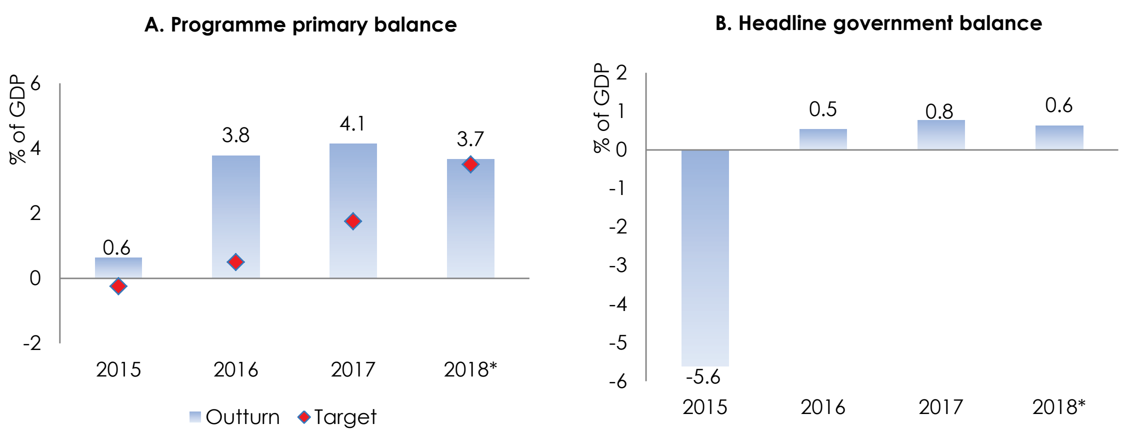
Greece is set to over-achieve the primary surplus([5]) target of 3.5% of GDP for the fourth year in a row and to record a headline general government surplus in 2018 for the third year in a row. The primary surplus is expected to reach 3.7% of GDP building on the fiscal adjustment achieved in the previous years, underpinned by the fiscal measures adopted under the ESM programme and also benefitting from the solid growth of wages and private consumption, a broad-based recovery in taxable profits and higher energy prices.

The updated projection of the primary surplus for 2018 has been revised upward compared to the final ESM programme review by 0.2 % of GDP, mainly on account of the good performance of State budget revenues so far this year. The main drivers behind that improvement were higher tax declarations data on the corporate income tax (CIT) and better–than-expected collection of non-tax revenues during the period January – August 2018. Similarly, VAT was revised upwards following the increase in oil prices and the stronger tourist season, but those gains are expected to peter out in the remainder of 2018. Those positive developments were partly offset by a lower-than-expected collection of personal income tax (PIT) from the self-employed and higher-than-expected tax refunds. The overachievement is expected to partly carry over to the following years.

The projection factors in the clearance of liabilities arising from decisions of the Council of State, amounted to 0.4 % of GDP. Specifically, the rulings declared that wage cuts imposed in 2012 on uniformed officials and certain other professions were unconstitutional and entitled the concerned officials to claim a wage refund for the years preceding the 2017 reform of wages of those professions. The Greek authorities have tabled legislative proposals which reconfirmed an earlier commitment which those

([5]) The primary surplus under enhanced surveillance is defined as the general government balance (B.9) minus general government consolidated interest payable (D.41), in accordance with the rules specified in the European System of Accounts 2010 (ESA 2010), excluding (i) revenues from the sale or lease of real estate, (ii) general government migration-related expenditure, net of Union transfers to the Greek budget for migration-related costs, (iii) revenues and expenditures related to support of the banking system (except payments for deposit guarantee schemes), (iv) all transfers related to Eurogroup decisions regarding income of euro-area national central banks (SMP and ANFA revenue) stemming from their investment portfolio holdings of Greek government bonds, and (v) any payments from banks that would undermine their solvency or liquidity, unless the Bank of Greece confirms that such a payment would be compatible with preserving adequate capital buffers and liquidity in the future, including by verifying consistency with banks' business plans as included in the most recent stress test (except the capital concentration tax and the guarantee fee structures currently in place); plus a change of the stock of outstanding tax refunds claims without AFEK older than 90 days, net of the amount of rejected tax refund claims that exceeds the normal annual rejection volume.

Graph 3.1: **Fiscal target outperformed since 2015**



* Projection
Source: European Commission 2018 Autumn forecast

liabilities would be settled in full in 2018. The fiscal space necessary for the payments of the wage refunds was reallocated from the public investment budget which is otherwise expected to be under-executed this year.

The projection for 2018 is based on the assumption of full execution of the budget ceilings, which in recent years proved difficult to reach and is therefore an important potential upside risk. The main areas where partial execution of the budget is expected are operational expenditures as well as the public investment budget (PIB), part of which was already reallocated to finance the wage refunds. The main reasons for the under-execution of the ordinary budget derive from the public procurement procedures and deficiencies in the budget preparation phase. In particular the PIB has been recurrently under-executed in recent years, with only about 83% of the State PIB being spent on average over 2012-2017 out of a total budget of around EUR 4.4 billion (2.5% of GDP). However there were years, such as 2017, where PIB absorption was only 63% and under-execution reached 0.8% of GDP. Greece's public investment budgeting framework is characterised by a low predictability of public investment spending and by the practice of introducing non-investment policies under the public investment budget, both of which decrease the reliability of fiscal projections and call into question fiscal transparency. The authorities committed to improving their public investment budgeting practices with technical support from the OECD that will be implemented in early-2019.

The authorities have indicated that the expected overachievement in 2018 will be used to implement a targeted one-off social benefit. While specific plans have not been announced yet, the social dividend is expected to be designed along the lines of similar packages from previous years and use the eligibility criteria of the Social Solidarity Income scheme to target vulnerable households. Any decision on the use of the space should leave a significant safety margin that caters for the uncertainty as to the outturn of the year in official statistics and its possible future revisions.

3.1.2. Fiscal policy in 2019 and beyond

The authorities' budgetary plans for 2019 are projected to ensure the achievement of the primary surplus target of 3.5% of GDP. The updated baseline fiscal projections of the European institutions pointed to an expected fiscal space of 0.4% of GDP above the fiscal target, assuming the symmetric implementation of pension cuts and an offsetting expansionary social benefits package that was pre-legislated under the ESM programme on 18 May 2017 to enter into force on 1 January 2019.

After discussions following the submission of the Draft Budgetary Plan to the Commission, a package of discretionary measures to be included in the 2019 budget has been finalised by the Greek authorities. On the revenue side, the planned measures foresee (a) a cut in revenues from the ENFIA property tax by 10% focussed on reduction in tax bills for small property holders, (b) a reduction by one-third of social security contributions for self-employed, independent professionals and farmers and implementation of a minimum income base for supplementary pension and lump-sums, and (c) a 50% subsidy of employers' social security contributions for young people up to 24 years. On the expenditure side, the planned measures foresee (a) the maintenance of a freeze on pensions until 2022, but not to proceed with the pre-legislated pension cuts via the elimination of 'negative personal differences', (b) the recalibration of the pre-legislated housing allowance in a more targeted manner, and (c) the strengthening of special education through the hiring of 4,500 teachers and specialised staff for positions currently occupied by temporary teachers. Finally, in order to achieve the fiscal target in 2019, the Greek authorities decided to reduce the ceiling of the national component of the investment budget by EUR 250 million compared to what was projected in the 2018 Medium Term Fiscal Strategy (MTFS), also with a view to address the underspending on investment observed in past years. In that context, the authorities have decided to include in the public investment budget (PIB) the transport equivalent subsidy that aims at supporting businesses and residents of remote islands and its cost will be capped at EUR 150 million for 2019.

On the basis of the above-mentioned fiscal measures, Greece is set to comply with the primary surplus targets of 3.5% of GDP until 2022. Fiscal outcomes are expected to be supported by the recovery of economic activity; increasing savings stemming from the 2015/16 pension reform; an attrition rule of 1:1 in 2019 and beyond and contained growth in the average public wage, limiting the overall growth of the public sector wage bill; and health care spending growing in line with real GDP.

The final package of discretionary measures included in the 2019 draft budget differs in its composition from the package of pre-legislated measures for 2019 which foresaw a re-balancing of expenditures from pensions to non-pension benefits and other growth-enhancing spending. The pre-legislated measures related to income-tax credits for 2020 have not been adjusted. As shown in Box 3.1, the implementation of the pre-legislated pension cuts would have affected 1.4 million pensioners including those of many hundreds of thousands of pensioners with modest pension incomes: the implementation of those cuts would have increased the risk of poverty amongst such households. Moreover, the proposed freeze in pensions up to 2022 is projected to lead to the same level of pension spending as a share of GDP in the steady-state compared to the outcome if the pre-legislated pension cuts are implemented in full in 2019. There is nonetheless fiscal space to

Table 3.1: **Main drivers of the fiscal projection (no policy change)**

	2017 Act.	2018 Proj.	2019 Proj.	2020 Proj.	2021 Proj.	2022 Proj.
Total revenues, bn EUR	**87.1**	**88.8**	**89.0**	**90.3**	**92.2**	**94.1**
Total revenues, % of GDP	**48.3**	**48.0**	**46.5**	**45.5**	**44.8**	**44.1**
	Level	*y-o-y change (bn EUR)*				
Total revenues, bn EUR	**87.1**	**1.8**	**0.2**	**1.3**	**1.9**	**1.8**
Macro		1.3	1.6	1.8	2.1	2.3
Revenue measures		0.0	-0.8	-0.1	0.0	0.0
Non-tax revenues & claims on EU funds		1.6	-0.4	-0.3	0.2	-0.3
Other adjustments (2)		-1.2	-0.2	-0.2	-0.3	-0.2
Total primary expenditures, bn EUR	**79.6**	**82.0**	**81.5**	**82.6**	**83.8**	**84.8**
Total primary expenditures, % of GDP	**44.2**	**44.4**	**42.6**	**41.6**	**40.7**	**39.8**
	Level	*y-o-y change (bn EUR)*				
Total primary expenditures, bn EUR	**79.6**	**2.5**	**-0.6**	**1.1**	**1.2**	**1.0**
Compensation of employees	21.5	0.7	0.6	0.5	0.3	0.3
Social transfers (3)	38.4	-0.4	-1.9	0.6	0.5	0.6
Investments (4)	5.0	1.3	1.5	0.1	-0.2	0.0
Intermediate consumption	9.0	0.6	0.1	-0.1	0.7	0.0
Other expenditure & reserve (5)	5.6	0.3	-0.8	0.1	0.0	0.1
Primary balance, bn EUR (1)	**7.5**	**6.8**	**7.5**	**7.7**	**8.4**	**9.3**
Primary balance, % of GDP (1)	**4.1**	**3.7**	**3.9**	**3.9**	**4.1**	**4.3**
Memo items						
Nominal GDP growth (%)	2.0	2.5	3.6	3.6	3.7	3.6
CPI (%)	1.1	0.7	1.3	1.1	1.5	1.7
Output gap (% pot. GDP)	-8.7	-6.2	-3.8	-1.6	-1.1	-0.5
Headline balance (% of GDP)	0.8	0.6	0.6	0.6	0.8	0.8
Structural balance (% of GDP)	4.5	4.0	2.3	1.4	1.4	1.1
Pension reforms (net savings, bn EUR)	2.2	3.0	5.0	5.0	5.2	3.6
of which: from recalibration (bn EUR)	0.0	0.3	2.0	2.0	2.1	2.1

(1) Primary balance in programme terms.
(2) The decrease in 2018 reflects a negative carry-over from revenues collected in 2017 that were considered temporary.
(3) The decrease in both revenues and expenditure in 2019 reflects the post-programme pension reform assumed in the baseline (lower pension spending and lower direct taxes paid by pensioners).
(4) Gross capital formation and acquisitions less disposals of non-financial non-produced assets.
(5) Includes subsidies and transfers. The decrease in 2019 reflects the one-off wage refunds paid in 2018.
Source: European Commission

proceed with the launch of a housing benefit in 2019, building upon a reform of family benefits in place since the start of 2018: thus material steps will be taken to increase resources devoted to social benefits that primarily benefit low-income households of working age and with children. According to Euromod simulations, thanks to effective targeting, these measures are projected to have a material impact on reducing poverty risks amongst the young and concentrated in the low-income cohort. While acknowledging the issue of recurrent underspending on public investment, the European institutions consider the reduction of the ceiling of the PIB by EUR 250 million suboptimal from the perspective of long-run growth. The discretionary measures on the tax side go in the direction of measures included in the pre-legislated package for 2020. Those measures could support growth, although their impact will be relatively modest, given their scale and composition.

The fiscal projection is subject to uncertainty. Regarding potential upside risks, the projection for 2019 and onwards only partially includes yields from the large number of administrative and structural fiscal reforms adopted during the ESM programme, notably those to improve revenue administration that are showing strong progress in some areas in excess of the key performance indicators set under the programme.

There are also growing downside risks. A significant risk is related to wage pressures that may emerge, amongst others, triggered by a recently adopted provision that increased wages of employees of the Ministry of Finance and some other public institutions. That provision is not in line with the reform of the uniform wage grid adopted under the ESM programme (for details see Section 8). Indeed, demands in other Ministries for similar wage increases have already started to surface in recent weeks. Additionally, risks to compliance with the attrition rule set out in the MTFS 2019-2022 need to be monitored carefully. The attrition rule is a key medium-term anchor to control dynamics in public employment, which is critical to prevent the re-emergence of unsound hiring practices that led to a bloated public sector

Table 3.2: **EIs projections with the final package of measures for 2019 (% of GDP)**

	2019	2020
Primary balance	**3.9**	**3.9**
Elimination of the pre-legislated pension cut	-1.1	-1.0
Elimination of the pre-legislated expansionary measures	0.9	0.9
Primary balance after elimination of measures pre-legislated for 2019	**3.7**	**3.8**
2019 measures	**-0.2**	**-0.3**
Primary balance after measures	**3.5**	**3.5**

Estimates of measures in the 2019 draft budget (cumulative impact)	**2019**	**2020**
Reduction of ENFIA by 10% in 2019	-0.1	0.0
4% CIT tax cut from 29% to 25% over 2019-2022	0.0	-0.1
Reduction of social security contributions for self-employed (OAEE), independent professionals (ETAA), and famers (OGA)	-0.1	-0.1
Subsidy to social security contributions for young employees up to 24 years by 13.3%	0.0	0.0
Strengthening of the 'Home Assistance' programme through hiring 3,000 permanent staff	0.0	0.0
Strengthening of special education through hiring 4,500 teachers and other specialized personel	0.0	0.0
Housing benefit	-0.2	-0.2
Financing of the transport equivalent subsidy through PIB	0.1	0.1
Reduction in the domestic component of the PIB budget	0.1	0.1
Reduction in the dividend tax rate from 15% to 10%	0.0	0.0
Other reduction in spending ceilings	0.0	0.0
Total package	**-0.2**	**-0.3**

Source: European Commission

in the pre-crisis period.

Last but not least, legal risks could materialise following recent court rulings against 2012 pension cuts and the pending Council of State (CoS) ruling on the 2016 pension reform. A decision by the CoS in 2015 ruled unconstitutional the pension cuts enacted in 2012 but ordered that the effect of the annulment would start from the issuance of the decision (June 2015); as a result, retroactive payments were only due to pensioners having filed petitions or appeals up to that date. A recent first-instance court ruling has gone beyond that CoS decision, by ordering retroactive compensation for pensioners having filed lawsuits after the publication of the 2015 CoS decision. The authorities have already appealed against the ruling and expect that the court of appeal reverses the ruling in line with the earlier CoS decision. Fiscal costs of the legitimate claims filed before 2015 are yet to be clarified. In additional, a CoS decision is expected to be published in 2019 related to the main features of 2016 pension reform (recalibration process, new replacement rates, elimination of the personal differences). If those aspects of the 2016 reform are ruled unconstitutional, it would have a significant impact on public finances and on the long-run sustainability of the pension system. Finally, several first-instance and Magistrate Courts' decisions have ruled unlawful the abolition of the 13th and 14th monthly salaries of public sector employees through Law 4093/2012. Although those rulings are subject to appeal, they contribute to uncertainty and increase the pressure on wages and on the reform of the single wage grid. Should those risks materialise, they could put at risk the achievement of fiscal targets. The authorities are

Table 3.3: **Overview of fiscal risks**

Extension of "personal differences" to staff who joined the Ministry of Finance and entities from 1 November 2011- 11 October 2018	Adopted in MoF, ELSTAT and CDLF. Serious risks regarding (i) fiscal impact in the medium term should the 'salary provision' be extended to cover other general government bodies or future hirings and (ii) structural issues because is not in line with key principles of the unified wage grid and creates difficulties on other public administration reforms such as the mobility scheme.
2015 Council of State decision against 2012 pension reform	The CoS decision ordered retroactive payments for pensions having filed petitions prior to 2015. The size of the fiscal liability is yet to be clarified.
Re-institution of 13th and 14 pensions for retired staff	A court ruling by the Thessaloniki First Instance Court (ruling 3037/2018) found that the cuts (13th pension and Christmas + Easter/Summer bonuses) adopted in 2012 vis à vis the applicants under the 2nd MoU are unconstitutional. The authorities have appealed against the case and expect that the court of appeal reverses the ruling in line with the earlier CoS decision.
Re-institution of seasonal bonuses for public sector employees	Several court rulings were issued by both administrative Courts of First Instance (for permanent staff) and 'Magistrate Courts' (for employees under private law of indefinite duration contract) in favour of claims that the abolition of the 13th and 14th salaries (Law 4093/2012) was unlawful. Additionally, the Union of Civil Servants ADEDY is organizing and promoting mass appeals against the abolition of the bonuses. Risk of immediate application in local governments, for which it is not required any more to appeal against a first instance decision. Further information is needed to assess the fiscal risks. For other parts of GG a final court decision is needed.
Pensions of judges and prosecutors	In March 2018 the Special Wage Court ruled that pensions of judges and prosecutors should return to their summer 2012 levels. The authorities have clarified that the court's ruling concerns only retired judges and prosecutors. The costs of the likely refunds are yet to be clarified.
Courts case against the 2016 pension reform	The ruling of the Council of State on the legality of the overall reform (recalibration process, the new replacement rates) is expected to be published in 2019.

Source: Commission services

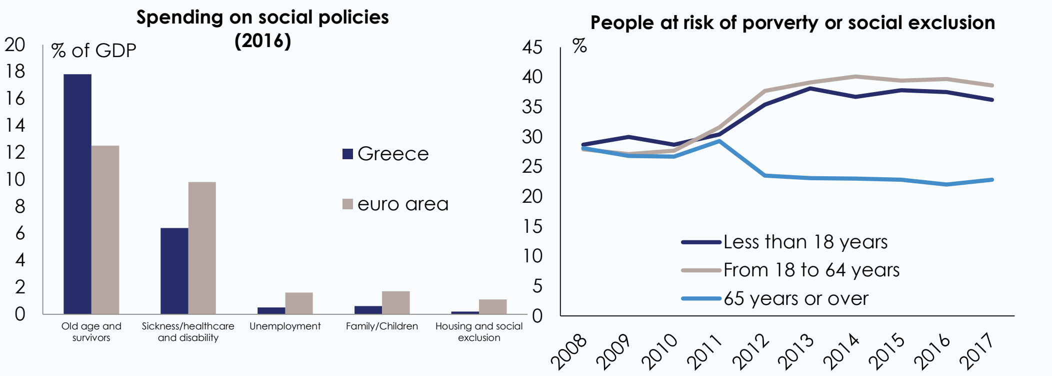
monitoring the ongoing cases and are providing information to the Commission. Additional elements will need to be clarified to establish the potential fiscal impact.(6) Should these risks materialise, offsetting measures should be taken as needed to meet the agreed medium-term fiscal targets in the context of the Medium-Term Fiscal Strategy (MTFS) and its annual updates.

(6) The fiscal impact would materialise at the point when the judgments are final and irrevocable, and the liability is accepted by the government and established with sufficient certainty.

