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Enhanced Surveillance Report – Greece, November 2019

Communication from the Commission and accompanying Commission Staff Working Document

EUROPEAN ECONOMY

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ABBREVIATIONS

ADEDY: Ανώτατη Διοίκηση Ενώσεων Δημοσίων Υπαλλήλων (Civil Servants' Confederation)
ADMIE: Ανεξάρτητος Διαχειριστής Μεταφοράς Ηλεκτρικής Ενέργειας (Greek Electricity Transmission System Operator)
ADP: Asset Development Plan
AEDIK: Corinth Canal S.A.
AEO: Authorised Economic Operator
ALMP: Active Labour Market Services
AFCOS: Anti-Fraud Coordination Service
AFEK: Ατομικό Φύλλο Εκκαθάρισης (personal clearance certificate)
AIA: Athens International Airport
AMC: Asset Management Company
ANFA: Agreement on Net Financial Assets
APS: Asset Protection Scheme
ASEP: Ανώτατο Συμβούλιο Επιλογής Προσωπικού (Supreme Council for Civil Personnel Selection)
BoD: Board of Directors
BoG: Bank of Greece
CBD: Consolidated Banking Data
CCM: Central Committee of Mediation
CCP: Code of Civil Procedure
CDLF (ΤΠΔ): Ταμείο Παρακαταθηκών και Δανείων (Consignment Deposits and Loans Fund)
CEO: Chief Executive Officer
CET1: Common Equity Tier 1
CF: Cohesion Fund
CIT: Corporate Income Tax
CO2: Carbon Dioxide
CoCo: Contingent Convertible Bond
CoEx: Committee of Experts
CoS: Council of State
COSME: (EU Programme for the) Competitiveness of Small and Medium-Sized Enterprises
CSR: Country-specific Recommendation
DAPEEP: Διαχειριστής Ανανεώσιμων Πηγών Ενέργειας & Εγγυήσεων Προέλευσης (RES Market Operator)
DEPA: Δημόσια Επιχείρηση Αερίου (Public Gas Corporation of Greece)
DESFA: Διαχειριστής Εθνικού Συστήματος Φυσικού Αερίου (Natural Gas Transmission System Operator)
DESI: Digital Economy and Society Index
DEYA: Δημόσια Επιχείρηση Ύδρευσης Αθηνών (Athens Municipal Water Utilities)
DRG: Hospital Reimbursement Scheme
DSA: Debt Sustainability Analysis
DTAs: Deferred Tax Assets
DTCs: Deferred Tax Credits
EBA: European Banking Authority
EBF: Extra Budgetary Funds

EBRD: European Bank for Reconstruction and Development
ECB: European Central Bank
EDA Attiki: Εταιρεία Διανομής Αερίου Αττικής (Natural Gas Distribution Company of Attica)
EDP: Excessive Deficit Procedure
EFKA: Ενιαίος Φορέας Κοινωνικής Ασφάλισης (Unified Social Security Fund)
EFSF: European Financial Stability Facility
EIB: European Investment Bank
EKAPY: Εθνική Κεντρική Αρχή Προμηθειών Υγείας (National Central Authority of Health Procurements)
EKAS: Επίδομα Κοινωνικής Αλληλεγγύης Συνταξιούχων (Pensioners' Social Solidarity Grant)
EKXA: Εθνικό Κτηματολόγιο & Χαρτογράφηση (National Cadastral Mapping Agency)
ELA: Emergency Liquidity Assistance
ELSTAT: Ελληνική Στατιστική Αρχή (Hellenic Statistical Authority)
ELTA: Ελληνικά Ταχυδρομεία (Hellenic Post)
EMFF: European Maritime and Fisheries Fund
EMU: Economic and Monetary Union
ENFIA: Ενιαίος Φόρος Ιδιοκτησίας Ακινήτων (Single Property Tax)
EOPYY: Εθνικός Οργανισμός Υπηρεσιών Υγείας (National Health Insurance Body)
EPA Attiki: Εταιρεία Παροχής Αερίου Αττικής (Natural Gas Supply Company of Attica)
ERDF: European Regional Development Fund
ERGANI: Database of Registered Employment Contracts
ESA: European System of Accounts
ESKAEN: Εθνικό Συμβούλιο για την Κωδικοποίηση και την Αναμόρφωση της Ελληνικής Νομοθεσίας (National Council for the Codification of Legislation)
ESM: European Stability Mechanism
ETAA: Ενιαίο Ταμείο Ανεξαρτήτων Απασχολούμενων (Independent Professionals Social Security Fund)
ETAD: Εταιρεία Ακινήτων Δημοσίου ΑΕ (Public Properties Company)
ETEAEP: Ενιαίο Ταμείο Επικουρικής Ασφάλισης & Εφάπαξ Παροχών (Single Social Security Fund for Supplementary and Lump Sum Benefits)
ETMEAR: Ειδικό Τέλος Μείωσης Εκπομπών Αερίων Ρύπων (Special Duty for Reduction of Gas Emissions)
ETS: Emissions Trading Scheme
EU: European Union
EYATH A.E.: Εταιρεία Ύδρευσης και Αποχέτευσης Θεσσαλονίκης Α.Ε. (Thessaloniki Water Supply and Sewerage Company S.A.)
EYDAP A.E.: Εταιρεία Ύδρευσης και Αποχέτευσης Πρωτευούσης Α.Ε. (the Athens Water Supply and Sewerage Company S.A.)
FDI: Foreign Direct Investments
FEK: Φύλλο Εφημερίδος της Κυβερνήσεως (Government Gazette Issue)
GACS: Guarantee on Securitisation of Bank Non-performing Loans
GAIAOSE: State-owned Enterprise Active in the Fields of Railway Property and Rolling Stock Exploitation, Management and Development
GAO: General Accounting Office (Part of Ministry of Finance)
GDP: Gross Domestic Product

GFN: Gross Financing Needs
GGE: General Government Entities
GLF: Greek Loan Facility
GRECO: Group of States against Corruption
GSAC: General Secretariat for Anti-corruption
GSCO: General Secretariat for Coordination
GSIS: General Secretariat of Information Systems
HBA: Hellenic Banking Association
HCA: Hellenic Court of Auditors
HCAP: Hellenic Corporation of Assets and Participations
HELPE: Hellenic Petroleum
HENEX: Hellenic Energy Exchange
HFED: Hellenic Fund for Entrepreneurship and Development
HFSF: Hellenic Financial Stability Fund
HICP: Harmonised Index of Consumer Prices
HR: Human Resources
HRMS: Human Resources Management Strategy
HTA: Health Technology Assessments
IAPR: Independent Authority for Public Revenue
ICT: Information and Communication Technologies
IDIKA: Ηλεκτρονική Διακυβέρνηση Κοινωνικής Ασφάλισης Α.Ε. (Government Centre for Social Security Services)
ILIMS: Ολοκληρωμένο Πληροφοριακό Σύστημα Άσκησης Δραστηριοτήτων και Ελέγχων (Integrated Licensing and Inspections Management System)
IMD: International Institute for Management Development
IMF: International Monetary Fund
JMD: Joint Ministerial Decision
KATH: Κεντρική Αγορά Θεσσαλονίκης (Central Market of Thessaloniki)
KEAO: Κέντρο Είσπραξης Ασφαλιστικών Οφειλών (Centre for the Collection of Social Security Debt)
KEK: Κεντρική Επιτροπή Κωδικοποίησης (Central Codification Committee)
KEPA: Κέντρο Πιστοποίησης Αναπηρίας (Disability certification centre)
KEPE: Κέντρο Προγραμματισμού και Οικονομικών Ερευνών (Centre of Planning and Economic Research)
KPI: Key Performance Indicator
KYSOIP: Governmental Council for Economic Policy
LCR: Liquidity Coverage Ratio
LFS: Labour Force Survey
LNG: Liquified Natural Gas
MAR: Ministry of Administrative Reform
MFI: Monetary Financial Institution
MIP: Macroeconomic Imbalance Procedure
MoJ: Ministry of Justice, Transparency and Human Rights
MoF: Ministry of Finance
MREL: Minimum Requirement for own funds and Eligible Liabilities
MSS: Motor Service Stations
MTFS: Medium-Term Fiscal Strategy
MTO: Medium-Term budgetary Objective

MW: Megawatt
MWh: Megawatt hour
NACAP: National Anti-corruption Action Plan
NECP: National Energy and Climate Plan
NED: Non-executive Directors
NFC: Non-financial Corporation
NIIP: Net International Investment Position
NOME: Nouvelle Organisation du Marché de l'Electricité (Electricity Auction)
NPE: Non-performing Exposure
NPL: Non-performing Loan
NSJ: National School of Judges
NSRF: National Strategic Reference Framework
OAEE: Οργανισμός Ασφαλίσεων Ελεύθερων Επαγγελματιών (Self-employed Social Security Fund)
OAKA: Ολυμπιακό Αθλητικό Κέντρο Αθήνας «Σπύρος Λούης (Olympic Athletic Centre of Athens)
OASA: Οργανισμός Αστικών Συγκοινωνιών Αθηνών (Athens' Public Transport Company)
OASTH: Οργανισμός Αστικών Συγκοινωνιών Θεσσαλονίκης (Thessaloniki's Public Transport Company)
OBL: Organic Budget Law
OCC: Operational Coordination Centre
OCW: Out-of-court Workout mechanism
OECD: Organisation for Economic Co-operation and Development
OGA: Οργανισμός Γεωργικών Ασφαλίσεων (Agricultural Insurance Organisation)
OKAA: Οργανισμός Κεντρικών Αγορών και Αλιείας (Central Market of Athens)
OPEKA: Οργανισμός Προνοιακών Επιδομάτων και Κοινωνικής Αλληλεγγύης (Organisation of Welfare Benefits and Social Solidarity)
OPS-SEPE: Ολοκληρωμένο Πληροφοριακό Σύστημα - Σώμα Επιθεώρησης Εργασίας (Integrated Information System - Labor Inspectorate)
OSDDY/PP: Ολοκληρωμένο Σύστημα Διαχείρισης Δικαστικών Υποθέσεων / Πολιτικών και Ποινικών (Integrated Management System for Judicial Cases / Civil and Penal)
OTC: Over-the-counter
PCI: European Project of Common Interest
PCR: Price Coupling of Regions
PDMA: Public Debt Management Agency
PFM: Public Financial Management
PIB: Public Investment Budget
PIT: Personal Income Tax
PPC: Public Power Corporation
PRP: Primary Residence Protection
PSO: Public Service Obligation
RAE: Ρυθμιστική Αρχή Ενέργειας (Regulatory Agency for Energy)
RAEM: Ρυθμιστική Αρχή Επιβατικών Μεταφορών (Regulatory Authority for Passenger Transport)
RES: Renewable Energy Source
RFA: Relationship Framework Agreement

ROE: Return on Equity
ROSCO: Rolling-stock Maintenance Company
SAFE: Survey on the Access to Finance of Enterprises
SDR: Special Drawing Right
SGP: Stability and Growth Pact
SLA: Service Level Agreement
SME: Small and Medium-sized Enterprise
SMP: Securities Markets Programme
SOE: State-owned Enterprise
SPA: Single Payment Authority
SPV: Special Purpose Vehicle
SRSS: Structural Reform Support Service
SRSP: Structural Reform Support Programme
SSI: Social Solidarity Income
SSM: Single Supervisory Mechanism
SSW: Special Secretariat for Water
STASY: Σταθερές Συγκοινωνίες Α.Ε. (Urban Rail Transport)
SUP: Special Urban Planning
TAIPED: Ταμείο Αξιοποίησης Ιδιωτικής Περιουσίας του Δημοσίου Α.Ε. (Hellenic Republic Asset Development Fund)
TEI: Τεχνολογικό Εκπαιδευτικό Ίδρυμα (technical education institutions)
TEN-E Regulation: Trans-European Networks-Energy
TITLOS: Swap Proceeds Securitised in the Form of a Structured Finance Vehicle
TLA: Tunnel Licencing Authority
TOMY: Τοπική Μονάδα Υγείας (Primary Health Care Unit)
TSA: Treasury Single Account
UCoA: Unified Chart of Accounts
VAT: Value Added Tax
VIPE: Βιομηχανική Περιοχή (a State-owned Enterprise Whose Main Activity is the Sale of Plots of Land for Industrial Use)
WWF: World Wide Fund for Nature

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1. BACKGROUND

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

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

This is the fourth enhanced surveillance report for Greece. It is issued alongside the assessment of Greece's 2020 Draft Budgetary Plan and serves also as a specific monitoring report under the macroeconomic imbalance procedure for Greece under the European Semester, which was identified as experiencing excessive imbalances in the 2019 European Semester. This report is based on the findings of a mission to Athens between 23 and 26 September 2019 conducted by the Commission in liaison with the European Central Bank ([4]). The International Monetary Fund participated in the context of its 2019 Article IV surveillance cycle, while the European Stability Mechanism

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

([2]) Commission Implementing Decision (EU) 2018/1192 of 11 July 2018 on the activation of enhanced surveillance for Greece (OJ L 211, 22.8.2018, p. 1), Commission Implementing Decision (EU) 2019/338 of 20 February 2019 on the prolongation of enhanced surveillance for Greece (OJ L 60, 20.2.2019, p. 17), Commission Implementing Decision (EU) 2019/1287 of 26 July 2019 on the prolongation of enhanced surveillance for Greece (OJ L 202, 31.7.2019, p. 110).

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

([4]) ECB staff participated in the review mission in accordance with the ECB's competences and thus provided expertise on financial sector policies and macro-critical issues, such as headline fiscal targets and sustainability and financing needs. The review mission was preceded by a technical mission from 16 to 20 September.

participated in the context of its Early Warning System and in line with the Memorandum of Understanding of 27 April 2018 on working relations between the European Commission and European Stability Mechanism.

This report could serve as a basis for the Eurogroup to decide on the release of the second set of policy-contingent debt measures worth EUR 767 million. 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 under the European Stability Mechanism programme. To this end, the implementation of some of the agreed debt measures will be made available to Greece subject to compliance with its commitments on reform continuity and completion, based on positive reports under enhanced surveillance, in semi-annual tranches up to mid-2022. Those measures include: (i) the return of income equivalent amounts stemming from central banks' holdings of Greek government bonds under the Securities Markets Programme and the Agreement on Net Financial Assets and (ii) a waiver for the step-up interest margin for certain loans provided by the European Financial Stability Facility for the period from 17 June 2019 until 31 December 2019.

This report concludes that Greece has taken the necessary actions to achieve its specific reform commitments for mid-2019. Further actions will be crucial to complete, and where necessary accelerate, reforms. This assessment takes into account the efforts of the new administration over the last months to implement the commitments, in the context of advancing a broader reform agenda, and its willingness to prepare them in close cooperation with the institutions.

2. ECONOMIC OUTLOOK

Economic growth in Greece continued in the first half of 2019 and is forecast to remain resilient amid external headwinds. Following a weaker-than-expected start of the year, growth is expected to regain momentum in the second half and reach 1.8% in 2019 overall, a notch below the 1.9% rate achieved in 2018. Private consumption and investment are likely to be the main contributors to growth this year and the next, on the back of a solid growth in disposable income and high consumer confidence levels in market surveys, which have already surpassed pre-crisis levels. The recovery in Greece is taking place against the backdrop of a weakening external environment. Nonetheless, supported by the announced cuts in taxes on labour and capital and continued gains in export market shares, growth is forecast to strengthen to 2.3% in 2020, above the euro area average of 1.2%.

Overall sentiment and expectations underline a positive momentum. The Economic Sentiment Indicator has improved strongly since the general election of July and capital controls have been fully lifted Greece has been active on international capital markets, where interest spreads have rapidly declined to historically low levels, over and above the generally favourable developments in the European sovereign bond markets. There have been upgrades in the assessment by rating agencies, also reflective the positive and constructive engagement with the European institutions. The challenge for the Greek authorities, and indeed European partners, will be to now sustain this overall very positive momentum.

Medium-term growth performance crucially depends on strengthening investment, which is still below the euro area average. In 2018, investment in Greece as percentage of GDP was the lowest in the EU and 7.7 percentage points below the euro area average of 20.6% of GDP. Raising investment levels to recover from the years of underinvestment during the crisis is of key importance for future economic growth. Flagship privatisation projects and attracting foreign direct investment will be central to increasing private investment. Increasing public investment, first by reaching the budgetary expenditure ceilings and then extending public investment beyond the current possibilities of the budget, would further stimulate growth due to the multiplier effect.

The labour market shows further improvements and unemployment continues to decline at a steady pace. Employment is forecast to grow above 2% in 2019 and 2020, driving the unemployment rate down from 19.3% in 2018 to around 17% this year and close to 15% in 2020. Inflation is expected to be muted in the short term on the back of the recent cuts in indirect taxes and oil price developments, and to increase moderately in the medium term.

The forecast is subject to upside and downside risks, with the risks to the downside being more pronounced. Downside risks to the outlook stem from a slowdown in foreign demand, as well as a persistent under-execution of the budget targeted for public investment. Upside risks are related to the marked improvement in business and consumer sentiment, which has yet to be translated into significant increases in spending. The projection is contingent upon maintaining the reform path agreed under enhanced surveillance, including reforms in the resolution framework for non-performing loans, designed to ensure a sufficient reduction of non-performing loans and support bank credit.

3. FISCAL POLICIES AND OUTLOOK

Greece is on course to overachieve the agreed primary surplus target of 3.5% of GDP in 2019, the fifth year in a row when targets would be exceeded. This dissipates concerns that surfaced earlier this year that the adoption of fiscal measures in May 2019 would pose a risk for the achievement of the primary surplus target. These measures were maintained by the new administration. The May measures included: new settlement schemes (with 120 instalments) for debts on taxes and to social security funds and municipalities; a value added tax reduction on a selection of items; the reintroduction of a 13th monthly pension payment; and a reversal of an earlier reform of survivors' pensions. In addition, the personal income tax reform pre-legislated in 2017, which would have broadened the tax base and lowered rates in a fiscally neutral manner as of 2020, was abandoned. The fiscal cost of the May measures is currently estimated at 0.7% of GDP, lower than the 1.1-1.4% of GDP expected in the June enhanced surveillance report, on account of a lower-than-expected transfer of debts from the existing tax settlement schemes to the new scheme. The quality of these measures raised concerns given the objective to improve the quality of public finances and regarding their consistency with reforms adopted under the European Stability Mechanism programme. In July, the new administration amended the 120 instalments scheme, with a view to making it more attractive especially for businesses, and adopted a small cut in the Enfia property tax.

To ensure that the fiscal targets are met, the new administration revised spending ceilings downward to more realistic levels, while additional fiscal space was provided by additional tax revenues. The authorities reduced budget ceilings in both the ordinary (non-investment) budget and the public investment budget to take into account their persistent overestimation. This will improve the budget balance by 0.6% of GDP in 2019. The revision is partly carried over to the 2020 budget. The authorities have also developed an action plan to improve forecasting and monitoring of the public investment budget. Moreover, they adopted legislation to lay down the rules governing the development, management, financing, and implementation of the national component of the public investment budget to address its low execution. These efforts are long overdue and very welcome. The authorities are encouraged to use the fiscal space available under the budget ceilings fully to bolster the economic recovery. The fiscal outlook for 2019 has also been supported by favourable developments in revenues; mainly through a higher-than-expected participation of new debtors in instalment schemes and stronger value added tax revenues resulting also from a high growth in tourists' spending.

Against this background, the European institutions project the primary surplus, per the definition monitored under enhanced surveillance, to reach 3.8% of GDP in 2019. The forecast for 2019 assumes that the payment of the Public Service Obligation to the Public Power Corporation of around EUR 200 million will be covered from the contingency reserve, and does not take into account any possible additional one-off measures that might be adopted later in 2019 to use the available fiscal space.

This means that Greece is expected to achieve a general government surplus of 1.3% of GDP in 2019. This is well above the euro area average of a deficit of 0.8% of GDP. Greece's public finance has been in surplus since 2016 on the back of the substantial fiscal consolidation efforts during the ESM programme but under-executed public investment have also played a role. The achievement of a general government surplus is consistent with the estimated substantial decrease in the structural balance (from 5.8% of GDP in 2016 to 3.0% in 2019), signalling that the underlying fiscal stance is becoming gradually less tight.

On the basis of the information included in the 2020 Draft Budgetary Plan, the Commission forecasts Greece to meet the primary surplus target of 3.5% of GDP (a continuous specific commitment), to achieve a general government surplus of 1.0% of GDP and to respect all the requirements of the Stability and Growth Pact in 2020. The draft budget includes a package of new growth-friendly measures worth 0.6% of GDP aimed to reduce distortionary taxes and increase family-oriented social benefits. The package includes a four percentage points reduction in the corporate income tax; reform of the personal income tax, which *inter alia* reduces the tax rate from 22% to 9% for incomes up to EUR 10,000 and increases the tax-free threshold for taxpayers with children; reduction in social security contributions by one percentage point for full-time salaried persons; and a reduction in the dividend tax from 10% to 5%. In addition, the package includes a new childbirth allowance of EUR 2,000. The government has also announced additional tax cuts for 2021 and beyond but these will not be legislated now. To ensure budget neutrality, the package is complemented in the Draft Budgetary Plan by 'fiscally equivalent' measures mainly of parametric but also of administrative nature and of a similar magnitude. These measures aim to increase the yield of indirect taxes, update the tax base for the property tax, and further reduce spending targets that have not been used in previous years.

While the full set of measures is broadly budgetary neutral, it is expected to improve the quality of public finances and boost growth in 2020. The cuts in taxes on capital and labour are important, positive steps in reducing Greece's effective corporate tax and the tax wedge on labour. All taxpayers are expected to benefit from the personal income tax reform, in particular those with lower incomes and the self-employed. In addition, full-time employees, including those with incomes below the non-taxable level, will benefit from the reduction in social security contribution. The growth-friendly tax shift from distortionary to less distortionary taxes such as the value added tax or the property tax is expected to stimulate private investment and employment, and contribute to higher productivity growth and private consumption. The reform does not address the relatively high non-taxable allowance for the personal income tax, which was part of the tax reform agreed with the institutions under the European Stability Mechanism programme in 2017 and originally due to enter into force in 2020. The final bill introducing the fiscal package for 2020, as published for public consultation, includes some minor additional measures that do not have an impact on the assessment of the fiscal policy for 2020.

Greece's public finances continue to face important fiscal risks related to pensions and public sector wages. While the Council of State has recently confirmed the constitutionality of the main pillars of the 2016 pension reform, some of its elements (including the provisions for supplementary pensions and accrual rates for long careers in the main pension) will need to be adjusted. The fiscal impact of addressing these aspects may still be significant; but the authorities have committed to sustain the possible additional fiscal costs within the budget ceiling of the Ministry of Labour for 2020. Moreover, the possible negative fiscal impact will also be substantially limited by the fact that key parts of the 2016 pension reform were found constitutional and the Council of State has not granted a right for retrospective financial compensation. However, the pension rights of public sector officials are still under scrutiny by the Court of Auditors. Regarding public sector wages, the high number of temporary staff and risks related to the broadening of the scope of exemptions from the unified wage grid remain a source of concern. The potential for overshooting the fiscal target of 3.5% of GDP through underspending in the public investment budget remains but has diminished.

4. FISCAL STRUCTURAL POLICIES

Based on the findings of a technical support study, the European institutions agreed that the valuation exercise to update Enfia property tax values (a specific mid-2019 commitment) should be rescheduled so as to facilitate making a more substantial reform of the objective property tax values system by the mid-2020 deadline. In particular, the new government agreed to initiate a major widening of the property tax base for the Enfia and other property taxes. The reform set out in a detailed timetable is expected to increase the tax base of the Enfia property tax by more than 20% in time for the 2020 Enfia tax exercise and improve the fairness and efficiency of the property tax system.

The authorities announced a suspension of the value added tax on new buildings for three years to boost the construction sector. The measure risks increasing the share of the shadow economy and is currently under scrutiny with respect to compliance with EU law. The European institutions have encouraged the authorities to develop alternative measures to address the problems encountered by the building sector in Greece and to combat the shadow economy.

Progress was made on important tax measures to increase liquidity in domestic corporate bond markets by opening them up to external investors. The authorities will abolish the withholding tax on domestically-listed corporate bonds for non-residents, thus bringing the withholding tax treatment of these bonds in line with the majority of EU Member States. A similar treatment will be adopted for purchases by international investors of direct bond issuances made by banks to meet the minimum requirement for own funds and eligible liabilities.

Given the accumulation of previous delays, the end-2019 target for staffing levels at the Independent Authority for Public Revenue is unlikely to be met; however, the new government has taken important commitments to swiftly adopt agreed complementary measures to further strengthen the capacity of the Independent Authority and enhance its attractiveness to highly qualified candidates. The staff level of the Independent Authority at the end of the third quarter of 2019 reversed the negative trend observed in 2018 but remains some 1 000 persons short of the target set for end-2019. The recent approval of an additional 600 hires is a step in the right direction. The new government has committed to complete the ground-breaking human resources reforms to allow the Independent Authority to recruit and retain highly qualified personnel and also allocated the needed budget. This will phase-in a position-based remuneration system for the first time in the Greek public administration. The authorities have committed to adopt the grading legislation by end-2019 and the supplementary wage grid in time to allow the new system to come into effect as of 1 July 2020. To ensure a sufficient level of self-reliance in the day-to-day IT operations, the production of a road map by end-2019 has been agreed between the Independent Authority and the General Secretariat for Information Services to clarify their respective competencies. Finally, the authorities have confirmed that an appropriate building has been identified that will allow to host, by end-2020, all of the headquarter services of the Independent Authority that are currently scattered in 13 buildings.

The authorities will amend the basic instalment scheme with a view to facilitating the repayment of tax debts. The agreed changes make the scheme more flexible, *inter alia* by extending the maximum number of instalments to 24 or 48 depending on the type of the tax (from the current 12 and 24 instalments), and increase the incentives for staying in the scheme until the debt is settled fully. It is important for the credibility of this revised scheme that the authorities have committed not to open further new *ad hoc* instalment schemes.

The new administration has adopted a new broad action plan to clear the remaining stock of arrears by 2021, following a lack of progress under the previous plan since the end of the programme. As of end-August 2019, the stock of arrears monitored under enhanced surveillance remained high at EUR 1.3 billion compared with EUR 1.7 billion a year earlier. This is substantially above the zero arrears target at the conclusion of the European Stability Mechanism programme. The new action plan aims to bring the net stock of arrears down to EUR 1 billion by December 2019 and to fully clear arrears by end-2020, with the exception of EUR 140 million for pension claims that would be cleared by June 2021. The plan tackles the main challenges of arrears clearance and is accompanied by a number of legal, administrative and IT actions to achieve its objectives.

Measures to avoid the creation of new arrears (a specific mid-2019 commitment) are in the pipeline, but will require more time to be designed and implemented fully. The Hellenic Court of Auditors, in its follow-up audit, noted that progress had been made on most of its recommendations; but some of the key recommendations will require more time, also in view of the very short period elapsed since its first audit. As part of the new Clearance action plan, the authorities will establish a Steering Committee by Ministerial decision to ensure a timely implementation of both the clearance plan and the plan against accumulation of new arrears. The remaining *ex ante* audits by the Hellenic Court of Auditors for the extra-budgetary funds and local governments were phased out as envisaged.

The implementation of the Treasury Single Account and the Unified Chart of Accounts remain broadly on track. The full implementation of the Treasury Single Account by end-2019 will require some additional work but is progressing well overall. Regarding the Unified Chart of Accounts, the new government created a Steering Committee to oversee the project and took some initial steps to implement the chart of accounts also in the public investment budget; but greater clarity is needed as to its full implementation in this area.

5. SOCIAL WELFARE

The Council of State has confirmed the constitutionality of the main elements of the 2016 pension reform, but some of its aspects will need to be amended. The authorities are elaborating proposals to address the issues raised by the Council of State ruling and have committed to find solutions to contain the cost of the necessary amendments within the budget of the Ministry of Labour for 2020. However, the Second Chamber of the Court of Auditors has recently reached an opposite conclusion regarding pension rights of public sector officials compared to the Council of State decision, which creates additional uncertainty.

The collection of the 2018 clawback of healthcare expenditure (a specific mid-2019 commitment) has been delayed on account of changes in the repayment schedule, though the needed legislation will enter into force shortly. The start of the collection, originally planned by June, was affected by the authorities' decision to extend the maximum repayment period for the clawback up to 120 monthly instalments. Although most providers are expected to repay within five years, the change still results in an overall dilution of payments and worsens the liquidity situation of the Health Fund. The European institutions have encouraged the authorities to step up efforts in this area.

The authorities plan to take a number of steps to rationalise health care spending, which could reduce clawback in the medium and long-term, the ambition of which will need to be commensurate with some of the recent steps going in the opposite

direction. The authorities plan to establish a national cancer registry and a Health Technology Assessments Agency, to strengthen the Drug Negotiating Committee and step up the work on the development of clinical protocols, as well as other actions. These are all steps in the right direction though their impact is expected to materialise only in the longer term. At the same time, the authorities have delayed the annual update of the price bulletin, which usually leads to a downwards revision of pharmaceutical prices, and intend to eliminate the 25% entry fee for innovative drugs. Both these measures potentially increase the amount of clawback in the coming months.

Progress towards mid-2020 commitments to increase the share of centralised procurement for hospital expenditure and to consolidate the network of health care providers is slow. Nonetheless, the authorities remain committed to the reform and plan to reshape the recently established central procurement body to increase its flexibility and efficiency in the medium term. With technical support provided through the European Commission, the authorities have also made progress in updating the hospital reimbursement scheme. It will be important for the authorities to further build on the progress made.