Box 3.1: Pre-legislated pension cuts

In response to concerns of the Eurogroup on the ability of Greece to achieve and sustain a primary surplus of 3.5% of GDP over the medium term, Greece in mid-2017 adopted a pre-legislated package of fiscal measures, with one half of it effective as from 2019 and the remaining half as from 2020.([1]) The measures pre-legislated for 2019 involve additional cuts in pensions consisting of the immediate recalibration of main and supplementary pensions which are above the entitlements accrued on the basis of the 2016 rules (referred to as 'elimination of negative personal differences') and the freeze of all pensions until 2022. Furtther, as per the pre-legislated package, if fiscal space allows, pension cuts could be offset by higher public spending mostly on other social benefits (continued financing of the 2018 child benefit reform, introduction of a new housing benefit, expansion of the free school meals programme and of pre-school nursery places, and reduction of co-payments for pharmaceuticals). Thereby, the pre-legislated package would alter the composition of social welfare in Greece away from pensions towards benefits that target the young and working-age families where the risks of poverty are higher (see Graph 1). The measures pre-legislated for 2020 focussed on broadening of the tax base through a large reduction in the personal income tax credit generating a fiscal yield of 1% of GDP: if fiscal space allows and to support growth, these could be offset by reductions in tax rates on labour, business activities and real estate (ENFIA).

Graph 1: **Social spending and risk of porverty**



Source: Eurostat

As outlined in section 3, the Greek authorities plan to adopt a budget which for 2019 contains a different package of measures from the one pre-legislated in 2017. The authorities foresee to proceed with the freeze of pensions until 2022 but not implement the immedieate elimination of negative personal differences. At the same time, the authorities plan to use the available fiscal space to implement a different package of expansionary fiscal measures including the continued financing of the 2018 child benefit reform, the introduction of a new housing benefit scheme (with a somewhat different budget) and a reduction in taxes, mostly real estate taxes and

([1]) See European Commission: The ESM Stability Support Programme, Greece, First and Second Reviews, July 2017 Background report, Section 1.3.2.5, Institutional Paper 064, November 2017.

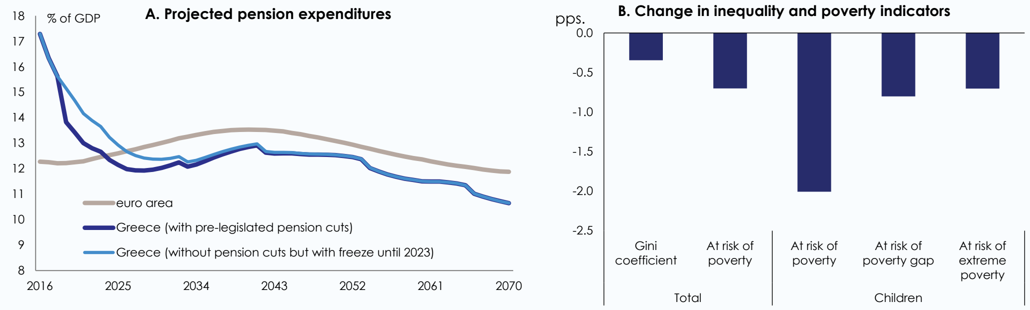
(Continued on the next page)

Box (continued)

social security contributions. The economic, fiscal and social implications of this different approach need to be considered carefully.

The European Commission concurs with the assessment of the Greek authorities that the implementation of the pre-legislated pension cuts in 2019 are not needed to reach a primary surplus of 3.5% of GDP in 2019 or to sustain it up to 2022. Compared to its forecast in mid-2017, the IMF, in its Article IV report of July 2018, has also made a major revision of its estimate of the primary surplus forecast. Moreover, and as outlined in section 3, the measures which the Greek authorities plan to adopt in the budget for 2019 are consistent with a achieving a primary surplus of 3.5% of GDP. It should be underlined that the change in the fiscal package as proposed by the Greek authorities concerns the *composition* of fiscal measures to be included in the budget for 2019. It does not however affect the *fiscal balance* and as such compliance with agreed fiscal target.

Graph 2: **Pension projections and poverty indicators**



Source: Commission services

By maintaining the freeze until 2022, pension spending as a share of GDP will fall to the same steady-state level by 2040 (see panel A in Graph 2). The 2016 reform was a substantial reform, which according to projections that have been reviewed by the Ageing Working group, would reduce public spending on pensions from 17% of GDP in 2016 to just below 13% by 2030, which is the average level of the euro area. The freezing of all pensions until 2022 is projected to further reduce long-run pension spending by about ½ pp. of GDP. The immediate elimination of negative personal differences in 2019 would advance some of the fiscal savings, but would not affect the long-run steady state. Under the current plans of the Greek authorities, pension spending is projected to fall below the euro area average level in 2027 as opposed to 2024 if the pre-legislated cuts are implemented upfront in 2019.

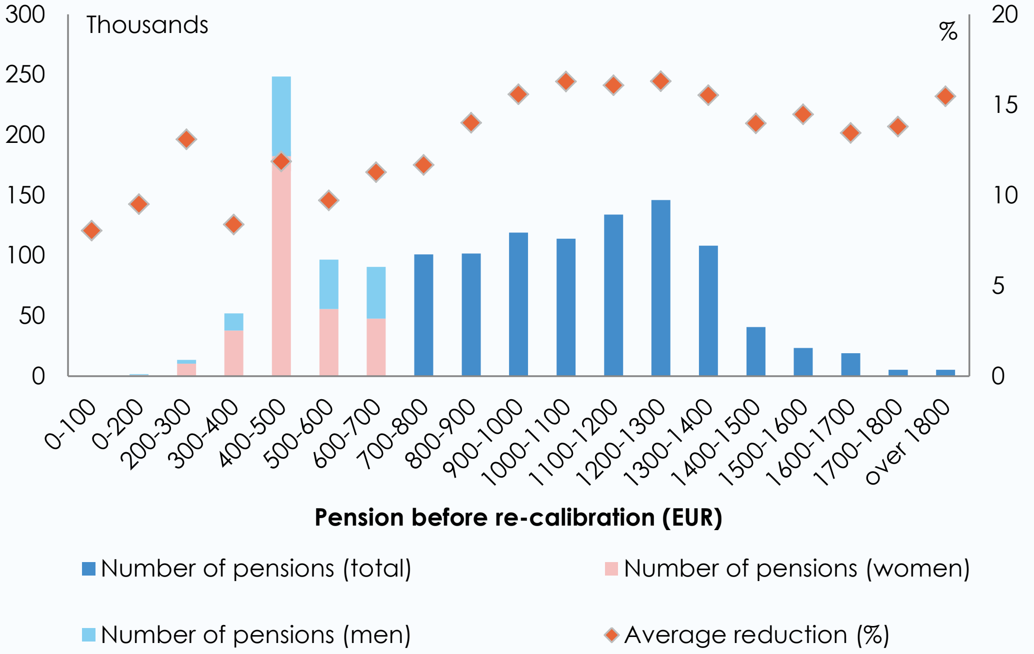
The implementation of pension cuts in 2019 would increase poverty risks amongst the elderly. It is estimated that pre-legislated cuts would affect 1.4 million pensioners (out of a total of EUR 2 million) with an average reduction of pensions by 14%. Low-income pensioners would be hit very hard. Some 500.000 pensioners in the bottom half of the distribution, receiving pensions below EUR 700 per month, would see cuts averaging around 10% (see Graph 3). In this group, women are disproportionately represented (at least two thirds) due to shorter career histories, and moreover, they are projected to suffer an above-average cut of 11.7% compared to 9.1% for men. Inequality as measured by the Gini coefficient would increase by 0.2 pp. The overall poverty rate (i.e. the share of people with incomes below 60% of the median) would also increase by 1 pp.

(Continued on the next page)

Box (continued)

(from 19% to 20%) with a more pronounced increase in poverty for the older age group above 65 (by 2 percentage points, from 13% to 15%), and for pensioners in particular (by 3 pps., from 15% to 18%).

Graph 3: **Projected cuts in nominal (main) pensions by income brackets**



Source: Ministry of Labour (Greece)

The authorities intend to use some of the available fiscal space to strengthen social benefits targeting the young and working-age families. In 2018, a major change was made to the system of child benefits that increased spending for this category by EUR 260 million (0.15% of GDP) and resulted in improved targeting, adequacy and equity of the benefit. Commission analysis carried out with the EUROMOD microsimulation model shows that this led to a substantial increase in the disposable income, especially amongst the lowest three deciles and reduced inequality across the whole population but especially amongst children.([2]) It is now also proposed to introduce a new housing benefit with the 2019 budget with spending amounting to EUR 400 million (0.2% of GDP). Commission analysis shows that that reform would also have a big impact on the disposable income of lower-income households and would reduce risks of poverty, especially for the young and working-age cohorts (see Section 4.3). The budget allocation of EUR 400 million is expected, thanks to improved targeting of the measure, to broadly achieve desirable outcomes in terms of inequality and poverty reduction. The combined increased spending on family and housing benefits amounts to 0.35% of GDP, which is equivalent to half of the increase in spending on social benefits originally foreseen in the 2017 pre-legislated package

([2]) See European Commission: ESM Stability Support Programme for Greece, Compliance Report Third Review, Box 1, March 2018.

(Continued on the next page)

Box (continued)

The proposed approach of the authorities does provide for shifting the composition of social welfare spending in Greece away from pensions, although more gradually than foreseen in 2017. The implementation of the pre-legislated pension cuts in 2019 would allow for a faster pace of increase in spending on other social benefits, and would address issues regarding the intergenerational fairness of the 2015/16 pension reform, the burden of adjustment of which predominantly fell on contributors rather than existing retirees. However, it would come at the cost of increase poverty rates amongst elderly pensioners, and possibly other negative social consequences as many retirees provide financial support to their children and extended families (though it is not possible to quantify these impacts).

3.2. FISCAL AND STRUCTURAL POLICIES

3.2.1. Tax policies

Greece has committed to continue the reform of ENFIA property tax valuation. The reform aims at gradually aligning property-tax assessment zonal-values with market prices, through undertaking further nationwide valuation exercises in 2019 and 2020 and fully aligning tax values and market prices by 2020. These reforms will widen the tax base of the ENFIA property tax and will improve the efficiency and fairness of the tax. The authorities have established a property evaluation unit within the Ministry of Finance and appointed a Head of Unit and the initial members of staff. Legislation is under preparation (amendment of article 41 of Law 1249/1982) for a permanent framework for property tax valuation by professional real estate valuers, replacing the local committees previously responsible. The required budget for valuation purposes has already been established and a major technical support project has been set up to support this work. A project plan for the development of the permanent IT system for property revaluation has been agreed between the Valuation unit and the General Secretariat for Information Systems.

3.2.2. Revenue administration

Greece has committed to continue to implement reforms to enhance the functioning of the Independent Authority for Public Revenue (IAPR), including the full staffing of the Authority with an intermediate target of permanent staffing positions to reach 12,000 by end-2018. At the end of October 2018, the current staffing level is at 11,633 with an ongoing ASEP competition (36/18674, 4.4.2017) of 548 permanent posts for tax administrators/customs officials close to being completed, with the so-called preliminary tables of the successful candidates being published in November 2018. However, the actual finalisation of that competition through the posting of the new recruits to IAPR might not be completed by the end of 2018 and further efforts will be required so as to achieve the target in time for the second reporting round under enhanced surveillance foreseen for February 2019. Furthermore, given the timing of the mobility cycle and some delays that occurred with the previous cycles, the planned new recruitment of 250 permanent staff through the mobility scheme in 2018 is not likely to materialise and is expected to be rolled over until 2019 when in total 500 new permanent staff are expected to join IAPR through the mobility schemes.

As concerns the commitment to establish an end-to-end IT collection system to be fully operational by end-2021, a contract has been signed for the development of such an IT tool and the project is estimated to have an implementation period of 20 months. The tool will allow for the physical/legal entity to be monitored by IAPR throughout the process from initial obligation to collection.

The IAPR Reform Action Plan ("Blueprint"), initially developed for 2018-2020 and now been updated by IAPR to cover 2019-2021 is yet to be adopted as the protracted consultation period with the Ministry of Finance is yet to be completed. The "Blueprint" sets out specific measures and investments that will be required to continue the transformation of IAPR into a modern, flexible and effective organisation. More specifically, the "Blueprint" foresees specific actions on (i) improving services to citizens and businesses (e.g. automation of obligations requiring physical presence at the IAPR offices); (ii) enforcing compliance (e.g. redesign of the operation and audit processes); and (iii) using effectively and efficiently use of resources (e.g. Human Resource Management System and IT infrastructure). Given the importance to have such a key strategic document in place, including the resources to carry out specific investments to further strengthen the capabilities of IAPR, it is important that the "Blueprint" for 2019-2021 is adopted without any further delays.

The objective to complete the human resources reform of IAPR, that aims to introduce grading, remuneration and performance assessment tailored to the IAPR, is proceeding slowly. The reform is vital to enhance IAPR's prospects to attract highly-qualified staff and to allow for their development and progression. The IAPR HR reform is expected to be aligned with the principles of the HR reforms promoted by the Ministry of Administrative Reform (MAR) covering the overall public administration. To date there has been no progress as concerns advancing on the agreed-upon 'tripartite' discussions between Ministry of Finance, MAR and IAPR, in order to ensure that the needed enabling legislation is adopted before the end of 2018.

Pending legal provisions concerning the development of an Assets Registry are expected to be adopted before end of 2018. In addition, a specific project has been approved (to be funded through National Strategic Reference Framework (NSRF), 2014-2020) and the launch of that tender (overall budget: EUR 482,000) is also expected before the end of 2018.

A Joint Ministerial Decision (JMD) related to fuel markers is yet to be adopted. It is important that the JMD is issued without any further delay, in order to allow for the tender procedure to procure these fuel markers to be launched before the end of 2018. These fuel markers will provide an important tool to the customs department of IAPR in its efforts to combat illegal smuggling of fuel.

Finally, in terms of overall progress as concerns tax debt collection, the trend remains positive with overdue balance of new debts being reduced by 25% in 2017 in comparison to 2016. Figures released for January to August 2018 seem to indicate that the positive trend will continue, with 'new debt' being further reduced. It is therefore critical that any plans for new repayment measures (e.g. instalment schemes) to target debtors will not risk reversing that positive trend as concerns tax debt collection, in particular concerning new debts.

3.2.3. Public financial management

Greece has committed to avoid the accumulation of new arrears and will, by mid-2019, complete the implementation of reforms identified by the Hellenic Court of Auditors (HCA). The stock of arrears started increasing sharply in 2015 due to the protracted programme discussions and ensuing State liquidity shortages, reaching EUR 9.3 billion in August 2015 when the ESM programme was agreed. Over the past three years, altogether EUR 7 bn of programme funds were disbursed for arrears clearance. The disbursements for arrears clearance helped reduce the net stock of arrears by EUR 6.2 billion by end-August 2018, the cut-off date for the latest arrears clearance report by the authorities.

All ESM programme funds have been transferred from the dedicated account for arrears clearance in the Bank of Greece to the government entities before 20 August. However EUR 1.1 billion remained stuck in these entities' accounts up to end-August, due to a delay in transferring the funds which left the entities limited time for absorption. The Ministry of Finance has instructed the entities to fully absorb the funds and clear all remaining arrears, subject to technical and legal feasibility, by the end of the year.

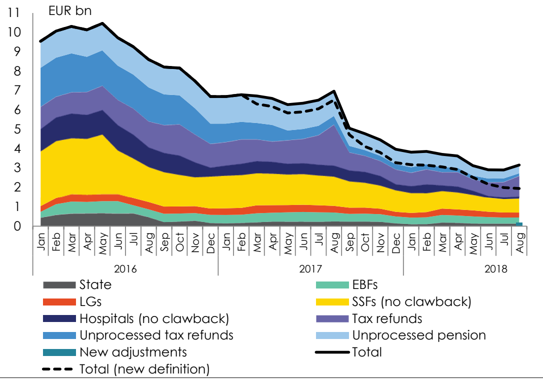
The outstanding stock of net arrears based on the ESM programme definition amounted to EUR 3.2 billion at end-August. Of this amount, around EUR 1.2 billion is in processed and unprocessed tax refund claims, EUR 0.7 billion in social security funds, EUR 0.4 billion in unprocessed pension claims, EUR 0.3 billion in extra-budgetary funds, EUR 0.3 billion in local government entities, EUR 0.1 billion in hospitals and EUR 0.1 billion in the State. Total arrears increased by EUR 255 million in August due to incoming tax declarations which create a seasonal spike in tax refunds. Excluding the new tax refunds, there was a decrease of EUR 45 million in the stock of arrears.

A refined definition of net arrears was agreed between the institutions and the authorities for the purposes of enhanced surveillance. The new definition takes into account new granular data from improved IT systems and also excludes elements that are cleared through offsets and that cannot be cleared due to legal or technical constraints that are beyond the authorities' control. These new netting elements include:

- tax refunds below 90 days, in line with the existing definition of spending arrears and pension claims:
- arrears to be offset with clawback and rebate;
- arrears under legal dispute;
- arrears that have been processed by the entities but cannot be paid for exogenous reasons including those where the beneficiary has been notified by the authorities but is not responding and/or is not providing sufficient supporting documentation;
- imprest accounts which correspond to arrears within the government and not to third parties;
- arrears that have been paid through seized accounts but have not been taken out from the stock;
- supplementary pension claims;
- international main pension claims;
- pension claims without complete supporting documentation.

Under the new definition, the end-August 2018 stock of arrears stood at EUR 1.7 billion, i.e. EUR 1.4 billion lower compared to the old definition. The difference stems mainly from the exclusion of tax refunds due for less than 90 days (EUR 0.7 billion) and tax refunds for which the beneficiaries have been notified but do not respond (EUR 0.3 billion). The remaining difference reflects supplementary pension claims (which are not financed through the programme), notifications other than tax refunds, arrears under legal dispute and arrears that have been paid through seized accounts but not written off from the stock. All arrears – regardless of the exclusions – will continue to be monitored in the arrears clearance template. The stock of net arrears in August 2018 will be the benchmark for the first assessment for the non-accumulation of arrears in the following enhanced surveillance report.

Graph 3.2: **Evolution of general government net arrears according to the programme definition and the new definition used for enhanced surveillance**



The new adjustments are a single data entry in August 2018 as there are no available time series. The new adjustments include imprest accounts, seized accounts under legal dispute and notifications (other than tax refunds). These amounted to EUR 200 million at end-August 2018.
Source: Commission services

Some EUR 1.1 billion of funds for arrears clearance have been transferred to government entities' accounts but remained there until end-August. This was due to a delay in transferring the funds which left the entities limited time for absorption. These funds will need to be passed on to final recipients without delay.

Reforms to address the structural bottlenecks of arrears management and clearance are ongoing. The measures planned are based on the recommendations of systemic nature issued by the Hellenic Court of Auditors (HCA) following its audit on arrears of general government entities to third parties and published in the summary report on May 2018. Those reforms were outlined in two action plans with specific timelines: one coordinated by GAO, which involves the main subsectors of the government, and one by IAPR. Those action plans were discussed and finalised by the end of the ESM programme.

The updated GAO/IAPR action plans received in October 2018 show that the vast majority of the reform measures are progressing according to schedule. The monitoring of implementation will continue on a quarterly basis. The overall implementation of the reforms will be assessed in mid-2019 which will also based on a follow-up audit by the HCA.

By the end of the programme, Greece completed a series of structural reforms to establish a more coherent, efficient, transparent professionalised and business-friendly public procurement system (new legislation; new remedies system; establishment of e-procurement; new centralised procurement scheme; adoption of the National Strategy on Public Procurement). The full implementation of the National Strategy to increase administrative capacity and the successful implementation of the new centralised procurement scheme are the main future challenges.

4. SOCIAL WELFARE

4.1. PENSIONS

The authorities are continuing to make good progress in implementing the 2016 pension reform (Law 4387/2016). All new pension applications are being paid out according to the new rules and the recalibration of pension payments has been finalised for over 2 million pensioners. The number of unprocessed main pension applications continues to decline quickly, from 89,000 in January 2018 to 44,000 in August 2018, in line with the authorities' target to process all new applications within three months by the end of 2018.