The authorities paused the opening of additional health care centres to reconsider the most suitable structure of delivery of primary health care, though they have signalled their intention to preserve the fundamentals of the already legislated reform. As a result, in the next six months the opening of at most ten additional primary health care units is considered feasible. The timeline for the introduction of key features of the reform, such as compulsory registration with a family doctor and gatekeeping functions, is yet to be clarified.

Regarding social policy, the reform of the disability benefits framework (a specific mid-2019 commitment) is advancing but with significant technically-related delays outside the control of the authorities. While the upgrading and simplification of the administrative processes to determine disability status is progressing, the new approach to determine disability status based on both medical and functional assessment is still to be adopted. The new methodology should have been developed on the basis of the results of a pilot project which encountered delays for reasons outside the control of the authorities. A revised timeline will be agreed once the evaluation is received: provided the evaluation is available shortly, a concept paper on the reform should be available by February and the reform undertaken by June 2020.

The specific end-2019 commitments on the completion of the Social Solidarity Income scheme and a review of subsidies for local public transport remain on track. The authorities have completed the second pillar of the Social Solidarity Income scheme – social inclusion –and work is underway on the third pillar, which relies on the provision of active labour market services to help the recipients of the scheme (re-)enter the labour market. To achieve this, the authorities are developing a more systematic approach to the design and management of the active labour market services, which has been tested and should be gradually expanded following its evaluation. Regarding the upcoming review of the system of subsidies for local public transport, the authorities have confirmed their commitment to assess the appropriateness of the current system of subsidised fares for local public transport by the end of 2019, and to follow up on eventual recommendations to improve the system.

6. FINANCIAL SECTOR POLICIES

The liquidity situation of Greek banks has further improved and there are signs that the banks' market access is gradually re-established but legacy risks and challenges remain high. Banks continue to face a large stock of non-performing loans, while other challenges persist, such as the fragile profitability and the strong sovereign-bank nexus, including through the high share of deferred tax credits in banks' capital. Going forward, the Greek banking sector is faced with the challenge of boosting its resilience and accelerating the reduction of non-performing loans, while improving its ability to finance growth.

The improving liquidity situation of Greek banks and increased depositor confidence led to the complete lifting of capital controls as of 1 September 2019 (a continuous specific commitment). In the first nine months of 2019, banks' private sector deposits have increased by about 3.5% and the emergency liquidity assistance was fully repaid in the beginning of the year. Whilst the abolition of capital controls normalises the functioning of the Greek economy and is supportive for confidence building, it places even more importance on accelerating efforts to strengthen the banking system and underpin depositor confidence.

The pace of reduction of the non-performing loans accelerated in 2019 but levels remain very high. Non-performing loans in the Greek banking system peaked in March 2016 at EUR 107.2 billion or 48.8%. The pace of decline in non-performing loans has accelerated since 2018, reaching 45.4% and 43.6% of total customer loans at end-2018 and mid-2019, respectively. This was overall in line with the operational targets set by the four systemic banks, under the oversight of the supervisory authority. While the non-performing loans ratio remains very high, the recent acceleration in the pace of reduction of the non-performing loans is more pronounced in absolute terms: the stock decreased to EUR 75.4 billion by end-June 2019, i.e. by EUR 13.5 billion or 15% year-on-year. For the coming years, the four systemic banks plan to further substantially reduce non-performing loans to EUR 26 billion or 19.2% by end-2021. To this end, additional efforts will be needed by both banks and the authorities: banks will need to accelerate 'organic' resolution activities for the non-performing loans and strengthen efforts to identify and adequately address strategic defaults, while the authorities are expected to ensure that the legal framework and the judicial system are able to efficiently support the resolution of non-performing loans.

Systemic initiatives, like the Hercules asset protection scheme, can help clean up the balance sheet of Greek banks. Under the scheme, each bank may transfer non-performing loans to separately managed Special Purpose Vehicles, which may issue junior, mezzanine and senior notes, with a state guarantee for the senior notes. In exchange for the guarantee offered, the state will receive remuneration at market terms. External servicer companies will manage the assets. In October 2019, the Commission concluded that the scheme, which is similar to the Italian Guarantee on Securitisation of Bank Non-performing Loans scheme, does not constitute State aid within the meaning of Article 107 (1) of the Treaty on the Functioning of the European Union.

The focus now falls on completing the design of the asset protection scheme and commencing its swift implementation. Participation in the scheme is voluntary, while the envelope of guarantees could support a substantial de-recognition of non-performing loans for all banks. The current improvement in sovereign financing conditions provides an opportunity for banks to achieve a relatively low price for the state guarantee, though market risk needs to be taken into account. The success of the scheme will, inter alia, depend on the balance of regulatory capital gains, guarantee related expenses and losses stemming from the sales of notes to the investors. The scheme will run for 18 months, with the possibility of renewal. The authorities could also explore additional measures, including complementary schemes, to further support the health of the banking sector.

The authorities are working on a range of initiatives to strengthen the resolution framework for non-performing loans, though there is scope to accelerate the pace of implementation. The implementation of the actions outlined below is monitored and assessed under enhanced surveillance as part of the **continuous specific commitment** to *"continue to implement reforms aimed at restoring the health of the banking system, including non-performing loans resolution efforts"*.

- **Electronic auctions:** Despite progress in the first semester of 2019, the majority electronic auctions continue to be cancelled or suspended, or have failed due to lack of interest among bidders, and most of the successfully auctioned real estate assets are still acquired by banks. Identified impediments leading to the cancellation or suspension of e-auctions due to procedural abuse are currently under assessment. The Greek authorities have established a working group to assess the extent of the problem as well as other potential impediments, in order to define and recommend the necessary mitigating measures. The authorities have provided an initial analysis of the reasons for the above *status quo*, and committed to providing a full report shortly.
- **Backlog of household insolvency cases:** The elimination of the backlog of cases at courts in the context of the household insolvency framework (a specific end-2021 commitment) remains significantly behind schedule. It is key for the authorities to increase the processing capacity of magistrate's courts in order to achieve full elimination of the backlog, including cases created under the new primary residence protection regime, by end-2021, via the elaboration of an appropriate updated action plan by end-December 2019. The European institutions have encouraged the authorities to assess the change in numbers of cases in the past (processed cases vs. inflows of new incoming cases) and present adequate measures to anchor the projected path of the elimination of the backlog by end-2021.
- **Tax treatment of write-offs:** An amendment reinstating the favourable tax treatment of loan write-offs that had expired at the end of 2018 for restructurings made up to end-2019 is currently in public consultation. The relevant provision stipulates that the amount of the write-off will not be considered as an income of the debtor and will be exempted from the tax levied on donations. This addresses the disincentives to restructurings caused by the expiry of the previous tax treatment.
- **Primary residence protection:** Following the launch of the electronic platform in summer 2019, the measure was approved by the Commission under the state-aid rules. The authorities have undertaken amendments to the framework and the IT platform to facilitate applications. They intend to prolong the scheme by four months and terminate it by end-April 2020. While such a technical delay could help

increase the uptake of the scheme from its current low levels, it slows down the normalisation of payment culture. The authorities have also committed to accelerate the work on the harmonisation of insolvency frameworks. The institutions will report on the completion of both elements under enhanced surveillance. Under the new framework, it would be warranted to ensure the free enforcement of all collateral including primary residences, which would help normalise the banking sector's credit provision to the economy.

- **Insolvency framework:** Preparatory work on the harmonisation and integration of the bankruptcy and insolvency regimes has started. The elaboration of a well-defined and systemically consistent unified framework is highly desirable, and should be entrusted to a law-drafting committee and be effected without undue haste but in a holistic and technically thorough manner. The authorities have drafted a concept paper as a basis for the elaboration of a draft new single insolvency framework by end-April 2020, which sets out the basic objectives of this reform.
- **Code of Civil Procedure:** Progress with assessing the implementation of the reformed Code of Civil Procedure is underway but behind schedule, due to inherited delays. On the basis of stakeholder consultation, the relevant working group is currently conducting a comprehensive evaluation of the reform. Its work will be followed by the formation of a law-drafting committee that will draft potentially requisite amendments to be adopted by the end of 2020.
- **Financial training of judges:** The authorities reported further progress in the provision of financial training to judges, notably in the area of household insolvency. Two draft Presidential Decrees were submitted to the Council of State for the required constitutionality assessment. The authorities are also proceeding with the appointment of clerical court staff, an action which has been subject to considerable delays.
- **Legal safeguards for bank officials dealing with restructuring cases:** An amendment to the Penal Code aiming at addressing the issues of pending court cases against bank officials involved in past debt restructurings, and the protection of these officials in the context of ongoing and future restructurings has been adopted. The impact of this legislation in the context of the Greek legal framework will be monitored under enhanced surveillance.
- **State guarantees:** In September 2019, the backlog of called loan guarantees by the state remained considerable and increased since the previous report largely due to an increase in claims by the banking sector, despite efforts to accelerate the processing rate. The authorities have presented an updated action plan and a corresponding seven-year payment plan for the clearance of the EUR 2 billion stock of guaranteed loans called by commercial banks. The action plan aims to deal with bottlenecks in cooperation with banks, while strengthening human resources at the General Accounting Office and upgrading the IT framework. Taking into account *inter alia* the long lag from the time the guarantees were called, which for some dates back to 2012, the authorities are seeking scope for a payment profile not exceeding four years with adequate measures to ensure its credibility.

The Hellenic Financial Stability Fund continued exercising its shareholding rights in the four systemic banks, contributed to non-performing loans resolution polices

and improved their governance. The Fund as a shareholder evaluated and approved several divestments, challenged banks' strategies and policies and contributed to non-performing loans reduction policies. By October 2019, banks have mostly implemented the recommendations of the Fund from the 2017 board performance and governance review, which focused primarily on the banks' risk management culture, compliance and internal control frameworks. The implementation of the Fund's divestment strategy approved in 2018 is in its first, preparatory phase, where the Fund aims to effectively challenge the banks' strategies and the business models to promote value-enhancing initiatives. Discussions between the Fund and the Ministry of Finance on the potential involvement of other authorities in the final stage of the divestment and the legal protection for the Fund's governing bodies and staff have not been concluded yet. The preservation of independence of the Hellenic Financial Stability Fund is a cornerstone in the process toward restoring the health of the banking sector.

7. LABOUR MARKET

The authorities committed to continue monitoring labour market and wage developments and intend to conduct an ex post assessment of the recent increase in the minimum wage. This exercise will benefit from technical support from the World Bank, provided through the European Commission, and its results are intended to feed into the next minimum wage review in 2020.

The authorities are on track to complete the implementation of an action plan to fight undeclared work for 2017-2019 by end-2019 and are preparing a follow up. The current action plan promotes an integrated approach to undeclared work, including measures to reinforce the cooperation among different institutions and improve the capacity to detect undeclared work. The authorities will design a follow-up to the action plan, after an *ex post* evaluation of all implemented measures will have been completed through technical support provided through the European Commission. These measures have been accompanied by a number of additional recent steps to encourage work in the formal economy and to limit the abusive use of part-time work, which often masks undeclared full-time work. These notably include an increase in the overtime remuneration for part-time workers and the expansion of the employment registration system allowing it to cover also non-standard forms of employment. In 2020, the government is also planning to introduce a digitalised system for the recording of working time.

The new Development Bill of October 2019 introduced a number of changes to the collective bargaining framework. The Bill introduces the possibility of opting out from sectoral-level bargaining for certain businesses. It also amends the procedure for the extension of sectoral agreements that is no longer automatic, but at the discretion of the Minister of Labour subject to specific conditions. Other new elements include the creation of a public registry for employer associations and for trade unions in order to better verify their representativeness, and a restriction to the unilateral recourse to arbitration. It remains to be seen how these changes will affect collective bargaining in practice. While the new requirements for the extension of collective agreements may reduce the incentives for sectoral-level bargaining, the opt-out possibilities – if taken up by the social partners – may promote social dialogue both at firm and at sector level.

The new government has embarked on an ambitious programme of reforms aimed at modernising the education system and bringing it closer to good practice. This impetus is welcome and long overdue in view of long-standing challenges, including inefficient allocation of resources, low autonomy, poor educational outcomes, skill mismatches, and weaknesses in the governance of higher education institutions.

8. PRODUCT MARKETS AND COMPETITIVENESS

Although there are few product market and competitiveness reform commitments with a deadline relevant to this enhanced surveillance cycle, it is worth stressing that key structural reforms in this vital area have been initiated under the programme and will require several years of sustained implementation, so as to secure a lasting improvement in the business environment, investment and growth. Broad-based structural reforms initiated in recent years have already started to improve the functioning of Greece's product markets. Greece's exports market shares are expanding and foreign direct investment is on an upward trend, albeit from a very low level. However, further efforts will be needed to close Greece's sizeable investment gap and to improve Greece's ranking in comparative international competitiveness indicators. Long-standing weaknesses include registering property and enforcing contracts, while there is also significant scope for catching-up in the fields of digital economy, product market regulation and competitiveness at regional level.

The new administration has signalled its intention to pursue a strongly pro-growth and investment policy agenda. Since entering into office, the government has taken a number of initial steps that pave the way towards improving the business landscape. This has included legislation to foster the transition to a 'digital state', improve the quality of legislation, and advance legal codification. The administration is also taking first steps towards a coordinated approach to promoting the outward orientation of the Greek economy, where there is scope for a much more ambitious strategy. Progress with rebalancing the economy towards promising export-oriented sectors such as the agricultural and agro-food, tourism, transport and logistics and high-tech sectors, including through the development of smart specialisation strategies, would help strengthen the current account and redress the very negative and deteriorating net international investment position.

Further measures have been introduced, through the recently adopted Development Law. Amongst others, they include the alignment of the nuisance classification system to the environmental classification, which is harmonised with relevant EU legislative acts, the reduction of licensing requirements, and the development of a Single Digital Map to provide clarity and transparency on land use rules to investors, as well as changes in spatial planning to accelerate major investment projects.

The government is off to a good start in terms of launching initiatives to strengthen the business environment and is planning further actions to streamline regulatory processes and stimulate investment in key sectors. Indeed, it is essential to provide sustained certainty and greater incentives to investors. To that end, the government has indicated that it will continue to prioritise further actions on rationalising and expediting the licensing process, notably in relation to environmental licensing. This would be particularly important for boosting investment, especially in activities of high economic impact, as would further actions to review the land use and licensing framework in Attica, and to strengthen enforcement mechanisms.

To guide the completion of the investment licensing reform, which is part of the specific commitments up to 2022, the new administration has produced revised action plans. According to the revised plans, the authorities commit to meeting the deadlines set out under the enhanced surveillance framework. Nonetheless, previous delays have made conforming to some reform elements more challenging (i.e. on the simplification of legislation in the 24 sectors not yet covered by the investment licensing reform and on the development of tools for the environmental domain of the inspection framework). It will thus be key that the government commits adequate resources to the process. As regards the review of the nuisance classification, the authorities have committed to align this system with the environmental classification system by mid-2020, in line with the relevant provision included in the recently adopted Development Law, a year earlier than the commitment deadline. Furthermore, the work on the tendering procedure on the relevant IT system, due to be completed by end-2019, appears to be largely on track. Lastly, the authorities have committed to safeguarding the integrity of critical reform gains achieved, and to this end it is expected that a formalised mechanism will be established.

In the area of land use, reforms are advancing. Forest maps for some 95% of the country have been completed, materially reaching the target of completing the drafting of the last phase of forest maps (**a specific mid-2019 commitment**). Out of these maps, some 44% have been ratified, and thus become definitive. Cadastral mapping has been completed for around a third of the 39 million property rights in Greece, and the remaining part is in progress. The declaration of properties for cadastral mapping is picking up, and the authorities are considering further steps to accelerate the process. The setup of the institutional framework for the cadastre is advancing but proving challenging. In particular, given that in spring the integration of mortgage offices into the new cadastral agency has been proceeding slower than planned, the authorities have committed to accelerate the transition to the new entity. Positive legislative steps have been taken in the area of spatial planning, aimed at accelerating the implementation of local spatial plans and the approval of major investments (special spatial plans).

The authorities have undertaken efforts to stabilise the finances of the energy incumbent, Public Power Corporation, and have announced ambitious energy market reforms, which will affect the timeline for the implementation of the target model for electricity (a specific mid-2019 commitment). The decisive steps taken by the authorities to shore up Public Power Corporation's finances have been reflected in a positive half-year financial report, which was an important signal for markets. The authorities are currently developing measures to tackle the longer term challenges of arrears and strategic defaulters. The authorities decided to cancel the last scheduled auction in October under NOME (*Nouvelle Organisation du Marché de l'Electricité*), which was put in place as a transitional measure while energy market reforms took place to open up to competition. One such reform was the implementation of the target model; this is on track for delivery by the new deadline of June 2020. Coupling with neighbouring markets should follow. The authorities' proposals to speed up delivery of the forward market are welcome.

The authorities have proposed an ambitious plan for the longer-term transformation of the energy market in Greece, and have communicated their intention to formally submit revised antitrust remedies in January 2020. The core of the energy strategy involves closing down all lignite-fired capacity by 2028, with a significant share of closures taking place much earlier. The government is also considering taking further steps to open up the market to competition. If these plans are fully implemented, major developments with a target model-based, open market that is less reliant on fossil fuels and open to expanding its renewables capacity could already be observed in 2020. While the direction of this longer-term strategy is welcome, further more immediate steps are needed to address Public Power Corporation's market dominance, such as through the ongoing antitrust procedure. Data on the market shares of the Public Power Corporation indicate that competitors are entering the market on the retail and wholesale side, but its dominant position and its exclusive access to lignite-fired generation remain a concern. In this context, it should be noted that, against a background of legal uncertainty and lack of transparency, no bids were received for the second round of the tender for the lignite divestiture in July 2019 (a pending specific end-2018 commitment which had seen delays). The failure of this divestiture resulted in a breach of the anti-trust commitment, so an alternative remedy has to be found. The authorities formally communicated their intention to submit revised remedies in January 2020.

Greece's gas market is still small, but growing. The completed sale of the transmission grid, the Natural Gas Transmissions System Operator, as well as the ongoing sale of the Public Gas Corporation will lead to further market opening and investment on the domestic level, whilst ongoing progress with projects such as the Bulgaria-Greece Interconnector and growing liquefied natural gas imports show Greece's potential to become a regional energy hub. The authorities are revisiting the planned sale of the Public Gas Corporation though the revised plan is encouraging, involving the sale of a larger government stake and provisions to ensure full unbundling.

9. HELLENIC CORPORATION OF ASSETS AND PARTICIPATIONS AND PRIVATISATIONS

The work of Hellenic Corporation of Assets and Participations on the key areas covered by the commitments to the Eurogroup is continuing. The implementation of the strategic plan (**a continuous commitment**) is ongoing and the Board review is progressing. The Corporation's board has completed the review/replacement for most of its subsidiaries of state-owned enterprises (**a specific mid-2019 commitment**), in line with technical feasibility. This includes the appointment of new board members at Hellenic Post and Public Power Corporation, thus facilitating the changes needed at these companies. The authorities have engaged meaningfully with the Hellenic Corporation of Assets and Participations' reform. They have materially improved the situation of low caps on director remuneration for the bigger non-listed state-owned enterprises under the Corporation, through a legal amendment, thereby facilitating the process of board reviews going forward. Since the publication of the third enhanced surveillance report in June 2019, the Corporation has made further progress in improving corporate governance in the state-owned enterprises. The first consolidated financial accounts for the group for the year 2018 were prepared and submitted for approval to the General Assembly. The implementation of the coordination mechanism, which governs the interaction between the authorities and Corporation regarding the mandates and objectives of the state-owned enterprises under the Corporation, was relaunched in October with priority attached to four state-owned enterprises (central markets of Athens and Thessaloniki, Corinth Canal and the national fairs organiser Helexpo). The mandates and deliverables for these state-owned enterprises are expected to be finalised soon since significant preparatory work has been done by Corporation and discussed with the competent authorities.

The authorities have greatly strengthened momentum in the privatisation process. The updated Asset Development Plan has been adopted (**a continuous commitment**) and progress with ongoing transactions has accelerated in the last three months. In particular:

- **Hellinikon, (development of the site of the former Athens International airport, a pending specific end-2018 commitment):** The authorities have attached great emphasis and strongly engaged in the transaction, intensifying significantly the efforts to complete the conditions precedent to allow the transfer of shares to the preferred investor, Lamda. The overall recent progress is significant and the financial closing could be feasible in the coming months.
- **Marina of Alimos (a specific mid-2019 commitment):** the preferred investor was selected on 16 April 2019. The Court of Audit approved the tender procedure on 26 June 2019. The next steps are procedural. Thus, satisfactory progress is being made in the tender for the long-term concession of the marina of Alimos, although the financial closing is not expected before end-2019.
- **Hellenic Petroleum (a specific mid-2019 commitment):** No binding offers were submitted for the joint sale (along with PanEuropean Oil and Industrial Holdings S.A., the other strategic shareholder of Hellenic Petroleum) of a majority stake (50.1%) and thus there was no positive outcome of the specific transaction. The financial closure is thus inevitably subject to significant delays. The Hellenic Republic Asset Development Fund, the Taiped, was given the technical mandate to explore all options available towards proceeding with the transaction. The ultimate decision as to the structure and the timing lies with the Greek authorities and should be determined on the basis of what provides the best commercial and strategic value for Greece. The approach is expected to be clarified and a timeline finalised by end- 2019.
- **Sale of 30% of the Athens International Airport:** Open issues on corporate governance, which had delayed the transaction, were resolved by the authorities. The tender process is thus proceeding. Ten investment schemes expressed on 29 October 2019 their interest (Phase A) to acquire the 30% stake in the company. The binding offers are expected to be submitted in early 2020, and the financial closing of the transaction is expected before the end of 2020.

- **Public Gas Corporation:** The authorities are considering changes in its corporate restructuring and demerging into Commercial (wholesale and retail gas supply) and Infrastructure (gas distribution networks) units, while the Corporation's interests in international strategic gas infrastructure projects would be transferred to a new corporate entity. The corporate structure is a policy choice to be made by the authorities, provided that it is in accordance with the principles of the agreed term sheet of June 2018. The Greek authorities have indicated their intention to proceed with the full divestment of their stake (65%) in both Commercial and Infrastructure units and thus increase the expected privatisation proceeds, while also facilitating the unbundling of the gas market.
- **Egnatia motorway concession:** given previous delays and obstacles, a number of actions are still needed before the submission of binding offers (related inter alia to the implementation of the toll pricing policy approved by the Commission, construction and operation of toll stations, and the safety certification of bridges and tunnels). The authorities have stressed their commitment to unblock the transaction; however determined follow-up will be needed.
- **Regional ports:** the authorities are positive with respect to providing flexibility of choice on the privatisation transaction structure (i.e. master concession, sub-concession, sale of equity) for each port. The consultants of Taiped are expected to deliver shortly the relevant study and the authorities to enact a necessary legal amendment providing Taiped the flexibility of choice, so that the tender procedure for the first two ports can be launched.

10. PUBLIC ADMINISTRATION AND JUSTICE

The selection process of Administrative Secretaries (an end-2018 commitment) has been cancelled and replaced by the establishment of a Permanent Secretary post and by a significant change in the delegation of signature powers for individual acts from the political to the administrative level. However, in order to safeguard the achievements in terms of de-politicisation of the public administration and institutional continuity, the authorities have committed that the adopted measures are implemented without delay and the selection process for Directors and Heads of Division continues in accordance with the existing legal framework. The authorities have also committed to reintroduce an open selection process for senior management posts at legal entities of public and private law by May 2020 and to adopt measures to create permanent organisational structures at the Presidency Office. An independent assessment of the selection process for the Administrative Secretaries (**a specific mid-2019 commitment**) has been completed.

The far-reaching legislation on the functioning of the central administration, which was the first major legislation brought forward by the new government, introduced a number of key provisions to modernise the public administration, including strengthening the government's centralised coordination capacity. Given that weak coordination has been one of the long-standing weaknesses of the public administration, reinforcing the role and resources of the government's Presidency

Office is an important reform. Further, this major codification law consolidates the role of the Council of Ministers and sets out specific provisions for the annual programming and monitoring of the government's priorities. The law also includes provisions for harmonising and strengthening the legislative process across the central administration, including improving the impact assessment process.

Reforms adopted during the programme period, such as the mobility scheme and performance assessment, continue to be implemented with overall good participation. It is important for the credibility of the mobility scheme reform that transfers are speeded up. In this respect, the authorities have committed to introduce legal provisions by end-2019 that will ensure that the selection process of the mobility scheme will go faster. This is a welcome initiative as it would further enhance the credibility of this scheme amongst the general government entities.

The new administration has also taken actions to implement other ongoing reforms in this area, such as the human resources management strategy and legal codification, and to introduce targeted improvements, further demonstrating their commitment to reform herein. The mobility cycle launched in August 2018 is advancing with minor delays, while performance assessments for 2018 have been completed (both are **specific mid-2019 commitments**). The new administration has committed to a road map to complete the human resources management strategy by 2023. In addition, each jobholder will be linked with a specific job description/position by the end of 2019. Non-complying general government entities will not be able to request new hires. As concerns the legal codification, it is important that the ongoing review of the national portal for codification be completed swiftly so as to ensure a timely start of the tender procedure.

Hires of permanent staff remain within the hiring target set by the authorities in their budget and the Medium-term Fiscal Strategy, and the authorities are taking action to regain control of hiring of temporary staff. The hiring benchmark for the hires or temporary staff (i.e. yearly average of temporary staff in 2016) was estimated to have been surpassed by 1 500 when the previous enhanced surveillance report was published (data covering up until February 2019) while the current estimate exceeds the benchmark by 5 200 (data up until September 2019). A recent amendment removed a number of important exceptions from the regular hiring rules for temporary staff, which should increase control over hiring by the Ministry of Interior and hopefully result in a gradual decrease of temporary staff.

A few recent salary provisions raise some concerns about the integrity of the unified wage grid. These salary provisions place specific staffing groups in some priority services at the most senior remuneration grade and also extend scope/coverage of the 'personal difference' allowance. The authorities have committed to reinforce and centralise control of the unified wage grid reform and hiring procedures by establishing an inter-ministerial working group with the mandate to present specific measures by end-2019, which will be implemented by January 2020.

The government has adopted legislation to promote the transition to a digital State, with the new Ministry of Digital Governance taking a leading role. The Ministry is tasked with creating a digital public administration through delivering a series of major

IT projects. Projects to be pursued in the short-term include the development of a single digital identity for the authentication of all transactions with the State, the simplification of specific administrative procedures for citizens and businesses, and the setting up of a unified platform (gov.gr) to bring together information and electronic services offered by the State. In the medium- to long-term, the Ministry aims at further developing the infrastructure for 5G networks and promoting the interoperability of public systems and registries. The authorities are also revising the existing National Digital Strategy setting the framework for the digital transformation of the public administration and the economy as a whole.

The new administration has committed to proceed with the third phase of the Single Payment Authority reform, which has been subject to significant delays. The third phase will establish an integrated information system and increase the authority's mandate to include clearing tasks, thus improving public financial management. This will require a number of actions, including legislative amendments, an IT project to be launched in January 2020, and the establishment of a joint working group to review the current clearance processes.

Progress with the implementation of commitments in the area of justice has been uneven. The legislation on mandatory electronic filing and processing of legal documents in administrative jurisdictions was adopted in October 2019 but will become effective only as of January 2021, a year later than expected under this end-2019 specific commitment. At the same time, the implementation of the second phase of the Integrated Judicial Case Management System, a mid-2020 commitment, is advancing. The tendering procedure (**a specific mid-2019 commitment**), which had been subject to delays, was completed in November 2019, and the publication of the tender is due by December 2019, upon completion of ongoing administrative proceedings at the Ministry of Digital Governance. The key objective of the reform is to enhance quality and efficiency of the judiciary through a uniform IT environment.

The mandatory mediation framework, which had been twice postponed, will soon become effective. The amendments ensure conformity of the mediation framework with the Greek Constitution and EU law, reduce the categories of disputes subject to mandatory mediation and the minimum cost of mediation, and modify a number of procedural and technical aspects of the framework.

The implementation of the national anti-corruption action plan is proceeding. The vast majority of the more than 100 actions are considered by the authorities as completed, with the remainder having been launched. Sustained implementation will be key. In August 2019, the implementation of the plan, which is a mid-2021 specific commitment, became part of the mandate of the new independent National of Transparency Authority, which will be fully operational in 2020. The agency brings together a number of functions previously followed by different bodies and will be endowed with greater institutional capacity to fight corruption.

The legislative amendments adopted in June 2019 which downgrade the status of active bribery from felony to misdemeanour are a concern. The relevant amendments to the Criminal Code and Criminal Procedure Codes attracted criticism from the Group of States against Corruption and the Organisation for Economic Cooperation and Development's Working Group on Bribery. The draft positions published for public consultation in October 2019 do not to address these concerns fully. The findings of a planned joint mission by Group of States against Corruption and the Organisation for Economic Co-operation and Development could provide useful guidance to the authorities on appropriate further actions, including legal amendments.

The Commission has continued to monitor developments in relation to the legal proceedings against the members of the Committee of Experts of Taiped and the former President and senior staff of the Hellenic Statistical Authority. The case against former the Hellenic Statistical Authority President A. Georgiou related to charges filed in connection with fiscal statistics has been irrevocably dismissed. An appeal introduced by Mr. Georgiou in a civil defamation lawsuit is scheduled to be heard in January 2020. In the case against the Committee of Experts, a further positive development has materialised since the last enhanced surveillance report: as there was no appeal launched against the ruling by the chamber formation of the Athens Court of Appeal, the dismissal of the charges against the Committee of Experts stands irrevocably in force.

11. OVERALL ASSESSMENT OF PROGRESS WITH REFORM COMMITMENTS

The new administration has made a swift start and confirmed, immediately after taking office, its intention to stick to the reform path agreed under the enhanced surveillance framework. The government has engaged positively and constructively with the European institutions and a high level of openness and willingness to engage is widespread at all levels. The government has taken important steps to improve coordination of economic policies, which will be instrumental to ensuring a timely completion of Greece's specific commitments.