The pensioners' social solidarity grant (EKAS) is being gradually phased out by end-2019. The EKAS awarding rules for 2019 have been issued in June 2018, reducing the annual cost of EKAS by EUR 853 million compared to its level in 2016.

The authorities have also updated the action plan for the completion of the setup of the unified main pension fund EFKA by mid-2020. This action plan includes: (i) the full functional and administrative merging of social security funds into EFKA, (ii) the creation of 13 regional offices (PYSY) tasked with the oversight and performance management with regional role of coordinating efforts across agencies and institutions impacting EFKA, (iii) the creation of 11 regional offices (PEKA) for contribution control, collection, and inspections, (iv) a reduction in number of local services offices, (v) creating a new strategy for the EFKA inspectorate with improved legal powers and coordination between EFKA, Hellenic Information Technology & Communications Association (SEPE) and IAPR, (vii) creation of centralised or regionalised processing centres, (viii) clearance of all pending and temporary claims, (ix) full functional and administrative merging of the seafarers and farmers funds (NAT and OGA) into EFKA, (x) digitalisation and completion of the electronic insurance history, (xi) adoption of the new integrated IT system (IITS) in EFKA, (xii) new organisational structure. Technical support is provided through the Structural Reform Support Service to the Greek authorities for the above actions.

The authorities have also continued publishing detailed statistical information on pensions (monthly Helios reports) and quarterly reports on pension claims. However, the authorities have not made available reports on the progress in the creation of electronic records for retirees and insured persons. The missing reports put in question the progress in the creation and management of the electronic records, which form an integral part of the overall pension reform.

4.2. HEALTH CARE

For the years following the ESM programme, Greece has committed to continue pursuing the main health-care reforms launched under the programme, and to ensure fiscally sustainable health-care spending. Specifically, Greece committed to extend the clawbacks, complete the roll-out of primary health care and to fully implement centralised procurement. This section assesses progress in meeting the indicative intermediate steps agreed in the context of the enhanced surveillance monitoring to ensure that reforms proceed without losing momentum. More broadly, it also monitors progress concerning residual MoU commitments and other workstreams supporting the efficiency of the health care sector.

Overall some progress was observed as regards many of the main work streams. However, mostly due to stakeholder resistance/opposition and resource and capacity constraints, the pace of implementation is slow and some proposals by the authorities are pointing in the direction of relaxing measures introduced under the programme.

Implementation of the full offsetting and collection of the clawback by June every year for the previous calendar year is ongoing, but there are signs of potential changes in part of the system that could slow the process down. Clawbacks are currently applied to pharmaceuticals (inpatient and outpatient), privately provided diagnostic and hospital services, and to a residual group comprising most of the other items in the budget of the national insurance body EOPYY. Spending in all those areas is still on an increasing, rather than decreasing, path, especially on diagnostics, which in the authorities' view is still due to the introduction of new tests. Although the authorities have taken several measures to strengthen monitoring of that area, it seems that either currently available tools fall short of delivering results or that follow-up to that monitoring may not be adequate to counter the incentives. There are elements of concern stemming from the authorities' proposals of an extension of the maximum allowed period for repayment schemes of excess spending. That period is currently already quite long and the proposal to extend it further would raise serious concerns on the capacity to collect the clawback, thus worsening the liquidity of EOPYY. Concerning clawbacks, that proposal, if actually pursued, would deviate from previous commitments.

The rollout of the primary health care system, with the opening of at least 120 primary health care centres (TOMYs) by end-2018 and all 240 TOMYs by mid-2020 is progressing but slowly. While not related to willingness, slow progress is still concerning and may increase the risk of future discontinuation or reversal. Based on the latest reports, around 90 primary health care units (TOMYs) have opened across the territory, with different levels of staffing across sites. More specifically:

- on a positive note, it seems that based on experience in this transitional phase, the primary health care service may indeed be able to rationalise flows towards hospitals, given that out of all the consultations since its launch only a very small share resulted in referrals to higher levels of care, delivering an effective gatekeeping;

- while registration has started, only a very small share of the population is currently registered, and the picture may change as the scale is expanded;

- the communication campaign is reportedly proceeding as planned, but there seems to be lack of unanimity on that state of affairs, with stakeholders reporting that communication is failing to reach its targets;

- progress is also mixed from the point of view of human resources, with doctors still reluctant to join the system. A strong resistance from the side of providers paired with lack of trust from citizens still pose a threat to a system that is currently still allowing the possibility for patients who cannot register with any family doctor in their area to directly seek specialist care. Since the coexistence of these systems in parallel for too long may facilitate future reversal if a critical mass for gatekeeping is not reached, close monitoring should continue.

The authorities committed to set up the main body responsible for central procurement (EKAPY) by end-2018, with a view to achieving a share of centralised procurement in total hospital expenditure of 30% in mid-2020 and 40% in mid-2022. Based on available information there seems to be some progress in that area. While the management board is still on temporary appointment, and EKAPY is not yet fully staffed, EKAPY has managed to finalise some old tenders and achieve savings. While this is a positive outcome, it should be stressed that they were mostly old mothballed tenders, on which the process only needed to be terminated after the launch. There are still critical issues related to capacity to design and launch new tenders with a view to reaching the 30% target by mid-2020. Greece will receive technical support on that process, but it still remains challenging in terms of capacity building. Further, previous experiences with centralised procurement suggest that area is very prone to discontinuation and reversal due to vested interests. It is thus key that EKAPY reaches a critical point in terms of organisational development and results that consolidate it as an integral, rather than accessory, part of the new modern health care system.

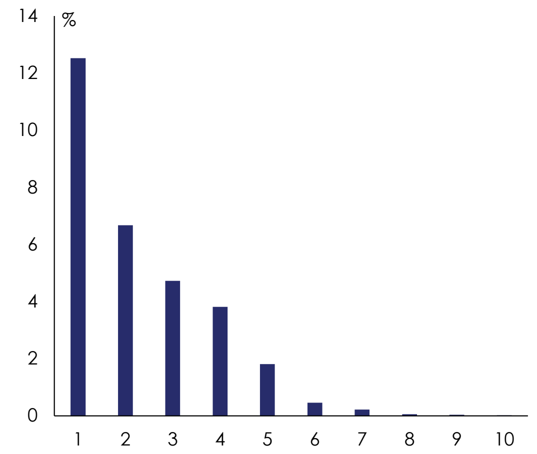
The authorities have planned to revise/reverse some measures adopted under the programme, with uncertain impacts in terms of system efficiency and that will need to be monitored. One relevant issue concerns the repricing procedure for pharmaceuticals, for which the authorities envisage a transition to a unique yearly repricing (to be published by the end of February for 2019) as opposed to bi-annual repricing introduced under the programme. In the authorities' view, pharmaceutical prices are already very low and they deem the procedure to have high opportunity costs in terms of resources that could be more productively reallocated to other tasks and such that a transition to one yearly repricing would yield greater efficiency. The impact of that proposal needs to be monitored and assessed against the backdrop of a somewhat increasing trend in pharmaceutical consumption. Indeed, this trend was previously counterbalanced by the regulated periodic decrease in pharmaceutical prices, with the latter representing one of the main factors driving the decrease of pharmaceutical expenditure during the programme.

4.3. SOCIAL SAFETY NETS

The profound reform process of the Greek social welfare system initiated under the ESM programme is being carried forward. The overall objective of the reform was to make the system more streamlined and efficient, improving targeting and effectiveness. In addition to the introduction of a new guaranteed minimum income scheme (the Social Solidarity Income - SSI) in 2017 and the reform of child benefits in 2018, a new housing benefit aimed at addressing housing cost overburden is planned to be put in place as from 2019, and reviews of the system of disability benefits and of the system of subsidies for local transport were initiated.

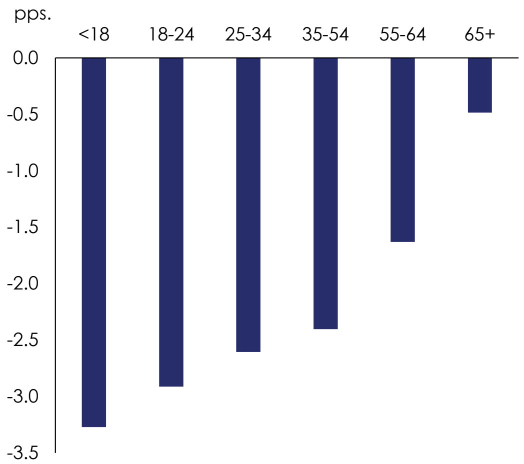
A new housing benefit is included in the package of measures for the 2019 budget. The scheme, whose main design features were agreed under the ESM programme, will provide a cash subsidy to low-income households who are renting or are paying a mortgage on their primary residence. At EUR 70 per month for a single individual (increased by EUR 35 for each additional household member), the allowance can be combined with receipt of other benefits such as the SSI, and subsidises between 30% and 50% of average rental costs. Importantly, the eligibility conditions are such that the benefit can be claimed also by low-wage earners, avoiding the emergence of poverty traps. Finally, it is worth noting that the budget allocation of EUR 400 million is expected, thanks to improved targeting, to broadly achieve desired outcomes in terms of inequality and poverty reduction.

Graph 4.1: **Change in equivalised disposable income by income decile resulting from a housing benefit of EUR 400 million**



Source: Commission services

Graph 4.2: **Change in at-risk-of-poverty by age group resulting from a housing benefit of EUR 400 million**



Source: Commission services

The development of the Social Solidarity Income scheme is reaching its final stages with a view to complete the roll-out of all three pillars by end-2019 (specific commitment). The SSI scheme has been built on three pillars: (i) direct income support, with the provision of a means-tested cash benefit; (ii) social inclusion, with the provision of social services; and, (iii) labour market integration, with the provision of active labour market services. When the scheme was first launched in 2017, it consisted only in the first pillar. Since then important progress has been made to develop the other pillars as well. With respect to the social inclusion pillar, a network of Community Centres has been established in order to expand the provision of social services at local level in an organic and coordinated way. As concerns the labour market reintegration pillar, as a first step all SSI beneficiaries who are able to work are required to register as job-seekers with the public employment service (OAED). In turn, OAED is expected to treat SSI beneficiaries as a priority group, and to gradually offer them personalised services and targeted support. With that aim, the systematic profiling of all newly registered SSI beneficiaries has been put in place. OAED itself has undergone a deep restructuring to improve its capacity to deliver labour market services, and its resources are being reinforced with the recent hiring of additional, highly qualified job counsellors. To fully deliver that third pillar, however, the on-going reform of the system of active labour market policies needs to be completed, introducing a new delivery model that would allow the provision of individualised services to jobseekers based on their needs, as well as better job matching services to employers.

The review of the system of disability benefits (specific commitment mid-2019) is progressing, albeit with some delays. As a first step, the Greek authorities have been upgrading and simplifying the administrative procedures to determine disability status in view of claiming benefits. In parallel, a new approach for determining the degree of disability is being developed with technical support. That new approach integrates the current purely medical assessment with a functional assessment of disability. A pilot project was launched to test that new process of disability determination. The new disability determination standards and protocols should be defined on the basis of the results of that pilot, and applied consistently to all disability benefits, both contributory and non-contributory. However, some delays have been recorded, due to e-health files compiled by the treating physicians and to bottlenecks at the level of the Disability Certification Centres (KEPAs), where a medical committee carries out the medical assessment and issues a final determination of disability. As a result, there has been a very low number of fully processed applications, which does not yet allow a scientific evaluation of the pilot to be conducted.

The review of the system of subsidies for local public transport (specific commitment end-2019) is also progressing. Different categories of people such as students, the over-65s, the unemployed, the disabled and members of large families, currently benefit from subsidised fares for local public transport. Following the recent introduction of electronic ticketing on the Athens network, an automatic electronic crosschecking and processing of applications of beneficiaries belonging to those categories has been set up. Subsequently, the data on actual transport usage by each category has been used to produce a more precise estimate of the cost of those policies for the Athens transport company OASA. In turn, those cost estimates have been used to update the draft Joint Ministerial Decisions which act as Public Service Obligation contracts between the Ministry of Labour and OASA, and lay down the reduced fares and fare exemptions for large families, the unemployed and the disabled. As next step, the Greek authorities are expected to carry out a study to assess the appropriateness of the current system of subsidised fares. The study should be concluded by June 2019 and contain recommendations for possible improvements to the system.

5. FINANCIAL SECTOR

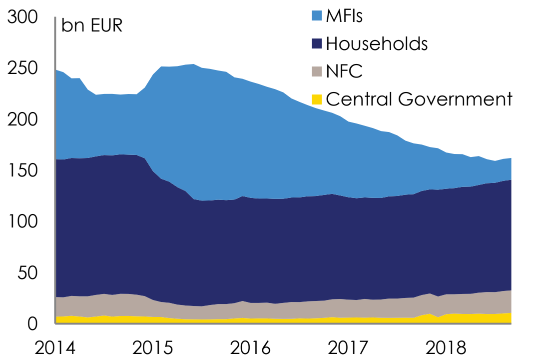
5.1. FINANCIAL SECTOR DEVELOPMENTS

5.1.1. Financial sector overview and financial stability assessment

Over the past several years, wide-ranging policy actions in Greece have aimed at safeguarding financial stability and strengthening the viability of the banking system. The measures related to the financial sector focused in particular on: (i) gradually normalising liquidity and payment conditions and strengthening capital, (ii) addressing the high level of non-performing exposures (NPEs) on banks' balance sheets; and (iii) improving the governance of both banks and the Hellenic Financial Stability Fund (HFSF). As of the end of the ESM programme on 20 August 2018, progress has been achieved in those financial sector policy areas. However, despite progress strong efforts are still needed towards normality: the gap with other Member States has increased in respect of asset quality (NPE ratio), capital (fully-loaded Common Equity Tier 1, CET1, ratios), and quality of capital. Profitability is still negative and while emergency liquidity assistance (ELA) and Eurosystem funding have decreased significantly, liquidity regulatory gaps are still in place (e.g. liquidity coverage ratio, LCR).

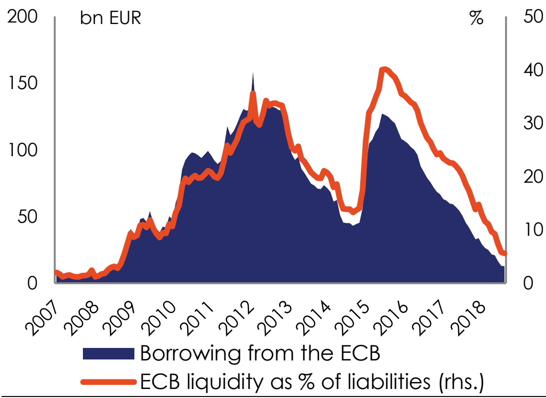
Banks on average have capital buffers and private sector deposits are stable. Banks' average capital ratio (common equity tier 1) was slightly below 16% during the second quarter of 2018, thereby in line with capital requirements (see Table 5.1). Private sector deposits have remained stable since the end of the ESM programme in August 2018 (see Graph 5.1).

Graph 5.1: **Bank deposits**



MFI = monetary financial institution; NFC = non-financial corporation
Source: Bank of Greece

Graph 5.2: **Total borrowing from the Eurosystem**



Source: Bank of Greece

Banks' reliance on central bank funding has decreased. Greek banks managed to reduce significantly their reliance on Eurosystem funding and two of the systemic banks have repaid ELA entirely and the other two are expected to follow

Table 5.1: **Financial stability indicators**

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

(1) Annualised data
Source: ECB - CBD2 - Consolidate Banking data, Commission services

by the end of 2018 or first quarter 2019. The ELA ceiling was reduced from EUR 90.4 billion in August 2015 to EUR 4.9 billion in early November 2018. An improved liquidity situation of Greek banks and an increased confidence of depositors gave room for a further loosening of capital controls as of 1 October 2018 in order to normalize the functioning of the economy, which allowed for unlimited cash withdrawals from credit institutions in Greece and further mitigated the adverse impact on Greek businesses (see Box 5.1).

NPE resolution remains an important challenge for the banking sector in Greece. The main task of cleaning-up their balance sheets remains to be addressed and requires major efforts in the immediate post-programme period. As of June 2018, banks are reducing the NPE stock([7]) in line with supervisory targets, which are, however, going to become more ambitious in the following quarters, while there is no simple solution to accelerate the pace of reduction. Under the targets agreed, the NPE ratio will be 35% at end-2019 and indicatively banks expect to reduce the ratio to around 20% by end-2021. Those efforts are supported by several important reforms related to the out-of-court debt workout mechanism, the insolvency framework for households and corporations, the enforceability of collateral through electronic online auctions, as well as the activation of a secondary market for non-performing exposures. Finally, banks' governance has improved, in particular through the reconstitution of bank boards, in accordance with the stringent provisions in the HFSF law.

For the future, banks' liquidity and capital situation remains strongly dependent on the success of the economic reforms and their continuation, which therefore is of the essence. Despite the progress made in the context of the financial assistance programmes, the financial system in Greece is still characterised by very high levels of NPEs, high sovereign debt, some capital controls still in place and strong links between the State and the banks.([8]) In that context, it is important to note that deferred tax assets (DTAs) recognized by banks in their balance sheets that exceed certain thresholds must be deducted from regulatory capital according to Regulation (EU) No 575/2013([9]) since they rely on future profitability and arise from temporary differences. However, article 27A of Greek Law 4172/2013 (also known as the DTC Law) allows banks to convert specific DTAs, under certain conditions, into directly enforceable claims against the Greek State. The latter are known as deferred tax credits (DTCs) and banks do not have to deduct them from their regulatory capital.([10]) According to the latest data available, the amount of the eligible DTAs to be converted into DTCs by the four systemic Greek banks is EUR 15.9 billion as of June 2018, which is equivalent to around 59% of their Common Equity Tier 1 Capital.

Further efforts to address the challenges related to NPEs and the sovereign-bank nexus would serve to safeguard reform momentum and underpin credibility over the medium term and to reassure markets and interested stakeholders that sound financial practices will be sustained. Credibility remains key after the end of the ESM programme, in order to fully restore market access – for both the sovereign and the banks – and provide reassurances of a stable financial sector in Greece. For that banks also need to build minimum requirement for own funds and eligible liabilities (MREL) buffers.

There is a backlog in payment by the General Accounting Office (GAO) of claims made by banks under State-guaranteed loans. It would be warranted for GAO to implement actions to eliminate the backlog of claims made by banks under State-guaranteed loans. In that context, the authorities are invited to undertake a review of internal processes and capacity to ensure the

([7]) Non-performing exposures (NPEs) refer to a broader definition of non-performing loans (NPLs). NPEs include loans more than 90 days past due and loans whose debtor is assessed as unlikely to pay its credit obligations in full without realization of collateral, regardless of the existence of any past due amount or of the number of days past due.

([8]) Via the HFSF the State owns more than 19% of the four major banks on average, the CET1 capital ratio of those banks consists of 37% to 80% deferred tax assets that are eligible under the deferred tax credit regime. The HFSF holds contingent convertible bonds (CoCos) issued by one bank, and a part of the loan books is supported by State guarantees.

([9]) Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms, OJ L 176, 27.6.2013, p. 1–337.

([10]) However the DTC amortises over 20 years.

timely and effective assessment and payment of claims under State-guaranteed loans at the latest by the end of the first semester of 2019.

As regards funding conditions, the latest data available (September 2018) shows that the overall cost of funding over new deposits remained stable during the past months at 29 bps. By typology, the lowest average interest rate corresponds to overnight deposits placed by households (0.09%) and by non-financial corporations (0.15%) whereas the average interest rate on deposits from households with an agreed maturity of up to 1 year stood at 0.60%. This, together with the slight increase on the lending weighted average interest rate on all new loans by 6 bps to 4.75%, allowed for an increase of the spread between loan and deposit rates in the Greek banking system.

Box 5.1: **Easing capital controls in Greece**

From end-2014 Greek banks' liquidity was under increasing pressure, culminating in a bank holiday in end-June 2015 until the imposition of capital controls in mid-July 2015.