The flagship reforms adopted thus far by the new administration and its overall growth-friendly narrative have been well received by the markets. Greek bond yields have decreased to historical lows (with 3-month bills at negative rates) over and above the generally favourable developments in the European sovereign bond markets, capital controls have been phased out earlier than expected and economic sentiment is at pre-crisis levels. The ongoing economic recovery continues to drive down the high unemployment rate and growth is forecast to strengthen in 2020 on the back of the announced cuts in taxes on labour and capital. The improved economic prospects have started to pass through to Greece's sovereign bond ratings, and it will be key for the new administration to remain focused as it will be under scrutiny from investors for quite some time, amidst economic weakening among Greece's trade partners.

The government has presented a Draft Budgetary Plan that complies with the agreed fiscal targets, respects all the requirements of the Stability and Growth Pact in 2020, and announces a major tax reform for 2020. The new administration offset the fiscal impact of the measures adopted in May 2019 by revising spending ceilings downward to more realistic levels, while additional fiscal space was provided by additional tax revenues. Moreover, the government designed a package of growth-friendly measures for 2020 that shift taxes from capital and labour to less distortionary taxes such as the value added tax or property tax, and increase social spending on families with children. The policy package will be implemented in a balance-neutral manner, and will improve the quality of public finances and boost growth in 2020. The European institutions project that the agreed primary surplus targets of 3.5% of GDP will be exceeded in 2019 and met in 2020, which is equivalent to general government surpluses of 1.3% of GDP in 2019 and 1.0% of GDP in 2020.

While important reforms have been undertaken, it will be key to sustain the momentum in order to deliver on the number of ambitious action plans going ahead. Key areas of privatisation, the business environment and digital governance have seen a positive momentum, and new initiatives were adopted for ensuring an effective collective bargaining framework or are being developed for strengthening of the banking sector. In this context, the authorities have gone well beyond the specific commitments given to the Eurogroup. Important reforms in the areas of land use, property tax and the tax administration are advancing. The authorities have developed sound reform plans to remedy the inherited delays, which affected a number of commitments given to European partners, most notably on the clearance of arrears, public administration reform, and energy market reforms. Where appropriate, these plans include alternative or complementary measures of equivalent merit to commitments given to Eurogroup. The authorities are in the process of catching up with the financial sector reforms but the plans will need to be firmed up going forward. The sustained implementation of these reforms will be closely monitored in the successive enhanced surveillance reports so as to ensure that the specific commitments given to the Eurogroup in June 2018 remain effective.

Greece has taken the necessary actions to achieve its specific reform commitments for mid-2019. Further actions will be crucial to complete, and where necessary accelerate, reforms. This assessment takes into account the efforts of the new administration over the last months to implement the commitments, in the context of advancing a broader reform agenda, and its willingness to prepare them in close cooperation with the institutions.

12. SOVEREIGN FINANCING

Encouraged by the marked decrease in bond yields, Greece continued to build its presence on the government bond market by issuing bonds in July and re-opening the books of an earlier issuance in October. The Public Debt Management Agency tapped the market for the third time this year in July by issuing a 7-year bond at a re-offered yield of 1.9%. Another record-low yield of 1.5% was achieved in October with a 10-year bond. Greece’s yield spreads vis-à-vis German Bunds continued to moderate, reaching 1.9 percentage points on the 10-year tenure in September 2019, down from 3.5 percentage points a year ago. The improving financing situation has started to be reflected in Greece’s sovereign credit ratings. The cash buffer account was not used in this reporting period. State cash reserves, which include this cash buffer account of EUR 15.7 billion and other reserves, remained high at around EUR 20.3 billion as of end-September 2019. The available reserves are sufficient to cover sovereign financing needs of more than two years ahead.

The partial early repayment of the loans from the International Monetary Fund, which is expected to take place by end-November, is a welcome step and an important positive signal. After the completion of national procedures, the governing bodies of the European Stability Mechanism and the European Financial Stability Facility waived their right for a proportional repayment on 28 October. The transaction will be financed through funds raised earlier this year and is expected to have a positive but limited impact on debt sustainability, as most of the amounts due would have to be paid by the end of 2020. Nonetheless, this is a welcome step as it helps reduce the foreign exchange rate risk, generates savings and sends the right signal to the markets.

An update of the debt sustainability analysis has been carried out. The baseline scenario shows the debt remaining on a downward path, though it remains above 100% of GDP until 2041. Greece's gross financing needs will hover around 10% of GDP until 2032 and remain around 14% of GDP at the end of the forecast horizon.

Commission Staff Working Document

1. INTRODUCTION

Economic developments and policies in Greece are monitored under the regular economic surveillance framework for euro-area Member States under the European Semester for economic policy co-ordination and under the enhanced surveillance framework according to Regulation (EU) No 472/2013 ([5]). Following its second prolongation, enhanced surveillance for Greece is currently in place for six months as from 21 August 2019 ([6]). The implementation of enhanced surveillance for Greece acknowledges the fact that over the medium term, Greece needs to continue adopting measures to address the sources or potential sources of economic and financial difficulties, while implementing structural reforms to support a robust and sustainable economic growth.

Greece made a general commitment at the Eurogroup of 22 June 2018 to continue and complete reforms adopted under the European Stability Mechanism programme and to ensure that the objectives of the important reforms adopted under the financial assistance programmes are safeguarded. In addition, Greece made specific commitments to complete key structural reforms started under the programme in six key areas by agreed deadlines up to mid-2022, namely (i) fiscal and fiscal-structural policies, (ii) social welfare, (iii) financial stability, (iv) labour and product markets, (v) privatisation and (vi) the modernisation of public administration ([7]). In this context, 15 specific commitments were made with a deadline of mid-2019, progress on which is assessed in this report.

This report is based on the findings of a mission to Athens between 23 and 26 September 2019 and regular dialogue with the authorities. The mission was conducted by the Commission in liaison with the European Central Bank ([8]); the International Monetary Fund participated in the context of its Article IV surveillance cycle, while the European Stability Mechanism participated in the context of its Early Warning System and in line with the Memorandum of Understanding of 27 April 2018 on working relations between the European Commission and European Stability Mechanism.

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

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([5]) 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.

([6]) Commission Implementing Decision (EU) 2019/1287 of 26 July 2019 on the prolongation of enhanced surveillance for Greece, OJ L 202, 31.7.2019, p. 110.

([7]) 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.

([8]) ECB staff participated in the review mission in accordance with the ECB's competences and thus provided expertise on financial sector policies and macro-critical issues, such as headline fiscal targets and sustainability and financing needs. The review mission was preceded by a technical mission from 16 to 20 September 2019.

economic recovery. To this end, this report includes an assessment of economic conditions in Greece (chapter 2); an assessment of implementation of reform commitments given by Greece to the European partners (chapters 3-8); and an update on sovereign financing conditions and debt repayment capacity (chapter 9). This report is issued alongside the assessment of Greece's draft budgetary plan for 2020 and serves also as a specific monitoring report under the macroeconomic imbalance procedure for Greece, which was identified as experiencing excessive imbalances in the 2019 European Semester.

The Eurogroup on 22 June 2018 agreed that the package of debt relief measures for Greece should include incentives to ensure a strong and continuous implementation of the reform measures agreed in the programme. To this end, the implementation of some of the agreed debt measures – the abolition of the step-up interest rate margin related to the debt buy-back tranche of the European Financial Stability Facility (EFSF) programme as of 2018 and the restoration of the transfer of equivalent amounts to the income earned by euro-area national central banks on Greek government bonds held under the Agreement on Net Financial Assets (ANFA) and the Securities Market Programme (SMP) – will be made available to Greece subject to compliance with its commitments on reform continuity and completion, based on positive reports under enhanced surveillance. The return of these income equivalent amounts would be made available to Greece in semi-annual tranches of some €640 m up to mid-2022. The waiver of the step-up interest rate margin, for part of the loans extended by the European Financial Stability Facility, would reduce interest payments by some €220 m annually. It would be waived on a semi-annual basis until 2022 and permanently after 2022. Following the Eurogroup on 5 April 2019, the first tranche of policy-contingent debt measures has been completed, inter alia based on the assessment of the implementation of Greece's commitments for end-2018 in an updated enhanced surveillance report adopted by the Commission on 3 April 2019 ([9]). The current report assesses the implementation of Greece's specific reform completion commitments for mid-2019 and its general reform continuity commitment, as well as compliance with the primary fiscal surplus targets. It thereby provides a basis for the Eurogroup to discuss the release of the next tranche of policy contingent debt measures, amounting to €767 m.

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

2. MACROECONOMIC DEVELOPMENTS

Economic growth in Greece continued in the first half of 2019, and is forecast to remain resilient amid external headwinds. After a weaker-than-expected first quarter (1.1% year-on-year), growth bounced back to 1.9% year-on-year in the second quarter. The lacklustre performance in the first quarter was due to a decrease in net exports as well as a decline in government consumption. These were reversed in the second quarter and thus headline growth reverted to the 2018 average. Despite higher disposable incomes and improving labour market conditions, private consumption declined by -0.7% (year-on-year) in the second quarter of 2019 after slowing down already in the first quarter, indicating that a deleveraging process is still in place for households. The tourist sector shows stable headcounts but a robust increase in spending this year, which bodes well for exports of services in 2019.

The recovery is expected to strengthen in the second half of this year and continue in 2020. The very positive developments in recent business and consumer survey data, which increased sharply in particular after the election period, underpin the expectation of a rebound of private consumption already during the second half of 2019. More in general, favourable developments in domestic demand and in particular in investment are expected to support real GDP growth, which is expected at 1.8% in 2019. Supported by a balance-neutral shift away from distortionary to less distortionary taxes, which will be accompanied by social policy measures, growth in 2020 is forecast to reach 2.3% despite a weaker global environment and cool down slightly to 2.0% in 2021 as the output gap continues to close (see Chapter 3.1 for a discussion of the effects of the 2020 fiscal package on growth).

Private consumption is forecast to support growth, in particular on the back of a lower tax wedge on labour income. The positive trend in the labour market, which is expected to continue in 2020, should be reflected in the growth of disposable income and private consumption over the medium term. Higher disposable income and strongly positive expectations captured by the European sentiment indicator reaching 108.4 points in August 2019 (the highest level since end of 2007), bode well for a recovery in private consumption in the second half of 2019 and 2020. Furthermore, consumption is expected to be supported by the sustained positive labour market momentum in the first half of 2019. Business and consumer surveys indicate positive expectations regarding higher employment and lower unemployment for the second half of 2019 and the first half of 2020. The tax package announced for 2020 is expected to have a positive effect in 2020 and 2021, especially as they are aim at lowering the tax wedge for lower incomes and decrease the tax burden on labour and capital in general. Simulations run using the QUEST model ([10]) show a positive effect of the reforms on consumption trough increased disposable income. As increases in productivity and employment lead to higher wages, disposable incomes rise in the short run as prices only adjust in the medium term.

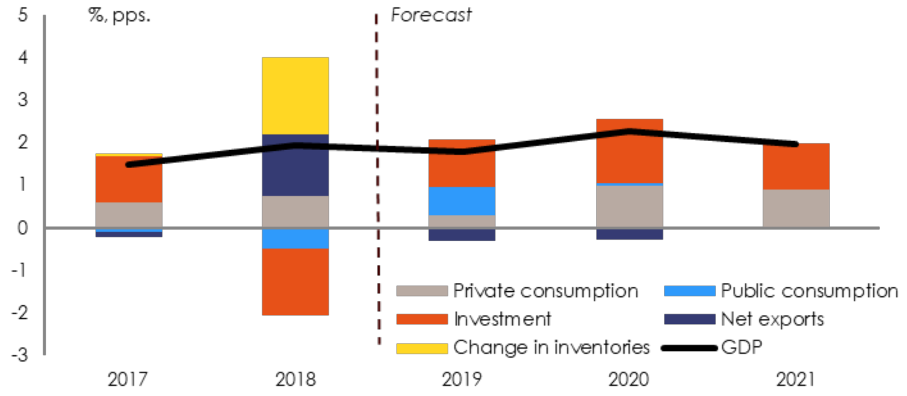
([10]) For more information on the QUEST macroeconomic model see https://ec.europa.eu/info/business-economy-euro/economic-and-fiscal-policy-coordination/economic-research/macroeconomic-models_en

Investment is expected to perform well and to strongly support growth, but comes from a very low level. At the moment, gross financial capital formation in percent of GDP is the lowest in Greece among all EU member states. With a gap of 7.7 percentage points to the euro area average, Greece needs to increase investment substantially. After the decline in real gross fixed capital formation in 2018 (-12.2%) due to lower public investment and its multiplier effect on private investment, investment is expected to bounce back to double-digit growth in 2019 and 2020. The recovery of residential construction is also expected to strengthen. The tax reform package announced for 2020 is expected to have a considerable effect on investment in 2020 and a smaller effect in 2021 and 2022 pushing investment growth further upwards. The QUEST simulations show an increase of investment due to the tax measures as a result of lower expected cost of capital. The increased investment in turn leads to higher employment and productivity.

Exports are expected to decelerate due to the external slowdown, which is however likely to be to some extent cushioned by continued gains in export market shares, the relatively low degree of openness and the specific structure of Greece's exports. Following a strong growth in 2018, exports are expected to grow at a slower pace in 2019 and decelerate further in 2020 and 2021. This is mainly driven by the expected slowdown in Greece's export markets and is consistent with the projected import demand of Greece's trade partners. The EU is the most important export market for Greece with the biggest export shares going to Germany, the UK and Italy. Yet, despite the market gains, the economy remains relatively closed: Exports of goods and services are with 36.1% of GDP (2018) substantially lower in Greece than the euro area average of 48% of GDP. Due to the product structure of exports, where the biggest share is concentrated in energy products, food and pharmaceuticals, Greek exports are to some extent cushioned from the direct transmission of declines in external demand as the demand for these is less reactive to the economic deceleration in export markets than for instance the demand for investment goods, which account for a low share of exports ([11]). Moreover, Greece has recorded continued gains in market shares in the last years, within the EU as well as with the rest of the world, a trend that is expected to continue and strengthen the Greek export position. Services exports have performed well in 2018 and in the first half of 2019, and are expected to continue to grow as Greece attracts higher spending tourists and the length of stays increases. The liquidation of the Thomas Cook group at the end of September 2019 is expected to have a limited effect on the Greek tourist sector. At the time of the liquidation, the peak season was practically over, which means that the effect on 2019 would be only during the low season in autumn, and therefore limited. For 2020, competitors are expected to fill the gap left by the market exit of Thomas Cook.

([11]) Greece biggest goods exports in 2017 were accounted for by mineral products (31%, mainly refined petroleum), metals (13%) chemical products (mainly pharmaceuticals, 9%) and foodstuffs (9%), while in terms of service exports the biggest categories are related to tourism and shipping. UN COMTRADE data.

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



Source: European Commission

The positive developments on the labour market are expected to continue. Employment is forecast to grow above 2% in 2019 and 2020 and slow down from 2021 onwards. The unemployment rate will continue its downward trend and reach below 14% in 2021. So far, the labour market effects of the recent increase in the minimum wage and the abolition of the sub minimum wage do not seem to have significantly affected the labour market.

Inflation is expected to be low in the short term but increasing in the medium term. Due to the VAT reduction in the second quarter of 2019 as well as expected lower growth of oil prices, inflation is forecast to remain low at 0.4% in 2019. The tax reforms announced for 2020 are expected to push inflation upwards to reach 0.6% in 2020 and slightly below 1% in 2021. The closing of the output gap in the outer years is expected to add further upward pressure on inflation.

The forecast is subject to upside and downside risks, with the risks to the downside being more pronounced. External factors such as the global slowdown and the continued global uncertainty over trade protectionism could affect Greek exports more than anticipated both in the short and in the medium term. Moreover, the under-execution of both the public investment budget and the ordinary spending, if sustained, might pose a further drag to the recovery in domestic demand. Upside risks are related to the substantial improvement in the business and consumer confidence, which has not materialised in the hard data yet. The projection is contingent upon maintaining the reform path agreed under enhanced surveillance, including reforms in the resolution framework for non-performing loans, designed to ensure a sufficient reduction of non-performing loans and support bank credit.

Table 2.1: **Summary of the main macroeconomic variables (%)**

	2018	2019	2020	2021
Real GDP	1.9	1.8	2.3	2.0
Employment growth	1.7	2.2	2.2	1.4
Unemployment rate	19.3	17.3	15.4	14.0
GDP deflator	0.5	0.8	0.9	1.6
Harmonised index of consumer prices	0.8	0.5	0.6	0.9

Source: European Commission

3. FISCAL AND FISCAL-STRUCTURAL POLICIES

3.1. FISCAL POLICY

Greece is on course to overachieve the agreed primary surplus target of 3.5% of GDP in 2019, the fifth year in a row when targets would be exceeded. This dissipates concerns that surfaced earlier this year that the adoption of fiscal measures worth 0.7% of GDP in May 2019 would pose a risk for the achievement of the primary surplus target. Shortly after the submission of the Stability Program, the previous government adopted a set of measures, which included: new instalment schemes (with 120 instalments) for debts on taxes and to social security funds and municipalities; a VAT reduction on a selection of items; the reintroduction of a 13th monthly pension payment; and a reversal of an earlier reform of survivors' pensions. The quality of these measures raised concerns given the objective to make public finances more growth-friendly and to direct a higher share of social spending towards groups who face the highest incidence of poverty. Moreover, the measures also raised concerns regarding their consistency with reforms adopted under the ESM programme.

The fiscal impact of the measures adopted in May is likely to be lower than expected in June, mainly because of a reassessment of the cost of new settlement schemes based on incoming data. The European institutions currently estimate the fiscal cost of the measures in 2019 at 0.7% of GDP, compared with 1.1-1.4% of GDP expected in June. The revision mainly derives from an update of the fiscal cost of instalment schemes. Based on actual data, the total amount of enrolled debt is €4.7 bn, which is lower than the expected amount of €6.5 bn. Despite the lower-than-expected participation, the revenues generated by the new scheme are projected to be higher for two reasons. First, compared to what was expected, the new schemes have induced lower debt transfers from the existing schemes (the basic scheme), despite the new scheme being substantially more generous. Specifically, according to the latest data, only about €0.8 bn debt was transferred from the old schemes instead of the €3 bn that was initially expected based on the 2015 experience. This leads to significantly lower revenue fall-out from the basic scheme. Second, the new scheme attracted close to €4 bn worth of debt from outside previous settlement schemes, instead of the previously assumed €3.5 bn. This increases the estimated revenue from this segment.

The authorities also decided to remove the pre-legislated tax credit package, agreed in the context of the programme, which was set to enter into force in January 2020. This package included measures that were expected to broaden the tax base and create fiscal space of 1% of GDP for growth-enhancing tax reforms. In view of the very high proportion of taxpayers exempted from the personal income tax (see Box 3.1), the pre-legislated measures aimed to distribute the burden of personal income taxation at a wider pool of taxpayers, while at the same time reducing the high tax rates. Nonetheless, a major base-broadening reform of the ENFIA property tax is in the pipeline for mid-2020 (see section 3.2.1).

The new administration maintained the above-mentioned measures, extended the enrolment period for the 120 instalments scheme and adopted a small cut in the ENFIA property tax. In July 2019, the new government adopted a "mini tax bill" which included a reduction in the property tax (ENFIA) up to 30% for certain tax payers, on top of the cut adopted in December 2018, and modifications to the new tax instalment schemes, making them more generous especially for businesses. In particular, the authorities proceeded with the extension of the enrolment period for entering the schemes until end-September (and later to the first week in October), and the increase of instalments for companies to 120 instead of 36 envisaged in the initial plan. The amendments have also reduced the interest charged on the debt during the settlement period to 3%, which is lower than the current bank lending rate. The European institutions expressed concerns in relation to the impact on payment discipline and excessive duration of this ad hoc scheme.

To ensure that the fiscal target for 2019 is met despite the large amount of fiscal measures adopted in May and July, the new administration revised spending ceilings downwards to more realistic levels for the current year. The General Accounting Office, in close cooperation with the line ministries, re-assessed both the spending projects underpinning the ceilings and the spending capacity/needs of the entities. As a result, the ceilings of the ordinary (non-investment) budget were revised downwards and thus, improve the budget balance, by more than 0.3% of GDP in 2019. The categories affected were mainly the consumption expenditure, the primary residence protection subsidy (in view of the longer-than-expected time needed to submit an application and a low processing rate, see Chapter 5) and the lump-sum pensions the cost of which was regularly overestimated in the past years. Regarding the public investment budget (PIB), after taking into account the actual data of the budget execution and having in mind the past experience, the authorities revised downward PIB expenditure by 0.3% of GDP in 2019, to take into account the persistent under-execution of investment expenditure, which was the biggest contributor to the overachievement of fiscal targets in previous years ([12]).

While the re-adjustment of the ceilings increases the realism and the credibility of the authorities' fiscal projection, the authorities stepped up efforts to improve budgetary practices. The General Accounting Office (GAO) revised the budget guidelines, which previously required the draft budgets to be based on the previously budgeted amounts. The revised guidelines allowed the 2020 budget to take into account the current year's execution and also to assess and scrutinise the reasons of the past underspending. Additionally, the authorities conducted a spending review exercise for 2020, receiving technical support. This is an initial but welcome step towards improving the quality of public finances.

The authorities are planning to take steps to improve the low execution of public investment. The authorities have adopted legislation to lay down the rules governing the development, management, financing, and implementation of the national component of the PIB. This part of the PIB will be programmed through a medium-term development plan, the "National Development Plan", mirroring to a certain extent the management system of the EU structural funds. Importantly, the law specifies that the National Development Plan shall not finance recurrent operating costs of the public sector. In addition, the Ministry of Development in close cooperation with GAO,

([12]) The PIB expenditure was revised downwards by 0.3 % of GDP of which 0.2% of GDP related to a decrease in the co-funded part and 0.1% of GDP to the national part of PIB.

designed an action plan for improving forecasting and monitoring of the PIB. The plan includes more frequent and enhanced exchange of data between the two ministries, monthly updates on the total PIB allocation of expenditure based on actual payments, an increase in the frequency of PIB revenue forecasts from semi-annually to quarterly, and some technical adjustments of the PIB database to facilitate the budget preparation process. The European institutions welcome this action plan and encourage the authorities to carefully monitor its implementation, while at the same time advancing with the introduction of the Unified Chart of Accounts in the PIB (see section 3.4.3).

The fiscal outlook for 2019 has also been supported by additional tax revenues. The main revenue categories, which had a better than expected performance in 2019 so far were the value added tax (0.2% of GDP), and arrears on property taxes (0.1% of GDP), while the loss in revenues due to tax refunds was lower (by 0.1%) than previously forecast. The main drivers behind the improvement in the VAT were a stronger than expected export of services (especially tourism) and the increased use of electronic payment methods. Those positive developments were partially offset by the lower-than-expected collection of the personal income tax and other categories. It is to be noted that the authorities extended the discount on VAT rates applicable to certain islands suffering from the migration crisis in June 2019, in line with the mechanism put in place in December 2018.

Against this background, the European institutions project the primary surplus, per the definition monitored under enhanced surveillance, to reach 3.8% of GDP in 2019. In the no-policy-change scenario, Greece is expected to overachieve the target by 0.3% of GDP. This estimation takes into account the most recent fiscal and macroeconomic data and the updated cost of the measures adopted so far, but continues to assume full implementation of the (revised) budgetary ceilings. Finally, the forecast assumes that the Public Service Obligation payment of €200 m for PPC will be covered from the contingency reserve. The forecast also does not take into account any one-off measures that might be adopted later in 2019 to use the available fiscal space since they were not announced with a sufficient level of detail.

Table 3.1:**Expansionary measures**

	2020	
	(m euro)	(% of GDP)
Total impact of the measures	**-1 198**	**-0.6**
CIT decrease	-566	-0.3
PIT reform	-281	-0.1
Reduction in social security contributions	-123	-0.1
Childbirth allowance	-120	-0.1
Dividend tax decrease	-69	0.0
VAT suspension on construction	-27	0.0
VAT decrease on children's items	-12	0.0

Source: European Commission

This means that Greece is expected to achieve a general government surplus of 1.3% of GDP in 2019. This is well above the euro area average of a deficit of 0.8% of

GDP. Greece has reached a surplus already in 2016 on the back of the substantial fiscal consolidation efforts during the ESM programme but under-executed public investment have also played a role. The achievement of a general government surplus is consistent with the estimated substantial decrease in the structural balance (from 5.8% of GDP in 2016 to 3.0% in 2019), signalling that the underlying fiscal stance is becoming gradually less tight.

On the basis of the information included in the 2020 Draft Budgetary Plan, the Commission forecasts Greece to meet the primary surplus target of 3.5% of GDP (a continuous specific commitment), to achieve a general government surplus of 1.0% of GDP and to respect all the requirements of the Stability and Growth Pact (SGP) in 2020. The draft budget includes a package of new expansionary measures worth 0.6% of GDP aimed to reduce distortionary taxes and increase family-oriented social benefits (see Table 3.1)**.** The main tax policy measures included in the package are: a reduction of the corporate income tax (CIT) from 28% to 24% in 2019, a reform of the personal income tax, which inter alia reduces the tax rate from 22% to 9% for incomes up to €10 000 and increases the tax-free threshold for taxpayers with children, a reduction in social security contributions by one percentage point for full-time salaried persons and a reduction of the dividend tax from 10% to 5% ([13]). In addition, the package includes a new childbirth allowance of €2 000. The final bill introducing the fiscal package for 2020 as published for public consultation includes some minor additional measures that do not have an impact on the assessment of the fiscal policy for 2020.

These measures are steps in the right direction to make public finances more growth friendly. As shown in Box 3.1, the current tax system imposes a very high burden on both labour and capital, and all this with a relatively narrow tax bases. The planned measures are important steps towards addressing the high tax burden. The reductions of the corporate income tax and the dividend tax decrease the overall tax burden on capital, and the personal income tax reform and the cut in social security contributions reduce the tax wedge on labour. On the other hand, the personal income tax (PIT) reform further narrows the tax base for families with children and does not address the relatively high non-taxable allowance for the personal income tax, which was part of the tax reform agreed with the institutions under the ESM programme in 2017 and originally due to enter into force in 2020. Box 3.2 provides an overview of the distributional impact of this tax measure. The expansionary package is projected to have a positive impact on the economy through increased investments, which in turn are likely to boost productivity, employment and wages, and consequently stimulate private consumption as well. As a result, the fiscal balance is expected to improve by 0.1% of GDP.

The government has also announced additional measures for 2021 and beyond but these will not be legislated now. These measures include: (a) a further reduction of CIT from 24% to 20%, (b) a gradual abolition of special solidarity tax, (c) a gradual abolition of trade duty for self-employed, and (d) an additional reduction of social security contributions for full-time employees by four percentage points. While these

([13]) The package also includes the suspension of VAT on new buildings for 3 years, the implementation of which creates a risk of compliance with EU regulations. See section 3.2 for further analysis.

measures would be of high value for stimulating economic growth, they will not be legislated at this point and therefore remain declarations of future policy intentions, whose implementation will be conditional on the available fiscal space. Given the early stage of the aforementioned measures, the European institutions will conduct a formal assessment once the authorities announce officially their plan to proceed with the implementation and more details become available.

Table 3.2: **Fiscal impact of counter-measures**

	2019	2020
	(m euro)	
Total impact of the measures	**-196**	**1 091**
VAT: measure on electronic payments		389
ENFIA: recalculation of objective values		143
CIT adjustment for advance payments and clearance	-138	138
Higher municipality levies		134
More realistic spending ceilings		123
Change in the schedule of heating oil allowance	-58	58
Faster processing of tax cases at administrative courts		50
Spending reviews		45
Fees from re-licensing of on-line gambling		11

Source: European Commission

To neutralise the fiscal impact of the expansionary measures, the authorities presented in the Draft Budgetary Plan a set of 'fiscal equivalent' measures mainly of parametric but also of administrative nature and of broadly comparable magnitude (see Table 3.2). The package includes:

- *Increase in the share of electronic payments*: Taxpayers will be expected to spend a certain percentage of their income via card payments or bank transfers to businesses; in case of failure to reach this threshold, a tax will apply to the difference. This is a modification of a similar legislation already in place since 2017, with higher thresholds and stronger incentives. In line with the impacts of the earlier legislation, this measure is expected to help decrease VAT evasion and thus raise VAT and other tax revenues.

- *Increase in municipal levies***:** revaluation of the base for municipal levies and an administrative measure imposing the collection of levies through the central tax system.

- *Adjustment of objective values for the ENFIA property tax* taking into account the recent increase in real estate market prices. This measure is projected to lead to higher tax receipts from real estate taxes and other minor taxes (i.e. inheritance tax) by 0.1% of GDP and also improves the efficiency and fairness of the tax.

- *Adjustment of spending ceilings of the Employment Fund to partially finance the reduction in social security contributions*: Given the persistent underspending in this category, the adjustment of the appropriations for employment programs by 0.1% of

GDP is in reality an elimination of a buffer, which frees fiscal space for growth-friendly measures.

- *In addition to the aforementioned measures*, the package includes some one-off measures improving the balance in 2020, such as a reduction of CIT advances in 2019 ahead of the cut in CIT rates in 2020, which will result in lower tax refunds in 2020, and a change in the schedule of the heating oil allowances for the upcoming heating season.