Capital controls have been gradually relaxed since then, in line with the adopted Roadmap published by the authorities on 15 May 2017.

Today the situation has improved with a further normalization of bank funding conditions, improving prospects for the Greek economy and the gradual restoration of investors' and depositors' confidence. Capital controls have been further relaxed accordingly.

Concretely, the following amendments have been introduced in the Greek Law as from 1 October 2018:

- **Cash withdrawals from any branch or ATM of credit institutions operating in Greece are permitted without limitation**, including withdrawals using credit and prepaid cards issued by credit institutions operating in Greece, as well as any other cash payments from credit institutions, irrespective of currency, including, inter alia, checks and payments under letters of credit.

- **Permitted cash withdrawals from institutions abroad** include now also withdrawals using credit and prepaid cards issued by credit institutions operating in Greece, **with a limit up to the amount of EUR 5,000** (or the equivalent in foreign currency) per calendar month per customer, per credit institution.

- **The transfer of cash of an amount of up to EUR 10,000 (or the equivalent in foreign currency) is allowed per natural person per travel abroad**, increased from a previous limit of EUR 3,000. Permanent residents abroad have always been exempt from this restriction.

- **Transactions of legal persons or sole proprietors involving a transfer of funds abroad, in the context of their business activities, are allowed for amounts up to EUR 100,000 (increased from a previous limit of EUR 40,000)**, per transaction, per customer, per day, following the submission of the relevant invoices and other evidence and documentation. Note that, since July 2018, transfers of funds abroad from individuals are allowed up to an amount of EUR 4,000 (increased from a previous limit of EUR 2,000) per customer, per calendar two-month period, up to an aggregate monthly ceiling for all credit institutions.

- **Capital gains and dividends from funds invested in Greece may be transferred up to 100% of the invested funds in each calendar year to the beneficiary's account held with a credit institution operating abroad**, provided that the invested funds have been transferred to Greece from abroad by the beneficiary after the entry into force of the October ministerial decision.

The way forward on capital controls will continue to be closely monitored, given the implications for the overall functioning of the Greek economy.

However, several challenges still remain in the period ahead, including the broadening of market funding and the further reduction of central bank funding dependency.

5.1.2. Financing of the economy

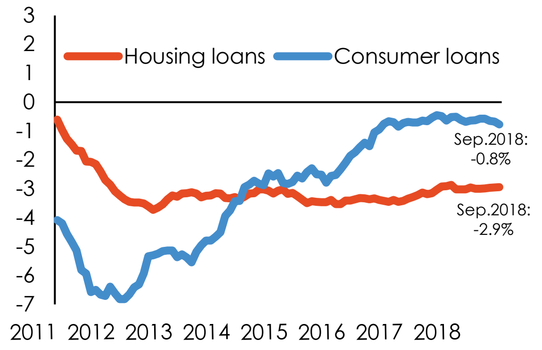
Following years of pronounced contraction, bank lending to the economy remains very subdued, with slight signs of improvement in the corporate segment. Since 2016, the annual growth rate of loans extended to non-financial corporations (NFCs) has been hovering around zero. While the trade and tourism sectors have seen positive credit growth rates for at least two years, with some recent slowdown in the trade sector, the manufacturing sector is seeing positive lending growth since mid-2018 after two years of relatively strong negative credit growth. The growth rate for loans to households has been progressively becoming less negative since July 2016. Factors that supported new credit include the recent modest recovery in economic activity, as well as a slight reduction in lending rates to the corporate sector. On the downside, the burden of a high NPL stock has inhibited new lending by banks. On average, in January-July 2018 new gross loans to households remained broadly stable as compared to the previous year, while higher volumes of new loans to NFCs were recorded. Regarding the maturity composition of loans, the share of long-term loans to NFCs over total loans has been on an upward path since 2015, reaching just below 50% in 2018. In 2018, for the first time in many years banks reported some easing in credit standards for all types of new loans.

Lending rates to NFCs are on a downward path in contrast to interest rates on mortgage and consumer loans. The gradual decline in lending rates to NFCs has continued during 2018, driven by lower credit risk and the favourable effect of the financing instruments available to SMEs (e.g. by the Hellenic Fund for Entrepreneurship and Development, the European Bank for Reconstruction and Development and the European Investment Bank Group). By contrast, lending rates to households have been following an upward trend for the past four years, mainly reflecting credit risk developments, as the NPE ratio for consumer loans is particularly high and the NPE ratio for mortgage loans has been deteriorating recently as compared to other loan categories. That state of affairs is an argument for limiting the scope of the Katseli law.

At the sectoral level, NFCs are making recourse to financing from alternative sources, but important broader financial sector elements are still underdeveloped. Financing from sources other than domestic banks also contribute to the provision of finance to enterprises in Greece. The combined stock from the foreign intercompany and bank sources of funds (excluding corporate bond issues abroad) in 2018 represented around 13% of outstanding bank credit to NFCs. Leasing/hire purchase and factoring transactions currently stand at around 7% of outstanding bank credit to NFCs. The degree of underdevelopment of the factoring business suggests that the recoverability of secured and unsecured claims faces impediments. Survey data also point to the significance of trade credit from suppliers as a relevant alternative source for financing for Greek SMEs. Greek capital markets are still affected by the deep and prolonged crisis and dominated by trade in banks' securities, thus limiting the meaningful funding alternatives available to NFCs, except for some large corporates. Most of the recent corporate bonds were issued in the Eurobond markets and the capital raised was used to repay bank loans. Overall, raising capital from bond markets was and remains a difficult task for the average Greek NFC, due to country risk, low profitability and a shallow domestic investor base.

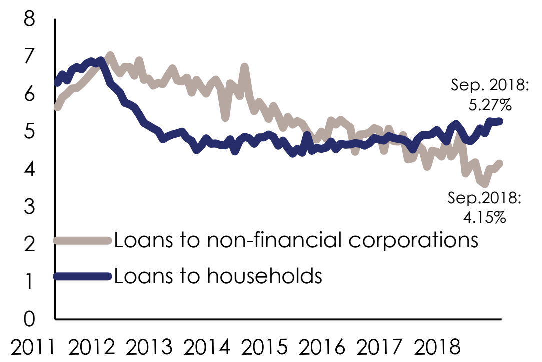
A stable and healthy financial system is important to support the efficient allocation of resources and distribution of risks across the economy. Well-managed and well-capitalised financial institutions with clean balance sheets contribute to making the financial system resistant to economic shocks. It enables financial institutions to fulfil its intermediation and risk management function at all times. Given the high NPE level in Greek financial institutions, high sovereign debt, some capital controls still in place and the very strong sovereign bank nexus, a close surveillance of the financial sector and its policies remains warranted to ensure that the sector contributes to a sustainable economic growth path in Greece. Both banks and the sovereign have to work hard to reduce the risk premia they still have to pay when looking for market funding. In particular, the government should review from that perspective all policy initiatives underway and avoid proposals which may imply a worsening of market access for both the sovereign and the commercial banks. Only strong discipline in that respect will secure a continuous and stable market access and help avoid adverse scenarios, which could imply contagion effects by impacting investor confidence and thus refinancing cost for banks and the sovereign in other euro-area Member States. At the point of publishing this report such risks seem to be contained.

Graph 5.3: **Bank credit to households**



Source: Bank of Greece

Graph 5.4: **Bank interest rates on new loans**



Source: Bank of Greece

5.2. NON-PERFORMING EXPOSURES AND INSOLVENCY LEGISLATION

Under the ESM programme, Greece has adopted a multi-part strategy to deal with the problem of non-performing exposures (NPE); its continued implementation and impact will be closely monitored in the context of enhanced surveillance. The Greek banking system is confronted with exceptionally challenging credit portfolios, holding the highest NPE ratio in the euro area. That position results from borrowers' inability to service their debt due to the deterioration of macroeconomic conditions as well as from moral hazard issues, encouraged by excessive horizontal debtor protection, unrealistic expectations created by public announcements and the inefficient operation of the judicial system. A high stock of NPEs hampers the restoration of pre-provision income and capital generation capacity which in turn is needed to meaningfully address the NPE reduction challenge. To break that vicious cycle, banks have to work hard on their cost structure and the business models, while the government should prioritise the NPE resolution by the banks and take account of that priority in any policy proposal which may affect the speed of the NPE resolution process.

NPEs have been gradually decreasing, but remain elevated, amounting to EUR 88.6 billion (just below 48% of total exposures) at end-June 2018 in comparison with the peak of EUR 107.2 billion of March 2016. The reduction of NPEs through sales accelerated over the past quarters while e-auctions appear to have produced some first results. Write-offs remain an important driver of the reduction followed by liquidations and collections. In terms of flows, in the second quarter the default rate exceeded the cure rate again. The default rate is driven by re-defaults, implying that banks are still struggling to put in place viable long-term restructuring solutions. By typology of loans, a better performance is noted in the SMEs and corporate portfolios, whereas the picture for households is mixed: although a sizeable annual reduction in the non-performing consumer portfolio was registered, the performance in the mortgage book seems to remain subdued with only a very slight annual reduction of the NPEs. In that context, it is important to note that the percentage of NPEs under the legal protection of Law 3869/2010 remains significant (14.4% of NPEs at end-June 2018) although the absolute amount of legally protected loans has remained stable. Approximately 30% of non-performing mortgage loans are under legal protection under Law 3869/2010. The coverage ratio is slightly below 50%, ranging from 33% for the mortgage portfolio and 69% for consumer loans, while NFC NPEs are covered by 53%.

The strategy adopted under the programme for tackling NPEs has included regulatory, judicial, supervisory and other actions: the creation of an active NPE servicing and sales market, the application of the Code of Conduct adopted by the Bank of Greece, revisions of the household insolvency law, the reform of the corporate insolvency law, the creation of an out-of-court workout (OCW) mechanism and an extended reform of the Greek Code of Civil Procedure, including the adoption of an electronic auctions mechanism for the liquidation of assets in the context of executory enforcement. For those reforms to bear fruit, Greece also undertook the commitment to strengthen the capacity of its courts in order to increase their efficiency in managing and accelerating the processing of their considerable backlogs of NPE-related cases and in swiftly resolving new ones.

While the progress of the implementation of those strategies and/or measures until the end of the ESM programme has not been uniformly satisfactory, there are encouraging signs in the areas of sales and securitisations (under development). However, sustainable restructuring solutions, either directly by the bank or by the servicer/acquirer of NPEs are not yet evident.

In the field of the NPE secondary market, the two first NPE sales by Greek banks were carried out in the second half of 2017 and the first quarter of 2018, involving highly provisioned unsecured loan portfolios, with a focus on consumer loans. Several additional NPE transactions have been closed in the second and third quarter or are currently underway. Completion of already conducted and currently planned transactions would bring the total face value of loans transferred by the country's four systemic banks to around EUR 20 billion.

On the front of corporate insolvency, despite a recent major overhaul of the Insolvency Code under the ESM programme and the introduction of the new profession of Insolvency Administrator, uptake by stakeholders remains slow. For instance, only 35 new cases were reported as having been filed with the relevant division of the Athens first instance court in the first semester of 2018. However, there is scope for an accelerated uptake as the numerous improvements and procedural streamlining unfold their impact, enabling bona fide individual debtors to obtain discharge three years after the declaration of bankruptcy and further simplifying and accelerating insolvency proceedings regarding SMEs. The second accreditation process for the enrolment of insolvency administrators is due in November 2018.

Regarding the performance of the regulatory framework for household insolvency and its application by the courts, beyond the steady, if limited, improvement of backlog processing, accelerated progress is expected following the latest reform that introduced measures for filtering out strategic defaulters (most notably by requiring applicants to consent to the lifting of their banking secrecy) and for expediting proceedings. The authorities committed to implementing a comprehensive action plan with the objective to eliminate the backlog of cases, including the processing of pending applications, by end-2021. During the first nine months of 2018, the backlog was reduced from some 157,000 to some 135,000 cases. Moreover, financial training should be provided to judges as a specific commitment by the end of 2018 in major metropolitan areas and by the end of the first semester of 2019 for the rest of the country to facilitate the processing of household insolvency and NPE-related cases. In order to address specific problems experienced by the courts throughout Greece, the Ministry of Justice recently sent questionnaires to all Magistrate Courts in order to gather data, identify problems and propose individually-tailored solutions, focusing on the courts whose performance has been found weakest (37 out of 154, responsible for some 56% of all pending cases). In addition, during the current quarter actions are due such as the issuance, by November 2018, of secondary legislation to facilitate the activation of State contributions to the repayment of rescheduled debts of vulnerable households (the amount budgeted for that purpose being EUR 50 million per year); the development of an online platform for the submission of the relevant applications; the assessment of the need for establishing indicative standardized templates of household insolvency court decisions by end-November 2018; and the codification of the legislative and normative framework on household insolvency by end-December 2018.

The Greek authorities have indicated their intention to proceed with adjustments of the protection on primary residences of vulnerable households under the Household Insolvency (Katseli) law which is set to expire on 1 January 2019. An adjustment would be a material change compared to the reform agreed in late 2015. More details are needed for a proper assessment to be made, and any legislative change should only be undertaken following a dialogue with all relevant stakeholders. A possible adjustment should not impede the process of NPE restructuring, should have a narrower scope and should be combined with strict conditions, including property value criteria so that such protection is better targeted on the most vulnerable in society. Another important principle is that any protection does not unduly impede the ability of banks to pursue strategic defaulters. In addition, any proposal should also eliminate practices whereby the framework is misused to block the conduct of already planned electronic auctions.

The OCW mechanism got off to a slow start in mid-August 2017, when the electronic platform for the submission and processing of applications became operational. While volume and turnover remain modest, both regulatory (the issuance of one Ministerial Decision) and technical (planned e-platform upgrades) measures are being taken to enhance the performance of the system. The latest amendments to the law, as well as a number of Ministerial Decisions, were adopted in view of the closing of the last programme review in June 2018. As for the technical aspect, the electronic platform will be upgraded in the course of the last quarter of 2018, in order to acquire the ability to collect Key Performance Indicators and monitor statistics for public and private creditors, including the tax authority, social security institutions and financial institutions. Moreover, the Secretariat for the Management of Private Debt will continue updating the platform regularly, in order to address such needs of the stakeholders as may arise going forward.

The electronic platform for the conduct of e-auctions was first put into use in November 2017. Initially, it functioned as an alternative to the highly problematic and contested conduct of physical auctions. As of February 2018, it completely replaced the latter and became the only available liquidation mechanism. The electronic platform proved a success in the sense that it allowed for the unhindered resuming of liquidation of collateral after a long moratorium on liquidations followed by a de facto blockage of physical auctions by aggressive activism throughout the country. That said, the rate of liquidations is inferior to the rate in the pre-crisis period (i.e. prior to 2010), From November 2017 to September 2018, 10,040 properties were successfully auctioned throughout Greece. Prospects look positive for the future; auctions resumed, after the judicial summer break, in mid-September 2018. Approximately 5,600 auctions are expected to take place in the last quarter of 2018 and up to end-January 2019. One preoccupying subject is the fact that to date almost four out of five successful auctions lead to the purchase of the collateral by the bank, while a large number of auctions, although conducted, are unsuccessful due to the lack of bids. Lastly, the owner and operator of the platform, i.e. the Athens notarial association, is investigating how to make the platform more user-friendly, so as to incite participation by non-specialist prospective purchasers.

Continued monitoring of the effectiveness of the e-auction framework is needed and any identified impediments should be appropriately addressed.

Regarding the monitoring of the results of the reform of the Greek Code of Civil Procedure, the authorities have agreed to conduct a biannual assessment. Moreover, by end-March 2019 an overall evaluation of the reform and quantification of its impact on the direction of achieving all objectives set over time is envisaged.

In order to further enhance the case-processing capacity of courts, the Greek authorities committed to proceeding by December 2018, with the gradual appointment of successful candidates to the public competition conducted in 2017 for the hiring of courthouse support staff.

5.3. HELLENIC FINANCIAL STABILITY FUND

In line with Greece's Eurogroup commitments, the status of the HFSF will remain unchanged and it will continue its efforts to achieve its ultimate goal of reprivatising its stakes in the systemic banks in the coming years. By the end of 2018 (specific commitment), (i) the HFSF is expected to develop a divestment strategy for the sale of its stakes in the systemic banks, and (ii) the mandate of the Selection Panel will be extended in order to be aligned with the mandate of the HFSF, i.e. until end-2022.

The HFSF is preparing the divestment strategy and is having discussions with its different stakeholders on certain aspects of the strategy, with the aim to have a reconciled and approved strategy in place by the required deadline. No progress has been reported so far by the authorities on the extension of the mandate of the Selection Panel.

The restructuring plans currently being implemented by the four systemic banks are scheduled to conclude on 31 December 2018, which may necessitate certain changes in the operational framework of the HFSF and the systemic banks, as (i) the HFSF Law grants the HFSF a number of rights and imposes certain restrictions on the banks which are also linked with the “State aid period” and (ii) the provisions of the Relationship Framework Agreements (RFAs) are also linked to a certain extent to the monitoring of the restructuring plans.([11]) As a consequence, the conclusion of the restructuring plans may make certain amendments in both the HFSF Law and the RFAs necessary. In this context, it will be warranted for the HFSF to maintain sufficient rights and tools to fulfil its objectives and tasks set out in the HFSF law, including – among others – to execute the eventual disinvestments, to continue to facilitate the reduction of NPEs and to monitor the fulfilment of the corporate governance criteria and arrangements of the systemic banks. Hence the preparations for the post-restructuring period and the formulation of the exit strategy are closely intertwined, and the HFSF is working on those two issues in parallel.

Since September 2017, the four systemic banks have been working on implementing the recommendations provided by the HFSF that followed from the second governance review carried out during the summer of 2017. The review identified significant improvements at each of the four banks concerning their boards' composition, skill and focus since the first review in 2016, but stated that (i) additional actions are needed in the areas of risk culture, compliance and internal control framework, and (ii) all the four banks require substantial time and efforts in order to implement the recommendations in full until the new governance cultures and processes become organic parts of the respective corporate cultures. As of May 2018, out of the total 169 recommendations provided to the four banks, 65 (38 %) were already closed and 89 (53 %) were in progress.

In its efforts to increase the value of its participations, the HFSF closely monitors the banks' progress on NPE resolution and supports the banks in their efforts to reduce NPEs. That support includes, among others, challenging the banks with respect to their NPE strategies and taking part as an observer in the interbank NPE Coordination Committee. Over recent months, the HFSF has also been exploring the possibility of an Asset Protection Scheme (APS), as an addition to the NPE resolution toolkit. In order to assess the scope for creating a workable structure, several important technical elements still need to be elaborated and consulted with relevant stakeholders, including Commission services and the Single Supervisory Mechanism.

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

6. LABOUR AND PRODUCT MARKETS

6.1. LABOUR MARKET

Major changes have been made to Greek labour market institutions and wage bargaining systems in recent years. Those reforms have helped restore Greece's wage competitiveness compared to euro-area partners, and have contributed to employment creation in recent years which has led unemployment to fall from 27.5% in 2013 to 19% by the end of the ESM programme.

Upon the expiry of the ESM programme, the favourability and extension principles of collective bargaining were restored. Since September 2018, eight sectoral collective agreements that were already in force have been extended to apply to the entire sector, after verification that they satisfied the requirement of representativeness (i.e. to cover more than 50% of the workforce). Some of them have resulted in increases in wages for firms in the respective sectors, such as tourism. ([12]) At this stage, it is not feasible for the Commission to assess the impact of those changes to collective barging on wage formation outcomes and competitiveness, and much will depend upon responsible behaviour by social partners in negotiating new collective agreements. The restoration of the favourability and extension principles imply a more centralised approach to wage-formation mechanisms, which may reduce the scope to cater for the specific challenges facing individual firms, many of whom continue to face considerable challenges**,** in part linked to outstanding debts. The Commission services have suggested that social partners could usefully explore the scope for opt-out clauses or temporary derogations, as part of collective agreements, to allow for greater flexibility for companies facing particular difficulties. It will be important in the future for the authorities and social partners to carefully monitor the impact of changes to collective bargaining on wage formation in light of the importance of sustaining an economic recovery that delivers strong employment growth.

The government has initiated the procedure to revise the 2019 level of the statutory minimum wage ahead of schedule. Article 103 of Law 4172/2013 provides that, following consultations with social partners and recommendations by independent experts, the government shall determine on a yearly basis the minimum wage taking into account the state of the economy and its growth prospects in terms of productivity, prices, competitiveness, employment, unemployment, incomes and wages. According to the same article, the procedure should start in February each year, and be concluded in June of the same year with the issuing of the Ministerial Decision establishing the new level of the minimum wage. In September 2018, after consultation with the European institutions, an amendment was voted that allowed advancing the procedure for the year 2019. The consultation process will therefore run from September until December 2018, and the government will set the new level of the minimum wage in January 2019. The process enshrined in Law 4172/2013 is maintained in all other respects, and according to information from the Greek authorities, the original calendar will apply again to subsequent yearly revisions of the minimum wage as of 2020.

What is most important in economic terms is that the decision on the new level of the minimum wage is taken based on a rigorous analysis of the underlying economic and labour market situation, and following a genuine process of consultation with the social partners. As outlined in Box 6.1, minimum wage levels in Greece are currently at 683.76 EUR per month, which are similar to the average rates observed in other euro-area Member States. The upcoming revision of the minimum wage therefore needs to reflect productivity and labour market developments in order to safeguard gains in competitiveness and to support the continued reduction in unemployment.

The revision of the minimum wage foreseen in early 2019 will also require a policy choice by the Greek authorities on whether to maintain or abolish the sub-minimum wage for workers

([12]) For instance, it is estimated that the extension of the collective agreement for travel agencies affected 5 117 employees who were not previously covered by it. The agreement stipulates wage floors ranging from EUR 800.15 to EUR 1,104.78 per month, depending on seniority. On top of wages, the agreement also stipulates additional benefits such as a marriage allowance (of 10% of the base wage), a child allowance (of 6% for every child), and a "scientific benefit" (of 18%) for workers holding a tertiary education degree.

under 25 years of age. The current statutory minimum wage introduced by Law 4093/2012, also introduced a reduced rate applicable to workers with less than 25 years of age. However, that legal provision was only applicable *"until the end of the economic adjustment programme*", and thus will expire once the minimum wage rates are revised in early 2019, unless primary legislation is adopted that maintains a sub-minimum wage for youth.

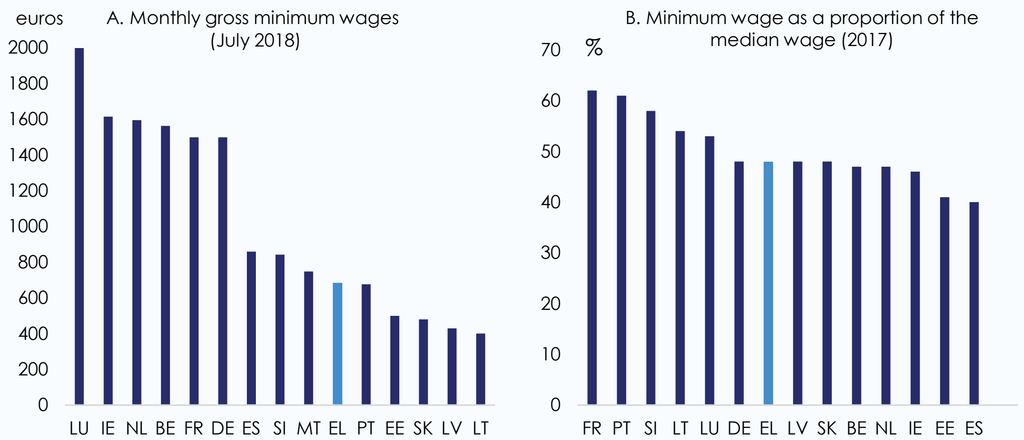
The authorities have announced their intention not to extend the sub-minimum wage for youth. It would be advisable that a final decision be taken only after a full impact analysis is conducted demonstrating that the potential impact on the employment prospects of young people is limited, given that youth unemployment levels remain highly elevated and the share of minimum-wage earners in the youth population appears to be high (41% in 2017). If the current sub-minimum were abolished and aligned with the standard sub-minimum rate, it would imply an increase of some 14.7% in one year (and that is before any potential increase in the 2019 minimum rate.

The implementation of the action plan against undeclared work is broadly on track. Undeclared work is considered to be widespread in Greece. In order to tackle the phenomenon, in 2017 the Greek authorities adopted and started implementing a detailed action plan, covering the period 2017-2019. The action plan was based on a diagnostic report produced by the International Labour Organization in the context of a technical support project and on a comprehensive roadmap, which was also endorsed by the social partners. The action plan promotes an integrated approach to undeclared work, by reinforcing cooperation among different institutions, strengthening the capacity of the labour inspectorate to detect the phenomenon and improving the incentives for compliance. Progress with the implementation of the action plan is monitored by the Supreme Labour Council, a national tripartite body. A number of actions have already been implemented between 2017 and 2018, and data from inspection results point to a general decline in the incidence of undeclared labour. A number of actions (such as the development of risk-analysis rules to target labour inspections, the enhancement of the IT system, or the development of public awareness campaigns) are being supported with Union-financed projects.

Box 6.1: **The Greek minimum wage in an EU perspective**

The current level of the minimum wage in Greece is not an outlier in international comparison. Currently, 22 out of the 28 EU Member States have a statutory minimum wage, and their level varies considerably both in absolute and in relative terms (when measured in comparison with the national average or median wage). In the euro area, in the second half of 2018 the minimum wage level ranged from EUR 400 per month in Lithuania to EUR 1 999 in Luxembourg (Graph 1, panel A). At EUR 683.76 per month, Greece lies in the lower mid-range group together with Portugal, Malta, Slovenia, and Spain.([1]) Panel B of Graph 1 depicts the national (gross) minimum wage expressed as a percentage of median gross earnings. According to this data, the ratio of national minimum to median wages ranges between 40% (Estonia, Spain) and 60% (France, Portugal and Slovenia). At 48% of the median wage, the Greek minimum wage is again in the middle range, at the same level as in Latvia, Slovakia and Germany.

Graph 1: **Minimum wage levels in the euro area**



Source: Eurostat, OECD

In Greece, as in the vast majority of EU Member States, full-time minimum wage workers with no dependants were above the poverty line in 2016. This is no longer the case for workers with a dependent spouse and children. The disposable income of a minimum-wage worker is determined by a number of other factors, such as household composition and the tax and benefit system. Graph 2 (left panel) compares the equivalised disposable income of a full-time minimum-wage earner (for a single individual and a one-earner couple with 2 dependent children) with the standard at-risk-of-poverty threshold (60% of average equivalised disposable income). The minimum wage can be used as a tool to address poverty in general and in-work poverty in particular. However, given that most research shows that it can also have adverse effects for specific groups([2]) (eg. youth, and low-skilled workers), other types of measures would appear generally more appropriate to address the poverty situation of these households, such as providing more generous family benefits and tax allowances, promoting labour market participation of

([1]) The cross-country variation is reduced when the difference in price levels is accounted for, but the ranking of Greece is not affected.

([2]) For a literature review on the effects of MW see European Commission (2016): "Labour Market and Wage Developments in Europe 2016", Chapter II.1. URL: ec.europa.eu/social/BlobServlet?docId=16423&langId=en.

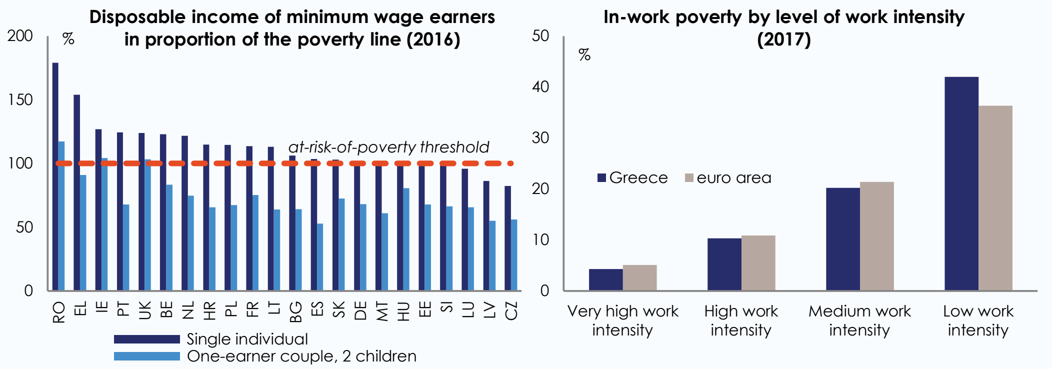
(Continued on the next page)

Box (continued)

second-earners or fighting undeclared work. Where household work intensity is low, policies such as childcare and ALMPs may enable workers to increase the working time / households to increase the number of earners.

For in-work poverty, the amount of work matters more than the level of salary. When looking at the incidence of in-work poverty, this is driven primarily by the levels of work intensity (Graph 2, right panel). Similarly, the in-work poverty rate is roughly twice as high among part-time workers than for full-time workers (14.5% compared to 7.8% for the euro area, and even 27.5% compared to 11.2% for Greece in 2017). In other words, people are at risk of in-work poverty primarily when they do not work a sufficient number of hours per month, and/or a sufficient number of months in a year. In Greece, 70% of part-time workers work involuntarily part-time. Finally, when discussing the potential effect of minimum wages on poverty, it should be recalled that a key driver of poverty is unemployment (and in particular long-term unemployment). To the extent that a high minimum wage has negative effects on employment, this can lead to an increase in overall poverty and/or undeclared work.

Graph 2: **Disposable income of minimum wage workers and in-work poverty rate**



The work intensity of a household is defined as the ratio of the total number of months that all working-age household members have worked during the income reference yearm and the total number of months the same household members theoretically could have worked in the same period.
Source: Eurostat and OECD Tax-Benefit models

Greece has a very high share of workers earning the minimum wage. Within the euro area, the share of minimum wage earners in the labour force is very low (less than 5%) in Belgium, Malta, Slovakia and Slovenia, while it can reach 20% or more in Member States such as Greece, Portugal, Estonia and Latvia.([3]) According to administrative data (ERGANI database), in October 2017 21% of workers were earning the minimum wage in Greece (see Graph 3.). The share is somewhat lower (18%) among white-collar workers, and higher (32%) among blue-collar workers. Regarding the sectoral distribution, the highest proportion of minimum wage earners (above 40%) are found in the administrative and accommodation and food services activities, followed by agriculture and arts and entertainment (around 30%).

This share is even higher among young workers. When looking at the youth population, 41% of young workers below the age of 25 were earning the youth sub-minimum wage in Greece (which is 12.8% lower than the standard minimum wage). This high percentage, and the fact that youth unemployment was still at 39% in the second quarter of 2018 underscores the need to carefully consider whether and under which circumstances to abolish the sub-minimum wage for youth.

([3]) Eurofound (2018) "Statutory Minimum Wages 2018", Industrial relations research report.

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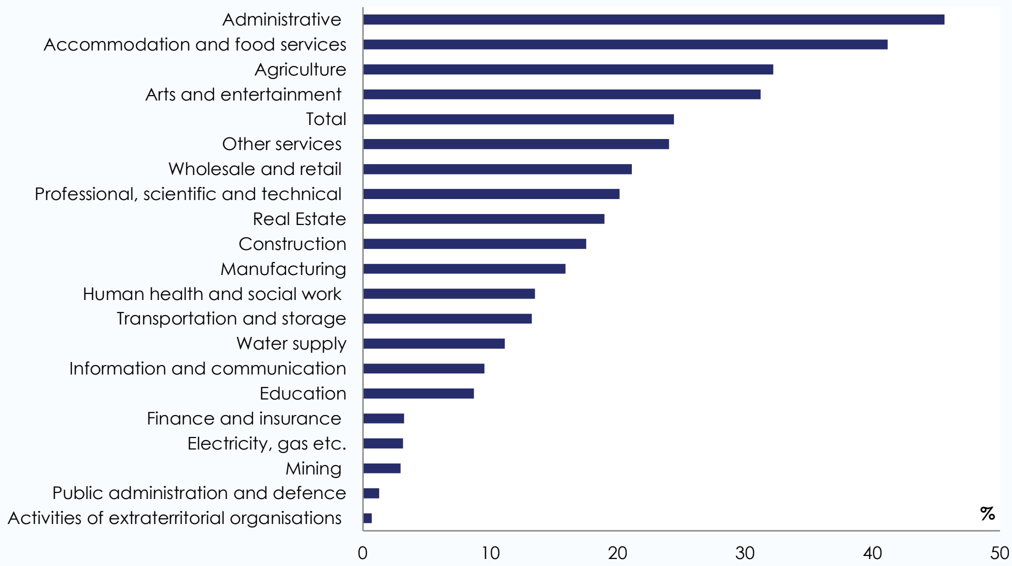
Box (continued)

Graph 3: **Share of minimum wage earners by sector**



Source: ERGANI database

6.2. PRODUCT MARKETS AND COMPETITIVENESS

One of the key objectives of the programme reforms has been to foster a sustained improvement of the business environment, so as to underpin investment activity and non-price competitiveness. The range of actions taken went from the drastic reduction in time and cost to set up a new business, to a rationalisation of licensing, inspecting and exporting procedures, to improvements in the regulation of network industries such as energy and water. In parallel, a wide range of sector-specific actions to remove barriers to competition and simplify licensing procedures have been undertaken or are in process being implemented with technical support provided by the Organisation for Economic Co-operation and Development (detailed Competition Toolkits) and the World Bank (investment licensing and inspections) through the Structural Reform Support Service (SRSS) of the European Commission.

The reforms are starting to bear fruit and contributed to a broad-based expansion in exports. Specifically, exports grew as a share of GDP from less than 20% in 2009 (EUR 45.1 billion) to more than 30% in 2017 (EUR 59.5 billion), with exports largely outpacing GDP in 2017 and first half of 2018. In their Growth Strategy, the authorities set a target for exports-to-GDP of at least 50% by 2025. Foreign Direct Investments are also recording an increase as a share of GDP in recent quarters, even though starting from a very low base. The regulatory improvements are reflected in the good performance of the "starting a business" and "trading across borders" components of the World Bank Ease of Doing Business Index([13]). However, in the overall index Greece has fallen further behind for the third year in a row, indicating that more ambition is needed to tackle bottlenecks in the other dimensions of business environment.

The authorities adopted a Growth Strategy in July 2018 containing a series of additional policy commitments with a detailed timetable

([13]) World Bank "Doing Business 2019" (October 2018).

for implementation. Those policy commitments include additional reforms to strengthen the business environment, promote social inclusion and regional cohesion, and improve environmental performance, as well as new commitments on transport, energy, and other sectoral policies. A draft of the first implementation report on the Growth Strategy has been received.

There is still much work ahead to overcome persistent structural weaknesses, especially as far as registering property and enforcing contracts are concerned. To that end, a steady progress towards completion of the cadastre would be a key stepping-stone towards protecting investors and their assets. Investments as a share of GDP are still significantly below historical trends and cross-country comparisons, reflecting not only difficulties for consumers and producers to access credit but also uncertainties on the side of investors over the commitment and ambition of the authorities in strengthening and deepening the ongoing reforms. Progress during the post-programme phase will thus be essential to signal the persistence and enforceability of the reforms.

6.2.1. Business environment

The authorities have committed to complete several key reforms in the area of product markets and competitiveness, as well as to continue and uphold the key programme reforms more generally. Several elements are worth highlighting in that context. In the area of health product markets (private clinics and day clinics), Greece has introduced several reforms to open up the relevant markets, boost competition and remove unnecessary barriers to entry. However, the Greek authorities have not yet enacted the law on private clinics (which is pending since July 2018). In the area of day clinics, the Greek authorities adopted a reform in June 2018. Nevertheless, on the basis of information and data on the practical implementation of that reform (number of applications; number of successful applications; duration of procedures), it is unclear to the institutions whether any new day clinic has yet actually been licenced under the new regime.

Under the ESM programme, Greece has started an ambitious reform project to simplify and streamline horizontal and sector-specific investment licensing procedures. The objective is to reduce the administrative burden and improve the business environment by replacing a complex system of ex-ante checks and permissions with a clear set of rules for installation and operation and a simple notification system, based on the presumption of compliance by the economic operators. To that end, most of the necessary primary legislation has been passed during the programme, leaving only specific sectors for licensing simplification for the post-programme phase, according to a roadmap defined in a decision from the Government Council for Economic Affairs (KYSOIP – Κυβερνητικό Συμβούλιο Οικονομικής Πολιτικής) issued in June 2018. A corresponding detailed action plan is being prepared by the authorities as an intermediate step for the specific commitment to finalise the simplification of investment licensing procedures in the agreed remaining sectors by mid-2020. More specifically:

- Work is ongoing to prepare enabling secondary legislation by end-2018 (specific commitment) in order to define the installation and operation licensing procedures for activities in the sector of environmental infrastructures. There have been delays with respect to the deadline for the adoption of primary legislation (October 2018), and work needs to be accelerated to make sure the end-2018 deadline can be met. Secondary legislation should only be used to clarify the procedural steps of licences described in the primary legislation, but no new licences should be introduced in that context.

- The authorities have prepared an action plan to conclude the tendering procedures for the relevant ICT system for licensing and inspections (specific commitment for end-2019). From the signature of the contract, the basic functionalities of the Integrated Licensing and Inspections Management System (ILIMS) are expected to be ready within 13 months and the full functionalities within 34 months.

- The authorities are taking first steps towards the commitment to finalise inspection legislation (mid-2020) and to revise the nuisance classification (mid-2021). An action plan for the revision of the nuisance classification is under preparation and will be finalised following consultations with the institutions. Additional secondary legislation and actions will be undertaken in the coming years to complete these actions.

The action plans for export promotion and trade facilitation are currently under review, including specific KPIs and benchmarking of best practices across the Union in order to facilitate the achievement of the Growth Strategy target of 50% exports-to-GDP ratio by 2025.

The implementation of the cadastre and forest maps road map has continued with a view to fully completing those projects by mid-2021 (specific commitments). The reform of the cadastre benefits from technical support provided by the World Bank through the SRSS. A transitional management of the newly established cadastral agency (Hellenic Cadastre) has been appointed and the procedure for the appointment of the permanent management has been launched. A custom-made monitoring tool (Project Management Information System) for the cadastral projects has been completed and is functional. More specifically:

- Seventeen new engineers have been recruited to strengthen the team that manages 72 ongoing cadastral contracts and 15 ongoing contracts for forest maps. It has however been more difficult to recruit IT staff, as the remuneration that the agency offers has proved not to be competitive for the sector. The migration of mortgage offices to the new agency is a sensitive issue. A dedicated migration team of nine senior staff has been established. There has been a delay in the merging of the first mortgage offices into the new structure, but that activity is in progress.

- The authorities have applied for Union co-financing of the cadastral mapping and in recent months they have worked on completing the requirements for the project to be eligible for such funding.

On local spatial plans, an EIB framework loan has been secured and the Ministerial Decision that will activate the loan is expected to be adopted by mid-November 2018. By the beginning of December 2018, a circular will also be issued with the determination of the fees for the tendering of the local plans. Six new special spatial plans (SSP) have received pre-approval, while one was sent back to the investor with comments. Two plans have reached the final stage and are awaiting approval (The Mall, HELEXPO).

Finally, a study will be launched with technical support through the SRSS for the systematisation of environmental legislation. It will be a complementary action to the cadastre and spatial planning aiming at facilitating citizens and investors to access and understand environmental legislation.

6.2.2. Network industries (energy, water, transport)

In the area of energy, fundamental reforms are underway, focused on opening up the sector to competition and establishing a coupled market with Italy and Bulgaria, in line with the Target Model, by 2019. The energy sector faces some structural issues: competition continues to be restricted due to the dominant position of the State-owned energy company PPC (Public Power Corporation), responsible for the vast majority of retail and wholesale supply. However the financial financial issues of PPC make investment difficult, which makes it harder to move away from the dependency on lignite. However, there are already signs of improvement.