While the full set of measures is broadly budgetary neutral, it is expected to improve the quality of public finances and boost growth in 2020. The specific mix of measures included in the 2020 budget represents a growth-friendly tax shift from distortionary to less distortionary taxes, whereby, permanent cuts in taxes on labour and capital (lowering production cost) are compensated by increases in less distortionary taxes, such as the ENFIA property tax, VAT, and municipal charges. Economic literature finds growth multipliers of such tax shifts to be at around 0.3–0.4 in normal times, while the multipliers are generally expected to be substantially higher in a situation of a large output gap ([14]). While the expansionary part of the 2020 package amounts to 0.6% of GDP (see Table 3.1.), some of the fiscal equivalent measures arguably do not have any negative macro-economic impacts (e.g. the shift of the CIT advances between years), while raises the effective volume of the expansionary package to about 0.7% of GDP. The calculated impact on GDP growth of the package as a whole is 0.3 percentage points, with a multiplier of 0.4, which is consistent with the evidence mentioned above, even before taking into the situation of the large negative output gap.

Overall, the primary surplus target for 2020 is projected to be met. Based on the Commission 2019 Autumn Forecast, the primary balance in the definition monitored under enhanced surveillance is projected to reach 3.5% of GDP. Except from the measures described above, the forecast takes into account the revenue over-performance from 2019, which is partially carried over to the following years, a downward revision of the ceilings in the ordinary budget by 0.3% of GDP, and a revised projection of drawing of EU funds in view of the lower-than-expected absorption of EU funds so far.

Regarding the Council of State's final ruling on the 2016 pension reform, the authorities have committed to sustain the impact of the follow-up legislation within the agreed spending ceilings of the Ministry of Labour for 2020. The Plenary session of Council of State, Greece's highest court, has reached its final decision regarding several elements of the 2016 pension reform. The Court confirmed the constitutionality of the main pillars of the pension reform and granted no rights for a retroactive compensation of benefits (see section 4.1 for further details) which limits the potential fiscal impact. Yet, additional fiscal costs are possible to occur from the implementation of the ruling regarding supplementary pensions, the calculation of social contribution of the self-employed and the replacement rate of high pensions. The

([14]) See e.g. M. Bussière & L. Ferrara & M. Juillard & D. Siena, 2017, "Can Fiscal Budget-Neutral Reforms Stimulate Growth? Model-Based Results", Working papers 625, Banque de France and Nicolas Carnot & Franciso de Castro, 2015. "The discretionary fiscal effort: an assessment of fiscal policy and its output effect", European Economy - Economic Papers 2008 - 2015 543, Directorate General Economic and Financial Affairs (DG ECFIN), European Commission and the literature surveyed therein.

cost of the future legislation bringing the pension reform in line with the ruling will depend on the specific design of the reforms. The authorities declared a commitment in their 2020 Draft Budgetary Plan to sustain the possible additional fiscal costs within the budget ceiling of the Ministry of Labour.

Greece's public finances however continue to face important fiscal risks related to pensions and public sector wages. In fact, the Second Chamber of the Court of Auditors has recently reached an opposite conclusion regarding pension rights of public sector officials compared to the Council of State decision above (see section 4.1 for further details). Regarding public sector wages, risks related to the broadening of the scope of exemptions from the unified wage grid continue to materialise and remain a source of concern. Recent provisions allow specific categories of personnel to directly be placed at the most senior remuneration grade and their salary progression not be taken into account when calculating the size of the 'personal difference', whereas previously adopted exemption as concerns the 'personal difference' has been extended further (see section 8.1.5 for further analysis). In addition, the increasing number of temporary staff remains a source of concern (see section 8.1.5 for further analysis). Finally, the potential for overshooting the fiscal target of 3.5% of GDP through underspending in the public investment budget remains but has diminished.

3.2. TAX POLICY

3.2.1. ENFIA Valuation

Based on the findings of a technical support study, the European Institutions agreed that the valuation exercise to update ENFIA property taxes (a specific mid-2019 commitment) should be rescheduled so as to facilitate making a more substantial reform of the objective property tax values system by the mid-2020 deadline. In particular, the new government agreed to undertake a substantial new reform that will result in a major widening of the property tax base for ENFIA and other property taxes. The reform set out with a detailed timetable is expected to increase the tax base of the ENFIA property tax and improve the fairness and efficiency of the property tax system.

The planned reform of the objective property tax values system represents a major widening of the property tax base for the ENFIA and other property taxes by mid-2020. The authorities signalled that they intend to seek technical support for this project. The reform will consist of three parts: (i) an extension of the coverage of zonal system of property tax values by February 2020 to all of the urban planning areas, representing an increase in the coverage of the objective value zones from 85% to 100% of the urban population; (ii) a revaluation of all objective value zones in line with market prices determined by a high-quality standardised national valuation exercise by May 2020; (iii) the revised treatment of non-urban property tax values on the basis of property type rankings by May 2020. Legislative amendments for the implementation of the new property valuation system should be completed by June 2020, in time for the sending out of ENFIA property tax bills in August 2020.

Overall, the reform is expected to increase the tax base of the ENFIA property tax by more than 20% and to greatly improve the fairness of the property tax system.

Moreover, the convergence of property tax values and market prices will facilitate a review of the current tax rates and thresholds of ENFIA to make further improvements in the tax's fairness and efficiency.

3.2.2. Suspensions of tax on construction

The authorities are considering boosting the construction sector by adopting a set of tax suspensions that is under scrutiny with respect to compliance with EU law. In addition to the tax on property capital gains, VAT on new buildings would be suspended for a three years period. This last measure is currently under assessment with respect to its compliance with the EU VAT Directive. According to the EU law, VAT is charged at each stage of the supply chain, unless an exemption is provided for under the rules as laid down in the VAT Directive. Such exemptions are provided for the supply of buildings but only if these are not new. This entails that the supply of new buildings by a taxable person is subject to VAT, without Member States being able to suspend payment of that tax throughout the chain.

Moreover, the VAT suspension effectively risks increasing the proportion of the shadow economy. It makes the purchases of construction inputs the final stage of the VAT chain, instead of the completed house, which means that the sector will need to carry the burden of VAT on its inputs and will not be able to recover it on the finished construction. This will likely increase the size of the shadow economy. The European institutions encouraged the authorities to develop alternative measures to address the problems encountered by the building sector in Greece and take measures to tackle the shadow economy.

3.2.3. Withholding tax on corporate bonds

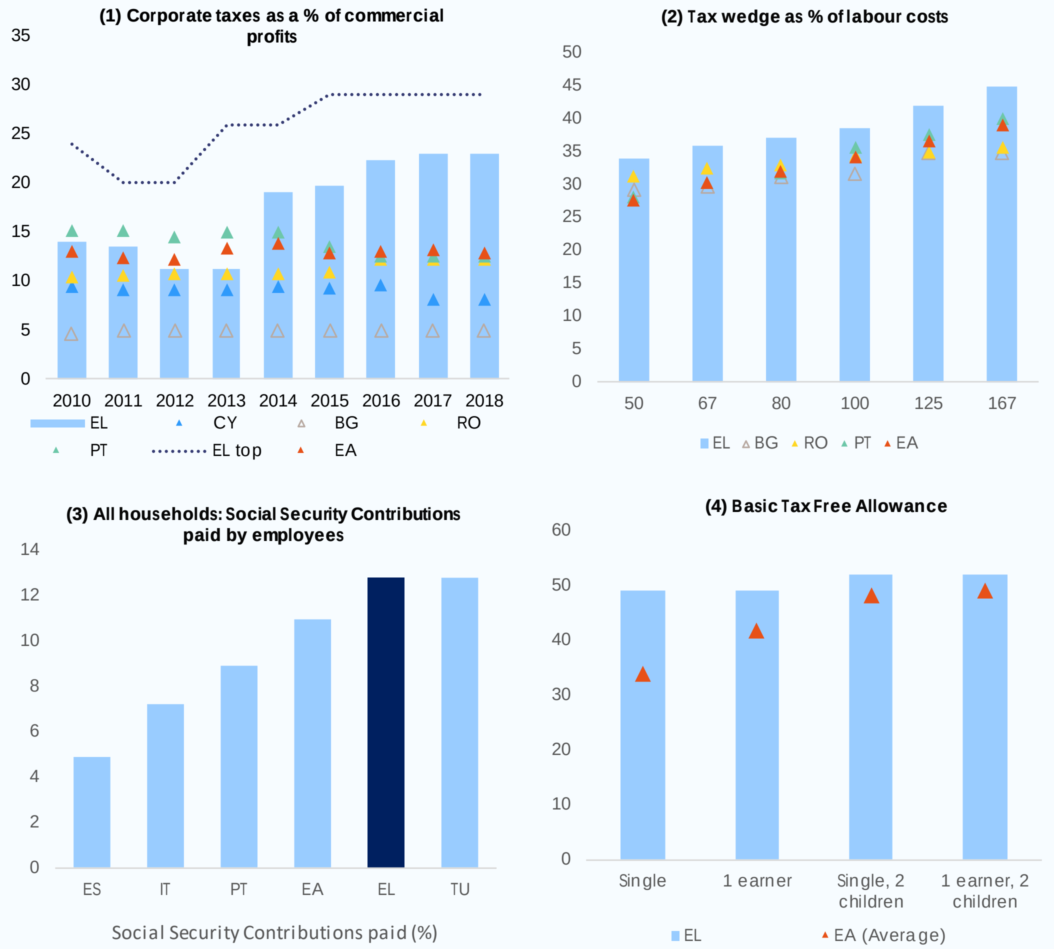
In order to open up corporate bond markets to external investors, the authorities will have abolish the withholding tax on domestically-listed corporate bonds for non-residents from EU and other countries with double taxation conventions with Greece. This brings the withholding tax treatment of listed corporate bonds in line with the majority of other EU Member States. This is likely to give a significant boost to financing through the domestic stock market. The revenue cost of such a measure based on the existing stock of corporate bonds is estimate to be less than €1 million per year.

A similar treatment of withholding tax will be adopted for international investors making direct over-the-counter purchases of direct bond issuances made by banks to meet the minimum requirement for own funds and eligible liabilities (MREL). This will help bring down the cost of long-term unsecured funding and support the issuance of capital instruments and other MREL-eligible debt instruments.

Box 3.1: Taxation - Benchmarking and Main Issues

This box presents an updated analysis of the main features of the tax and social security system of Greece in comparison to the euro area and peer economies. A similar analysis was presented in the second enhanced surveillance report in February 2019. This box updates the findings with recent data and presents a background for the assessment of the tax measures in the 2020 budget.

Graph 1: **Benchmarking on Greece's tax system**



The euro area figure was calculated as the unweighted average of the 19 Member States.
Sources: (1) WB Doing Business 2019 and DG TAXUD Taxation Trends Report 2019 (for the top CIT statutory rate).
(2) Tax wedge at different levels of income of the first earner (as % of the average wage), for a two-earner couple with two children, spouse earning 67% of the average wage. EC, Tax and benefits indicators database, 2019
(3) Basic tax-free allowance (as % of the average wage) for single and one earner with/without two children. EC, Tax and benefits indicators database, 2019.
(4) OECD Tax Wedge Decomposition 2019.

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

(Continued on the next page)

Box (continued)

The high tax burden on corporations, including the high administrative burden, does not make Greece an attractive place for investment. Apart from the high statutory CIT (6th highest in the euro area in 2019 - see Figure 1.1), there is a restrictive depreciation regime. Nonetheless, Greece collects only an average amount of revenues from the CIT compared to the euro area.

Furthermore, all self-employed are due to pay a fixed annual levy of €650 if they have been active for more than five years irrespective of their profitability and relatively high and complex stamp duties. The tax system further shows a high debt bias, which disadvantages young and innovative companies. According to the 2019 PwC Paying Taxes Report, Greek companies spend more than twice as many hours complying with taxes than other EU countries.

The average tax burden on labour in Greece is also high. In 2017, Greece had an implicit tax rate on employed labour of 43%, compared with 36% in the euro area. The tax burden is materially higher than in peer countries for couples with only one wage earner and households with dependent children (see Figure 1.2).

This is despite the high tax-free allowance, which narrows the tax base on which the income tax is applied and is 10th highest in the euro area (see Figure 4). The high tax burden on the low earners is driven primarily by social security contributions, for which the tax-free allowance does not apply and the proportion of contributions carried directly by employees is relatively high (see Figure 1.3). The high tax burden drives workers to self-employment, which is more than twice as common in Greece as in the euro area, although the proportion of the self-employed has started to decrease since 2013. Despite the high tax burden, Greece collects a below average amount of revenues from taxing employees' income. Finally yet importantly, the high marginal tax rate for high earning employees is associated with the special solidarity contribution and increases incentives for underreporting of the taxable income. The tax base is also eroded by the still unfavourable situation from labour market.

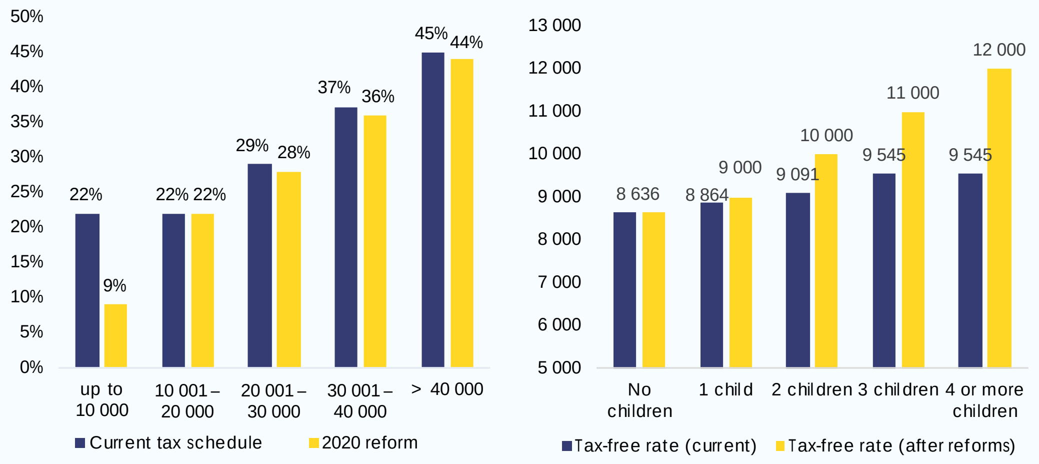
Despite numerous efforts to improve compliance, VAT fraud remains substantial. The VAT gap increased by 2.6 percentage points compared to 2016 and is the second largest (33.6%) in the euro area in 2017, and registered a record high for the period 2013-2017. This is due also to a composition effect as a result of VAT reforms enacted in mid-2016, where the rates increased in sectors that traditionally exhibit a low VAT compliance rate (for example hotels & restaurants), while dropped on sectors that had a higher compliance rate. VAT gap is expected to decrease in 2018 thanks to the ongoing tax compliance reforms.

Box 3.2: Reform of the Personal Income Tax for 2020

This box assesses the distributional effects of the personal income tax reform presented in the Draft Budgetary Plan for 2020. The evaluation was performed using the EUROMOD tax-benefit microsimulation model of the euro area adapted to run with administrative data (jointly developed by the Joint Research Centre of the European Commission and the Council of Economic Advisors of the Hellenic Ministry of Finance). The underlying microdata are based on a large sample of personal income tax returns of 2018 (related to 2017 incomes).