The agreed divestiture of PPC's lignite plants is going ahead more or less according to schedule, with investors found and the Sale Purchase Agreement due to be signed. The divestment of that large element of power generation away from the national incumbent is a key step in the process of opening up the market to new entrants. Financial closure is expected in early 2019 as a specific commitment. Any investors will have to comply with unbundling rules, given their presence in electricity generation, and investors should operate those plants as independently as possible from PPC.

Another key element to increase competition and remove pricing inefficiencies, is the launching of the Target Model (specific commitment) by April 2019. Progress has been achieved here too, as the relevant rulebooks (the 'spot market' rulebook covering the day ahead and intraday markets, as well a rulebook for the balancing market) have met regulatory approval. Furthermore, the national regulator (RAE) is preparing supplementary decisions to set up the working structure of the composite markets. A national energy exchange and spin-off company for a clearinghouse have already established (EnExClear established on 2 November 2018), so the initial elements will soon be in place to start with the setting up of functional intra-day, day-ahead and balancing markets. Discussions with the Bulgarian and Italian regulators continue with regards to coupling the different markets. In that regard, the Greek Exchange is awaiting Price Coupling of Regions (PCR) certification. Although the core obligation is compliance with the Union-wide 'network codes', care should be taken to have a market that efficiently prices energy and allows further opening of the market.

The Nouvelle Organisation du Marché de l'Electricité-type (NOME) auctions, set up to facilitate fair access of alternative suppliers to the fuel mix, are achieving some success in reducing PPC's dominance, though slightly below the ambitious levels set. A review of the NOME system is foreseen during 2019, also as a specific commitment, with the goal of de-escalating the quantities put into the auctions once less energy production is in the hands of the incumbent.

There has been some progress on the financial situation of PPC, through attempts to deal with the large amount of arrears regarding end-user accounts. A a large amount of arrears is due to 'inactive' customers, either domestic users that changed supplier or commercial customers that declared insolvency. Regulatory measures may be needed here. It is essential that current efforts that seem to be bringing positive results, such as the mass mail out over the summer to customers owing more than EUR 500 million and not having paid two consecutive invoices, are continued and reinforced, in order for PPC's precarious financial situation to be further improved. Further, it is essential that PPC's tariff regime for all consumer categories will be reflective and linked to the dynamic costs structure faced by PPC. It is particularly critical due to the increase of emission allowances in 2018, to which PPC is particularly sensitive due to its significant share of lignite-fired electricity generation.

The Renewable Energy Sources (RES) support account is now in surplus. Due to the strong increase of the revenues originating from the trading emission scheme (ETS) the authorities are due to adopt a law amendment in November 2018 to abolish the supplier surcharge as of 1 January 2019 (initially planned for end of 2020). The advancement of the removal of the supplier surcharge is a positive development, as it removes a distortive levy in the electricity market and it is especially welcome that this is to be done prior to the launch of the Target Model. Coupled with the decision to abolish the supplier surcharge, the authorities are also proceeding with abolishing the so-called 'lignite fee' (as of 1 January 2019), which also contributed to the RES account, but to a much lesser extent (1.54% of overall revenues in 2017). However, in order to ensure that the RES account remains in balance it is important that the authorities proceeds, as has been agreed, to increase the share of the ETS revenues (the increase in such revenues is due to higher prices for ETS credits, which can still rise or fall) being allocated to the RES account and that any further adjustments of current revenue streams (e.g. the ETMEAR consumer surcharge), will be consistent with maintaining the established buffer (EUR 70 million). It should also be noted that although the delays incurred by RES producers to receive their payments has been reduced, the RES account still experiences cash flow-related problems, mainly due to the challenging financial situation faced by PPC.

A further positive development has been the launch of RES auctions that now take place regularly (the first was in July 2018 and the second one is planned for December 2018), allowing for some uptake of solar and wind energy onto the grid and helping investment in this that area, though questions remain about the auctions' effectiveness in sustaining developed projects.

Regarding the gas market, the restructuring and partial privatisation of DEPA, the State-owned gas company should allow more competition and further unbundling of gas supply and distribution. Following the Hellenic Competition Commission's approval in regards to the two EPA/EDA (retail and distribution companies) transactions, the relevant primary legislation, in line with the jointly-agreed Term Sheet, is expected to be adopted by the Hellenic

Parliament soon. The release of Greece's National Energy and Climate Plan should be important in setting the long-term direction of its energy strategy, including regarding renewable generation, energy efficiency and CO2 emissions reduction.

Despite the structural issues, Greece's climate and geographical positioning gives it a chance to become a strategic energy hub should the development of major infrastructure projects with the neighbouring countries proceed, such as the gas pipelines, liquefied natural gas terminals and international electricity interconnections. An example of such an international project is the EuroAsia Interconnector, which will establish a 2,000 MW electricity interconnector between Israel, Cyprus Greece (Crete – Attica) and Europe and has been labelled a 'European Project of Common Interest' (PCI). Discussions are currently ongoing between the Commission, the project promoter and other stakeholders on the phasing and overall implementation framework, which will hopefully be finalised before end of 2018 and allow the project to proceed as planned and potentially draw financial support through the Union's 'Connecting Europe Facility' for all parts of that project. It should be noted that any potential delay as concerns the completion of the interconnection between Crete-Attica is likely to trigger an adjustment in the Public Service Obligation (PSO) account, which is expected to continue to be reduced as the various interconnections with the mainland are completed. Further, Greece has the potential for solar and wind generation to be stepped up, but to do so requires both a level of investment support and a market that makes best use of them.

It will be essential to maintain momentum in energy market reforms. Ensuring that the Target Model actually allows for entrance of new players and realistic pricing is essential to underpin the future development of the energy market, combined with measures that provide the requisite support for investment in renewable sources. Technically robust interconnections with the relevant markets are vital to an effective coupling. Progress in Greece and the chance to use energy as an asset is dependent on well-implemented and governed reforms and on making the necessary investment in networks and generation, to ensure liquid markets and secure, sustainable, affordable energy for households and industry.

As for the water sector, a major reorganisation took place in the context of the ESM programme in order to ensure the sustainability, functionality and quality of the water infrastructures in Greece. To that end, legislation has been passed to ensure cost recovery while allowing for targeted social policies, putting a recently-empowered Special Secretary for Water (SSW) as a guardian of the new system, collecting data and providing advice to the actors in the sector. The new ICT system allowing SSW to collect regular information on all the water companies is on track to be operational by the end of 2018. The next steps will include the creation of a helpdesk to support small, peripheral water companies to fill in the data properly and the creation of a technical capacity within the SSW to maintain the ICT system and analyse the incoming flow of data on items such as operational and administration costs, cost recovery, status of the physical assets, human resources and investment needs.

In the area of transport, OASTH, the transport company of Thessaloniki was nationalised in 2017 in order to undertake a substantial restructuring and generate savings on an expensive private concession. Balance-sheet information shared with the institutions on the first half of 2018 indicates a successful reduction in operating costs and public transfers. Revenues appear below the target set for the company, but they are expected to recover during the second half of the year. An analysis of those results will feed into a comprehensive progress report on the reduction of State transfers, the preparation of a business plan and the definition of cost containment measures to ensure the sustainability of the company, which are expected by the end of the year.

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

7.1. HELLENIC CORPORATION OF ASSETS AND PARTICIPATIONS

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

Since its establishment, a number of key steps have been taken to enable the HCAP to create value in its portfolio. Key achievements of the HCAP so far include, *inter alia*, the establishment of the organization and staffing, the review and appointment of the boards of direct subsidiaries (Hellenic Republic Asset Development Fund, TAIPED and the real-estate fund, ETAD), the initiation of the review and appointment of the boards of the other subsidiaries (State-owned enterprises), the adoption of a Strategic Plan of the HCAP and its subsidiaries, the establishment of monitoring systems of the subsidiaries, and the re-organization plan for the real estate subsidiary ETAD.

A portfolio of State-owned enterprises (SOEs), including major water and energy utilities, transport and postal providers was transferred to the HCAP as of 1 January 2018. To increase focus on service provision and financial sustainability, the unlisted companies in the HCAP's portfolio submitted their business plans to the HCAP in April 2018. To increase accountability, the boards of those companies are also under review, while the required collective competencies and experience have been specifically examined by a special HCAP Committee for the board of each SOE. In ELTA (the national postal service), the board was replaced. In terms of reporting, the HCAP has issued timely and consistently all financial reports (quarterly, semi-annually and also the annual consolidated financial report) as well as corporate governance reports every quarter and submitted the reports to the competent corporate bodies. It has also instituted a range of governance initiatives within the SOE portfolio, in particular in relation to compliance, audit, and reporting guidelines and workshops. Those initiatives are expected to significantly increase transparency and accountability within SOEs, and ultimately improve the services they provide to the Greek public as well as their value to the HCAP as shareholder.

Regarding the management of real estate assets, the HCAP has, with the assistance of external advisors, provisionally identified and proposed a list of approximately 10,000 real estate assets to be transferred to ETAD, in addition to its existing portfolio. Due to gaps in the available data, each asset has to be screened to determine its suitability for transfer in accordance with various exceptions described in the HCAP Law (e.g. for cultural or archaeological assets). The Greek authorities, with the support of ETAD and the HCAP (if needed), are proceeding to promptly perform the final screening of the list of assets, so that the eligible assets can effectively be transferred.

ETAD is being restructured to significantly increase its effectiveness in the management of real estate assets. The first two stages of the process (diagnosis and gap analysis; design of new organisational structure) have been completed. The completion of stage 3 (mapping of new processes and systems) is in the final phase, while stage 4 (staffing) has been launched and general manager posts are expected to be filled in November 2018, whereas the posts of heads of unit are planned to be filled in December 2018. In that final stage, the objective is to ensure that the right people are in the right position, supporting employees in their effort to effectively deliver and meet the business plan challenges. That phase will be critical as it will set the conditions for the successful implementation of the reorganization within the whole company. Overall, the specific commitment on the restructuring of ETAD by the end-2018 is well on track. While the reorganisation has been ongoing, the HCAP and ETAD have been making improvements where possible. In particular, they accelerated the classification of real estate assets as well as significantly increased collection of lease receivables. Completion of the restructuring should enable ETAD management to focus fully on significantly improving ETAD’s performance. The significant improvement in ETAD's performance will remain a key challenge for the HCAP and should be a primary source of value creation.

The transfer of the Olympic Athletic Centre (OAKA), while ongoing, is subject to delays and it is not expected to be completed by the end of 2018. The transfer involves multiple stakeholders as well as a series of administrative and procurement steps, including in relation to the repair or overhaul of the asset, in order to ensure that the asset is provided in a satisfactory condition. Based on current information the deadline of 2018 is not realistic, partly due to the complexity of the issue and factors outside the authorities’ control. The authorities are also examining options for commercial utilisation of parts of the site while retaining its athletic character. This could result in a project of impressive scope. While this is welcome, it will extend the timeline for transfer. Progress since August 2018 on matters within the authorities’ control appears to have been uneven, but it is improving. An initial step, a request for the re-zoning of the site, was initiated in November 2018. An updated timeline is under preparation. Concerted efforts will need to continue to maintain momentum and ensure swift progress.

The Board of Directors of the HCAP reviewed the boards of ELTA and OASA with the assistance of external advisors. The procedure of reviewing the boards of the SOEs is ongoing (the June 2018 Eurogroup commitments include the review and replacement, as may be required, of all SOEs' boards by mid-2019). In August 2018, the HCAP voted its shares at the annual general meeting of ELTA to replace all applicable members of the ELTA board. The process for OASA is still ongoing, as there was a withdrawal of interest by two of the selected candidates. A key challenge for the appointment of new directors to the OASA board is the limited remuneration that can be offered to prospective members of SOEs' boards, considering the level of responsibility and the business activity of some of the SOEs including OASA. That state of affairs is a result of a restrictive legislative cap on remuneration, which also affects the broader process of appointing fresh directors across the SOE portfolio. Draft legislation to make the remuneration of SOE directors more competitive was submitted to Parliament before summer 2018 but was withdrawn. In order for the HCAP to proceed promptly with any necessary changes in the boards of the non-listed SOEs and be able to do so this sustainably into the future, that practical issue will need to be addressed.

An important factor of the mission and success of the HCAP is the development of the strategy for better exploitation of the assets of the Greek State that became part of its portfolio. The Strategic Plan of the Corporation, approved by the General Assembly of the HCAP in January 2018, incorporates the overall strategic approach along with the objectives and priorities for better management of the portfolio of the HCAP's assets, as well as the objectives of its exploitation, including both sectoral and financial analyses for each company. The Strategic Plan of the HCAP also sets the objectives that the subsidiaries, including the SOEs, must incorporate in their business and operational planning. The HCAP is monitoring the alignment of the business plans of the subsidiaries to the Strategic Plan and is in the process of defining and setting the quantitative and qualitative KPIs to the subsidiaries.

The HCAP has begun preparatory work for the implementation of the Coordination Mechanism, which sets out the procedures and deliverables for coordination between the State, the HCAP and SOEs, in relation to (i) the SOEs' mandates, which will define the main activities of each public enterprise (ii) a Statement of Commitments for each SOE, which will include the operational and financial objectives that each SOE must adopt to achieve its strategic goals, and (iii) a Performance Contract that will clearly reflect the mission, objectives and financing of any special obligations required by the State. The successful implementation of the coordination mechanism constitutes another key task for the HCAP in the coming months. Recent legislation in certain sectors appears to potentially overlap with the coordination mechanism, or to affect the HCAP's rights in respect of certain assets transferred to it. That possible overlap is under review. Overlaps would need to be removed, in order to give effect to the intent and balance of the coordination mechanism, as well as would be acts that impinged on the exercise of rights transferred to the HCAP.

7.2. IMPLEMENTATION OF THE ASSET DEVELOPMENT PLAN

Privatisation helps to make the economy more efficient and contributes to reducing public debt. Implementation of the Asset Development Plan (ADP) of the Hellenic Republic Asset Development Fund (TAIPED) is key to stimulate private investment, increase efficiency, and provide financing to the State. In the context of Greece's June 2018 commitments, the authorities committed to implement the ADP on a continuous basis, and confirmed their intention to complete the transactions on the Athens International Airport (AIA) concession, the former airport site Hellinikon and the Natural Gas Transmissions System Operator (DESFA) by end-2018. Further commitments were taken for the subsequent years.

Overall, there has been progress as regards the transactions scheduled to be completed by the end of 2018. More specifically,

- **Natural Gas Transmission System Operator:** On 19 April 2018, TAIPED's Board of Directors announced the preferred investor for the acquisition of 66% of DESFA against a financial consideration of EUR 535 million (for the 31% share of TAIPED, it corresponds to EUR 251 million). The procedure has advanced since then, with a recent step being the preliminary approval by the energy regulator (RAE) of DESFA's Certification as Fully Ownership Unbundled on 29 August 2018 and official notification to the Commission on the same date. The Commission's opinion on RAE's preliminary approval of DESFA's certification was adopted by the Commission on 24 October 2018, whereas the process for the "in kind" reduction of the Public Gas Corporation, DEPA's share capital was launched through the publication of the relevant announcement on the website of the competent authority (GEMI) on 9 October 2018. The last pending steps required for concluding the transaction involve the completion of DESFA's final certification by RAE; the lapse of the 60-day creditor objection period required by law as part of the "in kind" reduction of DEPA's share capital in DESFA and the completion of said process and the transfer of shares to the Preferred Investor versus payment. In brief, good progress is being made on the particular transaction and its financial closing can be realised by the end of 2018, in line with the specific commitment.

- **Athens International Airport (AIA):** In August 2018, AIA submitted an updated financial proposal of EUR 1,115 million for the 20-year extension of the concession agreement (Airport Development Agreement, ADA) which was approved by the Board of Directors of TAIPED on 14 September 2018. On 28 September 2018 AIA notified TAIPED that it obtained committed terms from the banks for the required debt concerning the financing of the ADA extension. On 15 November, the transaction was approved by the Court of Auditors. The notification to the Commission for State aid clearance was formally submitted by the Greek authorities on 16 November 2018. Several steps are still required for concluding the transaction, most of which are underway, including inter alia, the fulfilment of all the conditions precedent included in the amended ADA extension, amongst which are the approvals from European Investment Bank, the competent European authorities, and the ratification of the ADA extension by the Greek Parliament. In brief, despite the progress made, delays have occurred, which make the financial closing of the transaction by the end of 2018 very challenging. Work on all pending actions would need to be accelerated. The completion of the ADA extension will allow for the disposal through a tender offer of TAIPED's stake of 30% of AIA's share capital.

- **Hellinikon** (development of the site of the former Athens International airport): The authorities have continued the efforts to complete the conditions precedent to allow the transfer of shares to the developer. However, due to the complexity of the project, a delay is expected on the urban planning and environmental approvals as well as the award of the casino licence (the success of which depends on business interest). If the authorities continue the strong efforts, financial closing could be expected within the first quarter of 2019. In particular:

– Establishment and Operation of the Hellinikon Management Authority: Further to its establishment in June 2018, the authorities have enacted the regulation for the operation of the Authority.

– Relocation of public and private users from the Hellinikon site: The Greek authorities have almost completed the relocation, with full completion expected by the end of 2018.

– Ministerial decisions on the urban planning and environmental approvals as well as partition of the site: The Greek authorities are in close cooperation with the developer to complete all processes for the approvals. Delays occur as a result of the complexity of the project. Timely completion is a challenge. Increased efforts between all involved parties are required.

– Award of casino licence: The tendering procedure is ongoing. A delay has occurred vis-à-vis the agreed timetable as a result of the complexity of the project. Increased cooperation between the Greek authorities and the developer is required to minimise the risk of substantial delays.

- **Rolling-Stock Maintenance Company (ROSCO)**: TRAINOSE (a wholly-owned subsidiary of Ferrovie Dello Stato Italiane after its acquisition) submitted a bid of EUR 22 million for the acquisition of ROSCO in June 2018. The transaction was approved by the Court of Auditors on 3 September 2018. The completion of the transaction is expected to take place by the end of 2018.

- **In contrast, progress for the other transactions due to be completed in 2019 is relatively limited and some cases are a considerable source of concern.** Satisfactory progress is made in the case of the tender for the long-term concession of the marina of Alimos, while open issues still exist in the joint sale (along with the other strategic shareholder of Hellenic Petroleum (HELPE), PanEuropean Oil and Industrial Holdings S.A. (POIH) of a majority stake (50.1%) in HELPE, whereas for the other transactions scheduled to be financially closed in 2019 preparatory work has been done for the tendering processes. The situation is particularly problematic in the case of Egnatia, and significant delays have been experienced in the enactment of the legislative amendment for sub-concessions for the regional ports.

- **Egnatia motorway**: The privatisation process for the Egnatia motorway entails the award of a long-term concession for the operation and maintenance of the motorway and its three vertical axes. The transaction is characterised by systematic delays and problems, showing a lack of ownership. Virtually no progress is being made in the implementation of the transaction, due to various delays attributable to either Egnatia S.A. or the Ministry of Infrastructure: Regarding Egnatia S.A, there are delays in (i) the completion of toll stations under construction, (ii) the launch of the construction of all remaining frontal and lateral toll stations, and (iii) the submission of the necessary documentation for the tunnel licencing (full tunnel licensing is a condition precedent for the concession to go forward). On the side of the Ministry of Infrastructure, there are delays in (i) issuing the relevant Interministerial Decision for putting into operation the already constructed toll station of Asprovalta, and (ii) the submission of all technical specifications on the Ministry's e-toll system and associated arrangements.

- **Regional Ports**: There is significant investor interest to operate specific and/or combined port activities/services by means of sub-concession agreements in the ports of Alexandroupolis, Kavala, Igoumenitsa and Kerkyra. Following a lengthy discussion between the Greek authorities and TAIPED, the approach to be followed for sub-concessions for the regional ports was agreed in June 2018. However, the agreed legislative changes have not yet been enacted, although the authorities had committed to do so by mid-July 2018. Instead, new conditions have recently been added, which could put at risk the successful privatisation of the regional ports.

8. PUBLIC ADMINISTRATION AND JUSTICE

8.1. PUBLIC ADMINISTRATION REFORM

The modernisation of the public administration has been a critical area of reforms since 2010. That process has involved far-reaching reforms across a wide range of policy areas, including efforts to reduce the headcount and public sector wage bill in Greece towards levels typically observed in other euro-area Member States. In addition, there has been a multitude of reforms to enhance the efficiency of the public sector through better management of human resources. There have also been reforms to strengthen coordination across government, and to ensure better regulation including through a programme for the codification of legislation in key areas such as the labour market. The continuation and completion of those reforms is key to Greece achieving a sustainable recovery and the authorities have undertaken commitments to this effect for the post-programme period. The authorities have also clearly recognised the issue in the Growth Strategy, which sets out specific priorities, including reducing bureaucracy through process-based management, improve public services management by using digital infrastructure and tools, enhancing human resource management, codifying and improving legislation and tackling corruption.

8.1.1. Controlling the size of the public sector

The size of the public sector in Greece is now broadly on a par with levels in other euro-area Member States, and a key challenge for the post-programme period is to avoid a return to pre-crisis practices of excessive levels of hiring to the public sector. To that end, Greece in its Medium-Term Fiscal Strategy (MTFS) has committed to a 1:1 attrition rule over the medium term, namely to limit recruitments to one recruitment for each departure. The application of this rule will allow for new hiring to be made in priority areas whilst maintaining the overall size of the public sector at its current level. Box 8.1 presents the evolution of the public sector staff and wage bill in recent years as well as presenting figures for the current hiring plans/limits for 2018-2022.

It is expected that hirings in the general government in 2018 will exceed the attrition rule mainly due to lower than expected number of staff retiring. Given that the attrition rule will be eased from 1:3 (i.e. one new recruit for every three exits) to 1:1 as of 2019 and onwards, there should be room to re-balance and still allow the authorities to carry out new hirings of permanent staff in prioritised areas. More specifically, for 2019, the hiring plan included in the MTFS indicates around 7,000 new permanent posts under the attrition rule, up from close to 5,700 new hires expected in 2018. As concerns the temporary staff at general government entities, the authorities committed under the ESM programme to maintain the level of temporary personnel at the level of 2016 (i.e. 47,584). Data available through the census until August 2018 suggest that there could be an increase of about 1,270 staff compared to the 'baseline'. It is also noted that, the temporary personnel of legal entities of private law, which are not bound by the ceiling, has significantly increased by around 2,500 in 2018, up from a an average stock of 12,298 in 2017. In addition, in the context of the 2019 draft budget, the government has announced hirings of 4,500 teachers and that 3,000 employees for the 'Home Assistance' Programme are planned to be hired as permanent staff in 2019. However, the planned conversion of 7,500 staff is not expected to have any fiscal impact on the wage bill as the authorities have committed to a corresponding reduction of temporary staff. It should be noted that such a conversion of temporary to permanent staff is seen to be exceptional for 2019 and that the staff moved to permanent contracts are seen to be covering permanent/long-term needs.

Very close attention needs to be paid to that the authorities will fully comply with their attrition rule, as otherwise the size of the public sector could increase rapidly. Accordingly, the planning and announcements of recruitments to the public sector needs to be based on prudent estimates of estimated exits each year. Further, it also entails that all staffing categories burdening the State budget are properly reported and their salary costs paid through the Single Payment Authority, in order to allow for accurate monitoring of the overall wage bill and compliance with the limit set by the attrition rule. Given the significant efforts undertaken to bring the overall wage bill of the general government close to the Union average, it is key to avoid a return to pre-crisis practices of excessive levels of hiring in the public sector.

8.1.2. Better human resource management in the public administration

Work has progressed towards the implementation by end-2018 of the reform of managerial appointments in the public sector in line with the specific commitment. Good progress has been made with the appointments of Directors-General, with 88 out of 90 appointments completed to date. Progress on the selection procedure for Administrative Secretaries has been slower. The authorities proceeded to re-launch all problematic calls (22 in total) as had been agreed as part of the final review of the ESM programme. Further, a second selection panel (FEK B 4696/2018) was established, to further facilitate the completion of all appointments (69 in total) of the Administrative Secretaries by end of 2018. However, to date no appointment has been made and it is therefore critical that the authorities, including the Supreme Council for Civil Personnel Selection (ASEP), proceed with great urgency to complete the selection process in line with the agreed timeline. Following the completion of the selection process of the Administrative Secretaries, and considering some issues faced during the selection process, including lack of uniform minimum eligibility criteria to be applied for all posts, it is essential that the agreed independent assessment of the selection procedure will proceed as planned and be completed by spring 2019, with follow-up measures to be adopted by mid-2019.

Good progress has been made on the mobility scheme and performance assessments that Greece committed to complete by mid-2019 with the provision of technical support through the Structural Reform Support Service (SRSS). The third mobility scheme was initiated on 20 July 2018. According to data released by the Ministry of Administrative Reform (MAR), the participation of entities taking part and posting vacant positions exceeded by far the vacant positions in the previous two cycles, with applications originating from 165 entities concerning 5,481 vacant positions. Progress made to date is highly encouraging both in terms of demonstrating that (i) the mobility cycle is becoming an established tool for recruitment; and (ii) that an increasing number of general government entities have finalised their organigrams and job descriptions and can therefore take part in the mobility scheme. It is therefore even more important that the authorities continue their efforts to fully complete all transfers of the first cycle (c. 250 in total) that was initiated in November 2017 and assess whether additional adjustments are needed in order to increase the efficiency of forthcoming cycles. The first round of performance assessments was completed electronically earlier in 2018, and MAR is planning to initiate the process for the 2018 round early in 2019, in order to ensure sufficient time for the HR departments to register all relevant staff.

The authorities have taken steps towards the completion of an integrated Human Resource Management System (HRMS), a specific commitment for end-2019. The process involves several tasks: in particular, following the establishment of digital organigrams under the ESM programme, the reform foresees the completion of job descriptions for all posts in the general government. A unified software tool will be established which will link jobholders to posts and job descriptions as well as creating links to the census database and the Single Payment Authority (SPA). In addition, the integrated software platform is expected to incorporate other tools created under the ESM programme, such as performance assessments and the mobility scheme. The authorities have presented an updated quarterly roll-out plan for the completion of digital organigrams by general government entities, which should be completed by the end of 2019. To date, 411 entities have uploaded their digital organigrams, well above the target of 100 entities set for the end of September 2018. As concerns the linking of the jobholders to posts and job descriptions as well as linking it to the census database and SPA, the authorities are progressing and are expected to present a technical fiche (including a road map) before the end of 2018. The authorities have also reported solid progress on completing digital organigrams and job descriptions for all Ministries and large independent agencies (e.g. IAPR) by end-2018. However, one critical area for HR policy, also linked to the HRMS, and more specifically to the job descriptions where the authorities are urged to follow up and commit to a specific road map concerns the efforts to streamline the old, fragmented framework of the job classification in the Greek public administration, the so called '*klados*' system. The aim here is to make it consistent with the generic and specific job description framework that has been established for the general government entities, with the provision of technical support through the SRSS. The aim here is to make it consistent with the generic and specific job description framework that is currently being established for the general government entities, with the provision of technical support through the SRSS.

Notwithstanding progress on the specific commitments, from a broader perspective, a recently-adopted change in the remuneration policy of the Ministry of Finance causes serious concern regarding the integrity of the uniform wage grid introduced under the ESM programme (4354/2015). In particular, the authorities adopted a specific salary provision (Article 45, Law 4569/2018, FEK A 179/2018) that will extend the so-called "personal difference" granted to employees hired prior to November 2011, when the first uniform wage grid came into effect (Law 4024/2011, FEK A 226/2011) to employees hired by the Ministry of Finance and agencies attached to it between November 2011 and October 2018. While the direct fiscal cost of the adopted measure is negligible, it creates fiscal risks for the future – in case of a widening of eligibility across the public administration – and appears inconsistent with the spirit and the essence of the uniform wage grid by re-introducing a differentiation in remuneration by the employing entity rather than being based on seniority or responsibility of the specific position as was the objective of the reform. Given that the uniform wage grid is considered one of the key structural reforms in the public administration that was adopted and implemented during the programme period, its undermining through the adoption of the specific salary provisions for the Ministry of Finance and its agencies appears not in line with the general commitment to uphold the key programme reforms.

8.1.3. Better coordination and regulation

The 'National Council for Codification and Reform of Legislation'([14]) of adopted the national strategy on the approach to codification. The national strategy adopted (15 November 2018) will guide the legal codification work to be undertaken by Ministries and other entities (incl. completion of a unified Labour Code by mid-2020). The completion of the legal codification reform is expected to greatly facilitate access of citizens and businesses to consolidated and up-to-date legislation. In terms of proceeding to operationalise the adopted national strategy, MAR has also established relationships with the relevant services at the Hellenic Parliament as well as the 'Central Committee of Codification' (part of the General Secretariat of the Government), which has taken on a more central role since the appointment of a new Chairman and committee members in July 2018 and is expected to have a key function in the implementation of the reform. Finally, there are significant funds committed through the Operational Programme for the Public Sector Reform (part of National Strategic Reference Framework 2014-2020), which will allow for the establishment of a National Gateway for Codification and Reform of Greek Legislation by mid-2022, as well as targeted technical support provided through the SRSS.

Looking at the broader public administration reform agenda, on *inter-ministerial coordination* (IMC) the implementation plan for the manual on IMC adopted (and made publicly available) in June 2018 is yet to be updated, with the aim to better link the annual action plans of each Ministry with the annual budget cycle. In that regard, an amendment of Law 4109/2013 is expected to be adopted before the end of 2018. The General Secretariat for Coordination (GSCO) has however already collected action plans from the Ministries involved in the Growth Strategy and issued a first comprehensive implementation report of the Growth Strategy. Effective intra-governmental co-ordination, which had been lacking in Greece in the past but has been substantially strengthened over the recent years, needs to be preserved and further strengthened where necessary, in particular through continuing the efforts to strengthen the

([14]) Εθνικού Συμβουλίου για την Κωδικοποίηση και την Αναμόρφωση της Ελληνικής Νομοθεσίας

GSCO. As concerns the *legal framework for independent authorities*, the authorities are yet to provide an update as concerns (i) changes to primary and secondary legislation for the national energy regulator (RAE) and its internal operation rules; and (ii) actions to be taken following the adoption of a decision on the legal status of the Regulatory Authority for Passenger Transport (RAEM) and amendments to its primary and secondary legislation, including its internal operation and management rules as well as the issuance of decisions, rules and regulations necessary for the performance of its statutory duties.

Box 8.1: **Evolution of the public administration size and cost**

Greece entered the financial crisis with a public administration that was overstaffed with public sector employment and the public wage bill well above EU average levels. In addition, the absence of a modern human resource management system resulted in very poor allocation of resources within the administration and contributed to low efficiency in the delivery of key public goods and services. A key element of the public sector reform under the programmes consisted in the downsizing of the public sector to levels seen in other euro-area countries, to modernise HR practices. A key challenge for the future will be to continue and complete these reforms and this would involve keeping the administration's size broadly stable at its current level and avoid a return to the poor practices of the pre-crisis period.

Since 2010, a reduction of permanent staff in the public sector was achieved by introducing limits to hirings through a freeze of recruitments in 2010 and the application of an attrition rule thereafter. The attrition rule restricted the ratio of new hires to exits to 1:10 (i.e. one new recruitment for every ten exits) in 2011, 1:5 for the period 2012-2016, 1:4 in 2017 and 1:3 for 2018. Similarly, a significant restriction was placed on temporary personnel through a 50 percent decrease in approvals/renewals in 2011 compared to 2010 and a further annual decrease of 10 percent in 2012 and onwards compared to the previous year – until 2016. For the period 2016-2018, the authorities committed to maintain the level of temporary personnel at the level of 2016 (i.e. 47,584).

A framework to monitor these commitments has been put in place, but it is technically challenging and implementation is not straight forward for several reasons. First, monitoring relies on data from the *'Apografi'* (census) database, data of which are not fully comparable across the years: e.g. data for 2014 do not contain information on all categories of public employees. Second, some hirings are excluded from the attrition rule, notably those financed by local governments' own revenues (i.e. reciprocal duties). Third, recognising time lags in the selection procedures, deviations (surpluses or shortfalls) from the attrition rule can be carried over to the following year. For example, during the period 2012-2015, the actual recruitments were less than the ceiling imposed by the respective attrition rule. These "unrealised" hirings were carried over to the

Table 1: **Evolution of public sector staff and wage bill (2009-2017)**

	Permanent staff	Temporary staff burdening the budget (1)	Elected staff	Other categories	Total	Wage bill (EUR mn) (2)	Wage bill (% GDP)	Euro Area compensation of employees (% of GDP) (3)
2009	730,234	153,087	21,286	3,366	**907,973**	25,866	10.9	9.7
2010	700,962	109,968	21,286	3,262	**835,478**	23,114	10.2	9.5
2011	674,012	57,853	12,113	3,088	**747,066**	20,968	10.1	9.3
2012	654,781	41,869	12,031	3,053	**711,734**	18,823	9.8	9.2
2013	618,572	22,626	13,252	3,103	**657,553**	16,967	9.4	9.2
2014 (4)	576,856	12,833 /4	6,188	2,891	**598,768**	16,342	9.1	9.1
2015	600,484	56,385	7,149	4,773	**668,791**	15,926	9.0	9.0
2016	598,870	58,053	8,057	4,851	**669,831**	15,839	9.1	8.9
2017	602,908	59,731	8,248	5,728	**676,615**	16,254	9.1	8.8
Change compared to 2009	**-17.4%**	**-61.0%**	**-61.3%**	**70.2%**	**-25.5%**	**-37.2%**		

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

(Continued on the next page)

Box (continued)

following year and hence, the actual recruitments for the years 2016 and 2017 were above the annual hirings automatically calculated by the attrition rule. However, what is essential is that in aggregate the attrition rule was respected over time. Finally, it should be recalled that the very rapid decrease of staff seen during the first years of the downsizing was to a large part due to a significant number of exits through retirements (sometimes early) as the employees sought to anticipate the impact of planned pension reforms.

Notwithstanding of some annual/periodic deviations, the big picture remains that overall, the rules were respected. Since 2009, as a result of the aforementioned interventions, the overall number of overall staff was reduced by around 25% both through significant reductions in permanent and temporary staff (see Table 1). Moreover, the wage bill was reduced by 37% compared to 2009 and thereby brought in line with the EU average.

Going forward, for the medium-term period of 2019-2022, the authorities included in their Medium-Term Fiscal Strategy (MTFS) an attrition rule of 1:1 for permanent staff which represents 90% of total public employees. Regarding temporary personnel, there is no official commitment to a ceiling for 2019 and onwards. However, in order to maintain the public administration at its current size and cost as is projected in the MTFS, it is necessary for the number of temporary personnel to remain broadly stable in the following years. As regards specific hiring plans for 2019, in the context of the 2019 draft budget, the government has announced hiring of 4,500 teachers and 3,000 employees for the 'Home Assistance' Programme as permanent staff in 2019. At the same time, the authorities have committed to a corresponding reduction of temporary staff. Projected ceilings for permanent recruitments are presented in Table 2 and suggest the hiring of around 7,000 permanent staff in 2019 (accounting for the negative carry-over from 2018 and excluding conversions), increasing to over 8,500 by 2022.

Table 2: **Hiring of permanent personnel based on the attrition rule to be monitored in the Enhanced Surveillance Reports (2018-2022)**

	2018	2019	2020	2021	2022
Permanent staff - new hirings (as per Hiring Plan in MTFS): compliance with attrition rule (1:3 for 2018 and 1:1 for 2019-2022)	5,654	14,575	7,639	8,702	8,597

2019 figures include (a) 4,500 hirings of teachers for special education and (b) 3,000 contract conversions from temporary to permanent related to "Home assistance" program.
Source: Medium Term Fiscal Strategy 2019-2022

In addition, Table 3 shows Commission projections of temporary personnel for the period 2019-2022, which would be consistent with the MTFS wage bill projections over the period. This level corresponds to a level similar to that of 2018, adjusted downward by the conversion of the 7,500 contracts announced for 2019. The institutions will continue to monitor closely any significant fluctuations around these figures in order to avoid a return to pre-crisis practices of excessive levels of hiring in the public sector. In parallel, ongoing human resource management reforms initiated under the ESM programme, are expected to increase the efficiency of the public administration, including introducing a recruitment system focusing on prioritised needs.

(Continued on the next page)

Box (continued)

Table 3: **Indicative stock of temporary personnel for the period 2018-2022**

	2018	2019	2020	2021	2022
Stock of temporary staff burdening the budget - total number of staff contracted (1)	62,439	54,939	54,939	54,939	54,939
of which					
Temporary staff of General Government entities	47,584	40,084	40,084	40,084	40,084
Temporary staff of public entities of private law	14,856	14,856	14,856	14,856	14,856

(1) 2019 figures include corresponding reductions of 7,500 persons due to the hirings of 4,500 teachers and 3,000 persons in "Home assistance" program.
Source: Commission services

8.2. JUSTICE AND FIGHT AGAINST CORRUPTION

The first phase of the Integrated Judicial Case Management System (OSDDY/PP) is expected to be completed by end-2018 (specific commitment), to be followed immediately by the activation of the second phase. The objective of that project is to support courts and prosecutors' offices in the administration of criminal and civil processes, to provide services to the public and assistance in the operational functions of the courts. It provides, for the first time, the ability to monitor online the progress of any case pending in the participating courts. The scope of the first phase covered 41 courts including the major metropolitan areas and all degrees of jurisdiction up to the Supreme Court. The attainments perceived so far are acceleration, reduction of bureaucracy and, to a certain degree, elimination of paperwork, as well as the elaboration of standardized and more reliable statistics. The second phase will follow immediately and will cover the rest of Greece, also drawing on the lessons from the first phase. To that end, the project was extensively redesigned and upgraded as of September 2018 and its budget was increased from EUR 13 million to EUR 24 million, necessitating a revision of its timetable which is a priori justifiable in view of its expanded scope. Emphasis will be put on achieving the electronic issuance of decisions and certificates, using the electronic signature and thereby dispensing with the need for a physical presence at courthouses.

Based on that overall positive outlook, it is critical to ensure that all efforts be deployed towards the speedy and thorough implementation of all actions of the project, and more generally, of the ongoing three-year strategic plan for Justice. The acceleration of judicial proceedings, the upgrading of court functions and services and the securing of accurate and complete data in a homogeneous and standardized form, allowing for the effective monitoring and problem resolution, are decisive in the context of the contribution of justice to strengthening the business environment and attracting investment in the aftermath of the crisis.

One development that causes concern relates to out-of-court mediation. Earlier in 2018, its legal framework was thoroughly overhauled, including the introduction of compulsory mediation in some types of disputes. However, in June 2018, the Greek Supreme Court opined that certain provisions of the law are unconstitutional and incompatible with Union law in certain aspects, mainly related to the financial burden of compulsory mediation on the parties and to the professional qualifications of mediators. In response, the authorities adopted a postponement of the entry into force of the provisions in question from mid-October 2018 to mid-September 2019. That period seems unduly long; in consideration of the limited scope of the Supreme Court's findings, the issues identified should be addressed within a significantly shorter time span. The authorities should consider revising the time parameter so as to allow for the availability of the full spectrum of mediation options to the public as soon as possible, in compliance with Greece's commitment to continue the implementation of all key reforms adopted under the ESM programme.

In line with the request of the Eurogroup of 22 June 2018, the Commission has continued to

monitor developments in relation to the legal proceedings against the members of the Committee of Experts (CoEx) of TAIPED and the former President and senior staff of ELSTAT. Regarding the CoEx case, in April 2018 the Council of the Athens Court of Appeal issued a ruling referring the case to a public trial before the Athens Court of Appeal for Felonies. The ruling was appealed by the Supreme Court Prosecutor, his appeal has been recently examined by the Supreme Court Council, and its ruling is now awaited. In the EDP-related case against former ELSTAT President A. Georgiou, the Greek Supreme Court Council referred the case back to the Athens Court of Appeal Council in May 2018. In September 2018, the prosecutor proposed that the case should be referred to a public trial: the case is currently pending before the Council. The Commission will continue to closely monitor developments in both procedures to report back in the context of enhanced surveillance.

Fight against corruption. Following a reorganisation in the relevant Ministry, there have been some delays on the submission of the quarterly information/progress report on the implementation of the National Anti-Corruption Plan which Greece committed to fully implement by mid-2021. Technical support is provided through the SRSS.

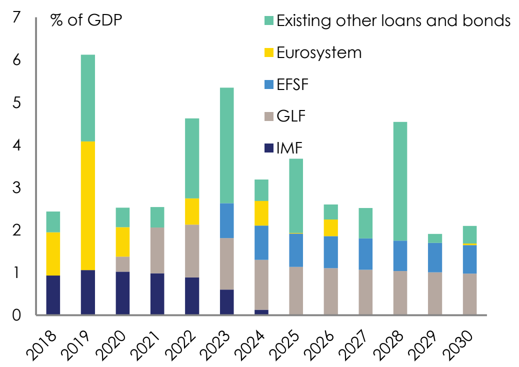
9. SOVEREIGN FINANCING AND CAPACITY TO REPAY

9.1. SOVEREIGN FINANCING

Between 2010 and 2018, Greece received assistance from the euro-area Member States which leads to a non-negligible direct and indirect exposure of them to the Greek sovereign and justifies the enhanced surveillance of Greece's economic and structural policies. Specifically, in support of the first Macroeconomic Adjustment Programme, between May 2010 and December 2011, Greece received EUR 52.9 billion of bilateral loans from euro-area Member States, pooled by the Commission under the Greek Loan Facility; in support of the second Macroeconomic Adjustment Programme, between March 2012 and February 2015, Greece received additional loans provided by the European Financial Stability Facility (EFSF) of EUR 130.9 billion([15]); and between August 2015 and June 2018 Greece received an additional amount of EUR 59.9 billion([16]) in form of loans from the European Stability Mechanism. Altogether, Greece's outstanding liabilities towards the euro-area Member States, the European Financial Stability Facility and the European Stability Mechanism come to a total amount of EUR 243.7 billion. In addition, in support of the first and second Economic Adjustment Programmes, Greece also received financial assistance from the International Monetary Fund, amounting to EUR 32.1 billion.

Towards the end of the ESM programme, Greece managed to tap markets and issue two bonds. In July 2017, Greece issued EUR 3 billion worth of government bonds with five-year maturity and a coupon rate of 3.4%, part of which was used to exchange older bonds that would have matured in 2019. Later that year, in November 2017 the Public Debt Management Agency (PDMA) successfully conducted a large liquidity management exercise, where the 20 tranches of the (relatively illiquid) so-called step bonds worth over EUR 25 billion were converted into five tranches of (more liquid) new government bonds with maturities between 2023 and 2042 and coupon rates ranging from 3.5% for five-year maturity to 4.2% for 24-year maturity. The latest issuance of government bonds occurred in February 2018, when EUR 3 billion worth of seven-year bonds were issued with a coupon rate of 3.4%.

Graph 9.1: **Medium and long term amortizations**



Source: PDMA, IMF, ESM, Commission services

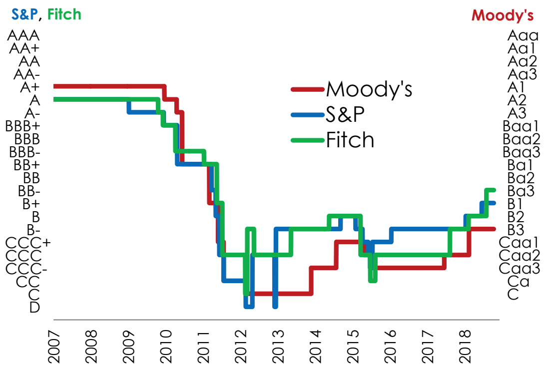
Greece's sovereign financing profile over the medium term is favourable. Due to its exceptional debt structure, the roll-over risk of Greece's public debt in the medium term is very moderate. In light of the very long average maturity of debt, financing needs in the short to medium term are relatively contained in spite of the very high debt-to-GDP ratio. In addition, the significant cash buffer will contain roll-over risk in case market access is hindered. Graph 9.1 shows the amortizations due until 2030. In 2019 there will be a minor peak in amortizations when most of the SMP and ANFA bonds fall due, but the amortisation of medium- and long-term debt will remain below 7% of GDP. In 2020 and 2021, the corresponding needs will be as low as 2.5% of GDP or EUR 5 billion. In the following decade amortizations of existing debt hover between 2% and 6% of GDP. While the environment for market issuances by Greece remains volatile, the maturity extensions of EFSF loans, once implemented by the EFSF board, will offer significant savings in debt service costs and provide an opportunity to further smoothen and extend its debt maturity profiles. Debt servicing needs are contained until 2033, when the deferrals of EFSF loans end. Together with Greece's sizeable cash buffer and projected primary fiscal surpluses, the maturity extensions and interest payment deferrals will support Greece's repayment capacity.

([15]) Net of EFSF bonds in the value of EUR 10.9 billion transferred to the Hellenic Financial Stability Facility in March 2012 and returned in February 2015.

([16]) Net of EUR 2 billion loans for bank recapitalisation which were repaid in February 2017.

Greece's credit ratings have improved, but they are still well below investment grade. All three major credit rating agencies have gradually improved Greece's sovereign credit rating. The first mover was Moody's in the summer of 2017, while most recently on 10 August 2018 Fitch upgraded its rating by two notches from B to BB- with a stable outlook, three notches away from investment grade. This came a few days after the ESM disbursed the EUR 15 billion agreed by the Eurogroup in June 2018, along with the commitment to specific medium-term debt relief measures and readiness for further measures if needed. This was the same reason for which Standard and Poor's had upgraded Greece's sovereign at the end of June 2018, though its revision was only one notch, from B to B+. Moody's has not issued any revision since early-2018, thus Greece remains in B3 on its scale.

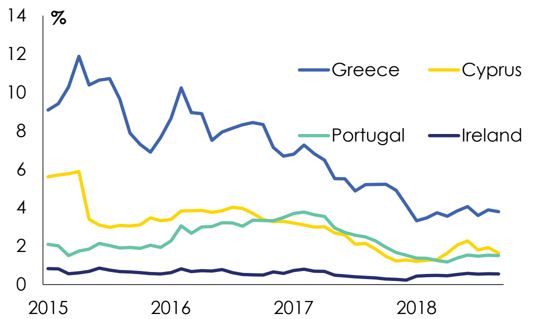
Graph 9.2: **Greece's credit ratings**



Source: Commission services

Despite the improved credit ratings, market conditions remain challenging. The spreads of ten-year government bonds vis-à-vis German Bunds have widened to some 380 basis points in October 2018 from some 330 basis points in January 2018. The volatility was also driven by contagion from Italy and emerging markets, but concerns about the banking sector and budget easing may have also contributed to the most recent spike in the ten-year from a low of 4.0% in September 2018 to 4.3% most recently. Given the challenging market developments, there have been no new issuances since February 2018. The PDMA is planning to publish an issuance calendar for 2019 by the end of 2018. The eventual issuances, if successful, would strengthen market confidence and contribute to an easier market access of the Greek private sector.

Graph 9.3: **Spreads of the 10-year government bonds to the German Bund**



Source: Eurostat

State liquidity, however is sufficient for the next two years even without new issuances. According to data provided by the authorities and Commission services' estimates the State financial buffer is expected to reach EUR 26.6 billion at the end of 2018 and EUR 15.5 billion by the end of 2019 even without new issuances.([17]) The debt-servicing needs for 2020 are estimated at EUR 10. billion, thus the estimated cash buffer would cover the State debt-financing needs well into 2021.

Issuance at expensive rates should be avoided, given the available cash buffer that covers the financing needs for several years ahead. A too-long absence from the market may, however erode investor confidence. It is therefore essential that the reform momentum is kept to support the prospects for economic activity and therefore market access.

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

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

EUR billion	2018	2019
Funding requirement		
State cash balance ('-' = surplus)	3.5	4.3
Amortisation (excl. short-term)	4.6	11.7
of which IMF	1.7	2.1
of which Eurosystem	1.9	5.8
Other (including arrears clearance)	2.0	0.0
Total requirements	**10.0**	**16.0**
Funding sources		
Market financing (medium-/long-term + repos)	11.5	4.0
Official financing	21.7	0.0
Other (including privatisation)	2.5	0.9
State deposit financing	-25.7	11.1
Total sources	**10.0**	**16.0**
Financial buffer	26.6	15.5

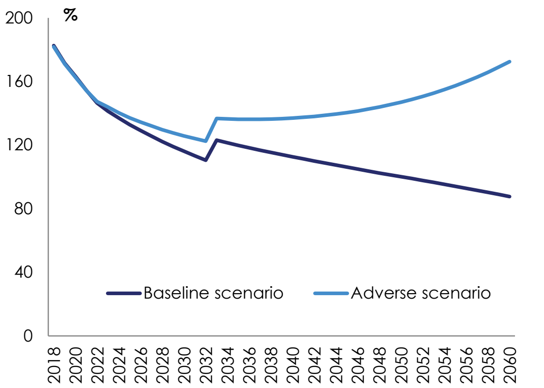
Estimates based on no-policy change scenario assuming no new market issuances for medium or long-term debt and no medium term debt measures.
Source: Commission services

9.2. DEBT SUSTAINABILITY ANALYSIS([18])

A technical update([19]) of the debt sustainability analysis carried out in June 2018 and published in the Compliance Report after the fourth review of the ESM programme shows that the assessment of the sustainability of Greece's debt has broadly unchanged. The changes since June 2018 are due to the sizable revision of the GDP level for 2017, the updated macroeconomic projections and interest payment forecast updates.

Assuming the full implementation of all the medium-term measures politically agreed in June 2018,([20]) the baseline scenario shows the debt remaining on a downward path until 2033, when the deferred interest are to be capitalised and included in the EDP debt,([21]) which results in a hike of public debt. After 2033, debt declines further but remains above 100% of GDP until 2050.

Graph 9.4: **Debt to GDP ratio**



Source: Commission services

([18]) This debt sustainability analysis is not directly comparable with the debt forecast of the Commission 2018 Autumn forecast, as it is based on a different set of assumptions regarding the medium term debt measures (see footnote 6) and the use of the states cash buffer for debt financing.

([19]) The technical update includes: incorporation of updated gross debt figures for 2017, updated GDP data and macroeconomic scenarios, updated assumption on risk free rates, updated interest and amortization payments on GLF, EFSF and ESM loans as well as other non-official loans.

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

([21]) In the programme documents, the deferred interests have been added to the debt stock in the year of their deferral. Under the EDP definition of debt, however, they should be added only once the whole deferral period is over. If market rates are assumed the same under the two approaches (which they are), the two approaches result in an identical outcome for GFN-to-GDP on the whole horizon, and identical debt-to-GDP figures after the end of the deferral period (See Table 9.2 for numerical comparison).

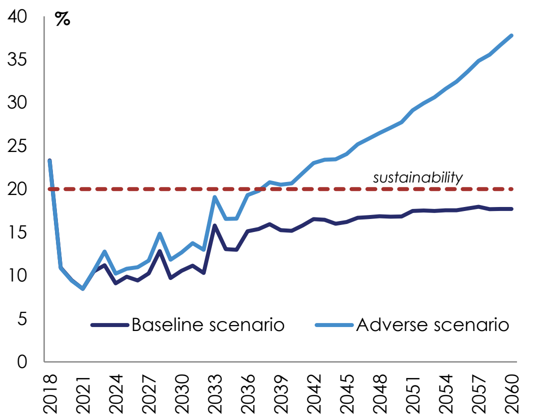
Table 9.2: **Different definitions of debt (baseline scenario, after medium term measures)**

% of GDP	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2060
Programme	186.4	176.0	168.2	159.8	152.4	147.9	144.3	140.9	138.0	135.4	133.0	130.7	128.7	126.8	124.9	123.1	87.6
EDP	182.6	171.6	163.3	154.4	146.5	141.3	137.0	132.9	129.2	125.7	122.3	119.1	116.1	113.3	110.5	123.1	87.6
difference	*3.8*	*4.4*	*4.9*	*5.4*	*6.0*	*6.6*	*7.3*	*8.0*	*8.8*	*9.7*	*10.7*	*11.6*	*12.6*	*13.5*	*14.5*	*0.0*	*0.0*

Source: Commission services

Gross financing needs (GFN) will hover around 10% of GDP until 2032. Later, GFN starts to increase slowly, but remains around 18% of GDP at the end of the forecast horizon. In the adverse scenario debt remains on a downward path until the end of the deferral period, but then starts to increase and becomes explosive from 2036 onwards. Under that scenario, GFN reaches 20% in the late 2030's and then remains constantly above it.

Graph 9.5: **GFN to GDP ratio**



Source: Commission services

Table 9.3: **Results of the baseline scenario including the implementation of all the agreed debt measures**

% of GDP	2018	2019	2020	2030	2040	2050	2060
Debt	182.6	171.6	163.3	116.1	112.6	100.1	87.6
GFN	23.3	10.9	9.5	10.6	15.2	16.9	17.7

Source: Commission services

Table 9.4: **Main assumptions underlying the DSA**

		2018	2019	2030	2040	2050	2060	Average 2019-60
Primary surplus (% of GDP)	Baseline	3.7	3.5	2.2	2.2	2.2	2.2	2.4
	Adverse	3.7	3.5	1.5	1.5	1.5	1.5	1.7
Nominal growth (%)	Baseline	2.6	3.4	3.0	3.0	3.0	3.0	3.1
	Adverse	3.0	3.4	2.8	2.8	2.8	2.8	2.9
Re-financing rates (%)	Baseline		3.8	5.1	4.7	4.3	4.0	4.6
	Adverse		3.7	5.4	5.4	5.7	6.0	5.4

Source: Commission services

ANNEX A

Table A.1: **Progress on specific reform completion commitments due end-2018 (Eurogroup annex 22 June 2018)**

Commitment	State of play
Fiscal target: Greece will fully respect its commitment to ensure that its annual budget achieves a primary surplus of 3.5% of GDP over the medium-term which respects the objectives of key reforms enacted under the ESM programme.	The Greek authorities plan to adopt a package of discretionary measures in the 2019 budget that is projected to ensure the achievement of the primary surplus target of 3.5%.
Public revenue administration: Permanent staffing positions at the Independent Authority of Public Revenue (IAPR) to reach 12,000 by end-2018.	At the end of October 2018, the staffing level was at 11,633 with an ongoing ASEP competition for 548 permanent posts close to being completed and the list of successful candidates expected to be published in November 2018.
Public financial management: Avoid the accumulation of new arrears.	The stock of net arrears in August 2018 was EUR 3.2 billion. It will be the benchmark for the first assessment for the non-accumulation of arrears in the 2nd Enhanced Surveillance report.
Health care - PHC: Ensure the rollout of the primary health care system, in particular by opening at least 120 primary health care centres by end-2018.	Based on the latest reports, around 90 primary health care units (TOMYs) have opened over the territory, with different levels of staffing across sites.
Health care – centralised procurement: The main body responsible for central procurement (EKAPY) will be set up by end-2018, with a view to achieving a share of centralised procurement in total hospital expenditure of 30% in mid-2020.	While the management board is still on temporary appointment, and EKAPY is not yet fully staffed, EKAPY has managed to finalise some old tenders and achieve savings.
Financial market - NPL resolution tools: Greece will continue to implement reforms aimed at restoring the health of the banking system, including NPL resolution efforts by ensuring the continued effectiveness of the relevant legal framework (i.e. household and corporate insolvency, out-of-court workout, NPL sales, e-auctions) and taking all necessary actions to this effect.	The **OCW** shows a net increase both in submitted applications and successful negotiations. Further upgrades to the process are planned. Regarding **household insolvency** cases, data show a constant trend of backlog reduction as well as a decrease in incoming cases. Work on further improvements is ongoing. The provision of financial training to judges is expected to start by December 2018. Plans to extend debtor protection under the household insolvency law should be subject to advance discussion, given the need to prevent a negative impact on NPE resolution efforts. The authorities provided a report on **e-auctions** conducted up to September 2018; no problems signalled.
Financial market - capital controls: Greece will continue the relaxation of capital controls in line with the roadmap on the relaxation of capital controls published in May 2017.	A further loosening of capital controls was adopted as of 1 October 2018, which allows for unlimited cash withdrawals from credit institutions in Greece and further mitigates the adverse impact on Greek businesses.
Justice: In the context of implementing the Three-Year Action Plan on Justice, phase I of the establishment of the e-justice system will be completed by end 2018.	Authorities confirmed that phase I will be completed on time.
Hellenic Financial Stability Fund (HFSF): The HFSF will by end-2018 develop an exit strategy for the sale of its stakes in the systemic banks and the mandate of the Selection Panel of the HFSF shall be aligned with the mandate of the HFSF; the independence of the HFSF will be fully respected and it shall continue to operate under commercial terms and without any political or other interference.	Preparation of the exit strategy is ongoing. No progress has been reported on the extension of the mandate of the Selection Panel.
Labour market: Safeguard competitiveness through an annual update of the minimum wage in line with the provisions of Law 4172/2013.	The authorities have advanced the next revision cycle to start in September 2018 and to be completed by February 2019. Other provisions of the law will remain unchanged.
Investment Licensing: Greece will complete the investment licensing reform, and to this end adopt all enabling licensing legislation	Secondary legislation corresponding to Article 78 of 4549/2018 (licensing procedures for environmental services) under preparation. The primary law foresaw the adoption of secondary legislation already by end-October 2018.
Energy: With a view to completing reforms in the energy sector, the agreed divestment of Public Power Corporation's lignite-fired capacity will be completed by end-2018.	An initial one-month extension to the Divestiture Period was granted by DG COMP (C(2018) 6528), and now a further extension has been granted (C(2018) 7439), which means that the full divestment will likely be completed by February 2019. Concerning any future relationships with potential investors and PPC, care should be taken to ensuring the agreement is fully compliant with the goal of opening up energy markets.
HCAP The Strategic Plan of HCAP will be implemented on a continuous basis.	HCAP is monitoring the alignment of the Business Plans of the subsidiaries to the Strategic Plan and is in the process of defining and setting the quantitative and qualitative key performance indicators to the subsidiaries.
HCAP The transfer of OAKA to HCAP and the restructuring of ETAD will be completed by end-2018.	The restructuring of ETAD is progressing. Based on current information the end-2018 deadline for the transfer of OAKA is not realistic, partly due to the complexity of the project and delays beyond the government's control.
Tenders The Asset Development Plan of TAIPED will be implemented on a continuous basis. The transactions on the AIA concession, Hellinikon and DESFA will be completed by end-2018	The financial closing of the DESFA transaction is expected for end-2018, while this deadline will be challenging for AIA. The authorities have continued the efforts to complete the conditions precedent to allow the transfer of shares of Hellinikon to the developer. Due to the complexity of the project, a delay is expected on the urban planning and environmental approvals as well as the award of the casino licence. If the authorities continue the strong efforts, financial closing could be expected within the first quarter of 2019.
Public Administration - Appointments. Greece will complete reforms to modernise human resource management in the public sector, and in particular the appointment of Administrative Secretaries and all Directors General according to law 4369/2016 by end-2018.	The process for the appointment of 88 of 90 Directors General has been completed as of end-October. The appointment of Administrative Secretaries has suffered significant delays with no appointment completed until now (out of 69 positions). The authorities have proceeded to re-launch all calls (22 in total) as per agreement reached during the final review of the ESM Programme. The establishment of a second selection panel should facilitate the selection process and timely completion of all appointments of the ASs.

Source: Commission services