The reform entails several parametric changes, which reduce the overall burden of taxation. In particular, the reduction of the income tax rate for incomes up to €10 000, from 22% to 9%, by splitting the current first tax bracket (up to €20 000); a one-percentage point reduction of the tax rates applied on incomes above €20 000; and, a revision of the basic tax credit leading to an increase in the tax-free threshold for taxpayers with dependent children. These changes are illustrated in Graph 1. As a result of these changes, no taxpayer is subject to an increase in taxes, but only to a reduction or no change. In particular, the share of individuals below the tax-free threshold (at 36%) remains roughly the same (increasing by 0.5 percentage points).

Graph 1: **General tax schedule (left) and tax-free threshold (right) currently and after the reform**



Source: Ministry of Finance of Greece

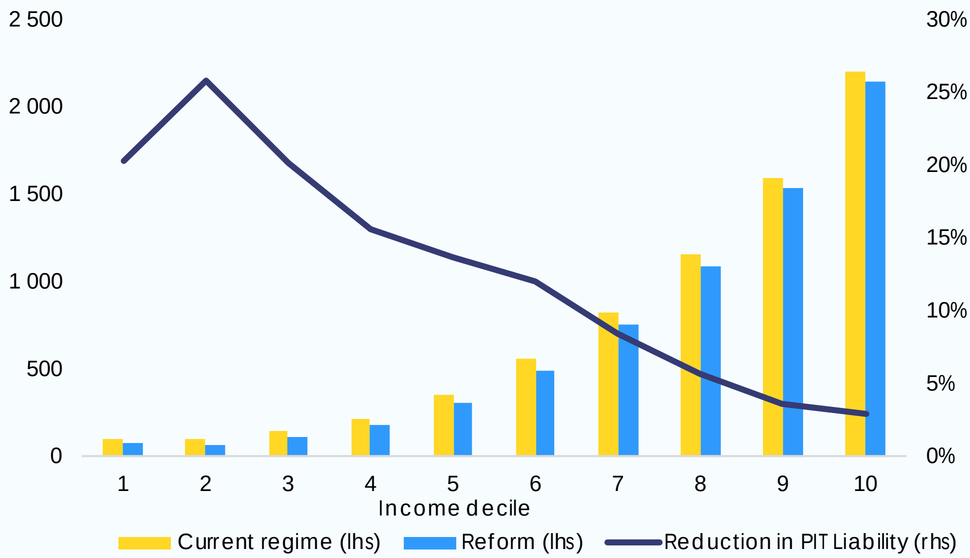
The proposed reform is expected to reduce the effective average tax rate ([1]) by 0.6 percentage points on average. The pattern is similar for all income deciles except for the first, where the reduction is much higher, reaching 3.5 percentage points. This is due to the new lower tax rate of 9% for the first income bracket (below €10 000), which significantly reduces the tax due for the self-employed, who are not entitled to the basic tax credit and typically report very low taxable incomes.

([1]) The effective average tax rate is calculated as the ratio between total PIT liabilities and total taxable incomes in the corresponding population group.

(Continued on the next page)

Box (continued)

Graph 2: **PIT liability (m EUR) and its reduction (%) after the reform**



Source: European Commission - Joint Research Centre, and Hellenic Ministry of Finance - Council of Economic Advisors. Calculations based on the EUROMOD model with administrative data.

The reform is expected to slightly reduce disposable income inequality (by 0.26%), and render the tax system more redistributive (by 1.54%); i.e., the after-tax incomes would be more equally distributed than in the current regime ([2])([3])**.** The increase in redistribution would be due to an increase in progressivity in the design of the tax, which would be partially offset by a lower net average tax rate. Furthermore, the model simulations suggest that the reform would leave income poverty relatively unaffected for all population categories (since in general households at risk of poverty were already paying no personal income tax). The notable exception is the self-employed, who are not eligible for the basic tax credit and for whom the at-risk-of-poverty rate would be reduced by 2.3 percentage points. In terms of household types, families with children are the ones that would benefit the most from the PIT reform due to the more generous tax credit.

([2]) The impact of the reform on disposable income inequality is measured by the change in the Gini coefficient of disposable income (-0.26%). The impact on the degree of redistribution is measured by the change in the Reynolds-Smolensky index (1.54%). The later indicator was decomposed in terms of changes in progressivity reflected by Kakwani index (8.92%) and changes in the net average tax rate (-7.35%).

([3]) The Kakwani index is calculated as the concentration index of tax liabilities (sorted by taxable income) minus the Gini coefficient of taxable income while the Reynolds-Smolensky index is computed as the difference between the Gini coefficients of taxable income before and after PIT (higher values indicate higher redistributive impact). As regards at-risk-of-poverty rate figure, this reflects the percentage of individuals whose equivalised disposable income is under the poverty line, measured as 60% of the median equivalised disposable income

3.3. REVENUE ADMINISTRATION

Given the accumulation of previous delays, the end-2019 target for staffing levels at the Independent Authority for Public Revenue (IAPR) is unlikely to be met, although the allocation of additional resources for new hires is a positive step. The IAPR's staff level at the end of the third quarter of 2019 stood at 11 751. Although, this constitutes an increase from the beginning of 2019 (11 487) and a reversal from the actual reduction of staff seen in 2018, it remains well short of the target of 12 500 set for end-2019. A positive development has been the Ministry of Finance recent approval of an additional 600 hires of permanent staff to the IAPR. As the end-2018 commitment was not met a number of complementary measures were agreed to further strengthen the IAPR's capacity and enhance its attractiveness to highly qualified candidates. These complementary measures concerned (i) completion of the human resources reform; (ii) strengthening of the IAPR's IT capacity; and (iii) improving the IAPR's housing conditions.

Important progress has been made on completing the human resources (HR) reform with key primary legislation expected to be adopted by mid-2020. The HR reform is seen as critical in order to allow the IAPR to recruit and retain highly qualified personnel that it needs, as it is transforming towards a modern tax collection organisation. To date, the appraisal and mobility scheme components of the reform have been completed. What remains pending is the supplementary grading and the wage grid, where primary and subsequent secondary legislation needs to be adopted. The authorities have committed to adopt the grading legislation by end-2019 and the supplementary wage grid by June 2020; thus allowing the new system to come into effect as of 1 July 2020. The Ministry of Finance has confirmed that the needed budget has been allocated in next year's budget. Once the HR reform is implemented, it will establish a HR management system that is position-based compared to current seniority-based system. This will allow the IAPR to link the grading and remuneration level (defined based on the specific qualifications and skills needed for a specific position) with the job descriptions that have been prepared for each post.

A road map will be completed by end of 2019 between the IAPR and the General Secretariat for Information Services (GSIS) that will set out the issues to be clarified as concerns the IAPR's IT competencies. Following the transfer of the GSIS from the Ministry of Finance to the new Ministry of Digital Governance, its mandate has now been extended to cover all ministries. There is a need to clarify the responsibilities of each organisation, in order to ensure a sufficient level of self-reliance in its day-to-day operations, while at the same time exploiting economies of scale. The road map currently being prepared between the IAPR and the GSIS and that will be finalised by end-2019 is expected to identify the key competencies of each organisation (e.g. security, database administration and procurement of services/equipment). A working group is expected to be established that will be mandated by the Governor of the IAPR and the Minister of Digital Governance to implement the agreed road map. The implementation of the road map, including updating of the Staff-Level Agreement, is expected to be completed by mid-2020. Finally, it is important that the budget allocated to the GSIS will contain a specific budget line for the IAPR with the needed budget, in order to meet the IAPR's IT needs for the period 2020-2022 (c. €20 million).

Authorities have confirmed that an appropriate building has been identified that will allow to host all of the IAPR's headquarter services that are currently scattered in 13 buildings. The identified building is a public property but not fully utilised. According to the timeline, the IAPR should be able to move in by end-2020. Also symbolically it is important in terms of enshrining the IAPR's independence, considering that the Governor's office remains hosted in a building co-shared between the IAPR and the Ministry of Finance.

A legal provision securing smooth continuation of the work of the Operational Coordination Centre remains pending and should be adopted as a matter of priority, in order not to further disrupt its operations. The initial results of this innovative structure that brings together officials from various services ([15]) involved in combating the smuggling of products subject to excise duties have been impressive. In its first six months, it prevented duty loss of €9.6 million and seized 43 million cigarettes; tobacco equivalent of 60 million cigarettes, and 86 tonnes of fuel. It is therefore important that the continued smooth operation of the Operational Coordination Centre is secured. The proposed legal amendment aims to extend the secondment periods allowed and reinforce the role of its director.

Other reforms and action plans are progressing. This reporting period has seen significant capacity building support provided to the IAPR staff/managers, who have been trained in the application of indirect audit methods, transfer pricing techniques, lean methods and tools to be applied by the model collection centre, project management and leadership. In view of this considerable technical support, the IAPR is expected to adopt secondary legislation on the application of indirect audit methods for legal entities, to issue a basic audit manual for tax auditors and to make the model collection centre fully operational by March 2020.

The results for the third quarter of 2019 on key performance indicators (KPIs) set by the IAPR presents a mixed picture. The data show that tax debt collection targets are not fully met. On the other hand, the KPIs in most other areas, including collection of debts by the large debtor unit, are met (see Table 3.3).

([15]) The IAPR, National Authority for Transparency, Police, General Secretariat of Commerce, Hellenic Coast Guard and the Economic Crime Unit.

Table 3.3: **Key Performance Indicators of the IAPR (Q3 2019)**

			Q3 2019 Target	Q3 2019 Result	Q3 2018 Results
Debt collection	KPI 1	Collection of tax debts as of the end of the previous year (EUR millions)	2 360	2 253.86	2 401.25
	KPI 2	Collection of new debts in the current year (percent of new debt in the year)	24.0%	29.7%	25.8%
	KPI 3	Collection of debts by Large Debtor Unit (EUR millions)	530.00	541.71	656.25
Audits of fresh tax cases by the whole IAPR	KPI 4	Percent of fresh tax audit cases in total completed audits	70.0%	56.6%	53.3%
Tax audits and collection of large tax payers	KPI 5	Collection after audits in the year (percent of assessed tax and penalties)	40.0%	105.4%	74.4%
Tax audits and collection of high wealth individuals	KPI 6	Collection after audits in the year (percent of assessed tax and penalties)	40.0%	72.8%	215.5%
Tax refunds	KPI 7	Percent of VAT tax refund claims processed within 90 days	95.0%	85.7%	82.7%
Compliance and enforcement	KPI 8	Percentage of total tax paid on time for VAT, Income and Property taxes	83.0%	81.8%	81.3%
Percentage of total tax paid on time for VAT, income and property taxes	KPI 9	Percentage of debtors under enforcement measures	65.0%	68.8%	63.9%
Pre litigation phase	KPI 10	Percentage of cases closed by explicit decision of the DRU	82.0%	95.0%	97.1%
Prosecution audits by mobile units	KPI 11	Prosecution audits by Mobile Units (Customs Administration)	15 000	16 571	17 210

Source: IAPR

The Joint Centre for the Collection of Social Security Debt (KEAO) is close to meeting its debt collection target. For the second quarter of 2019, debt collection by the KEAO stood at €628.9 m compared to a target of €630 m. As concerns the strengthening of joint actions between the IAPR and the KEAO, secondary legislation that would allow the KEAO to consider directly applying the IAPR's classification of the persons/entities considered to have 'uncollectable' debt remains pending and needs to be adopted without delays.

The authorities amended the 120 monthly instalment scheme. The changes were presented in section 3.1. This scheme was closed in early October and in accordance with preliminary data around 660 000 debtors (out of a total of four million) submitted an application covering debt of €6.4 bn. Out of this debt, it is estimated that debtors covering €4.7 bn of debt actually enrolled into this scheme (i.e. made a first payment within three days after submitting the application).

Further, the authorities will amend the basic instalment scheme with a view to facilitating the repayment of tax debts. The current scheme is perceived as too strict in terms of number of payments allowed and does not take into account the income of the debtor when determining their payment capacity. The main changes of the updated scheme that is expected to be adopted, includes increasing the number of monthly instalments to 24 or 48 depending of the type of tax debt and reducing the minimum value of the monthly instalment to €30. Further, the number of instalments granted for some categories of tax debt is also made dependent on the declared income and number of dependent children. Another measure that is expected to provide a disincentive for debtors to drop out and then re-enter the scheme is that the debtor will need to pay two monthly instalments up front while the number of total instalments will remain the same and a penalty is applied through an increase of the interest rate. The revised scheme is also expected to provide an incentive for the debtor to seek a reduced number of instalments as the interest rate will increase gradually. It is important for the credibility of the revised basic instalment scheme that the authorities will keep its commitment that there will be no new special instalment schemes, and that the only scheme available will be the basic instalment scheme.

3.4. PUBLIC FINANCE MANAGEMENT

3.4.1. Arrears

At end-August 2019 ([16]), the stock of net arrears stood at €1.3 bn, substantially higher than planned. Clearance did not turn out in line with the plan presented in the third Enhanced Surveillance Report, which expected net arrears to come below €0.5 bn by August 2019. Since the end of programme (August 2018), net arrears have decreased by €407 m ([17]), however arrears clearance halted since the beginning of 2019. The slow decrease in the stock can be attributed to the creation of new arrears. In addition, the remaining stock of, often aged arrears, is said to be the most difficult to clear namely due to technical and administrative reasons. The current arrears stock is mainly stemming from the health sector and social funds but extra budgetary funds (EBFs), pension claims and local governments play a role. In gross terms, hospitals are also of concern and rose since the end of the programme.

Table 3.4: **Stock of arrears (m EUR)**

	Aug-18	Aug-19
Total general government arrears under post-program definition	**1.7**	**1.3**
of which		
SSFs after adjustments and after clawback	*683*	*402*
Pension claims	*192*	*303*
Extra budgetary funds after adjustments	*249*	*231*
Local governements after adjustments	*263*	*150*
Tax refunds new definition	*220*	*130*
State after adjustments	*92*	*76*
Hospitals after adjustments	*-1*	*25*

Source: European Commission

Measures to avoid the creation of new arrears (a commitment for mid-2019) are in the pipeline but will require more time to be designed and implemented fully. The follow-up HCA audit in mid-2019 assessed the level of implementation of the recommendations from the 2018 audit. These structural and sectorial measures were designed with a view to avoiding the creation of new arrears. The HCA noted that some progress was made on most recommendations but emphasised that the very short period elapsed between the two audits explained the relatively low rate of implementation. In effect, the follow-up assessment was performed less than one year after the first audit whereas the usual time between audits is around two years. One of the major weaknesses in most of the audited entities is the lack of internal control and internal audit, as well as the low level of standardisation and automation of the payment

([16]) Latest available data at the cut-off date of the report.

([17]) Out of the €407 m an amount of €57 m refers to adjustments for local governments that became available in August 2019 processes. These reforms require more time to be designed and implemented properly, and require careful monitoring involving the HCA.

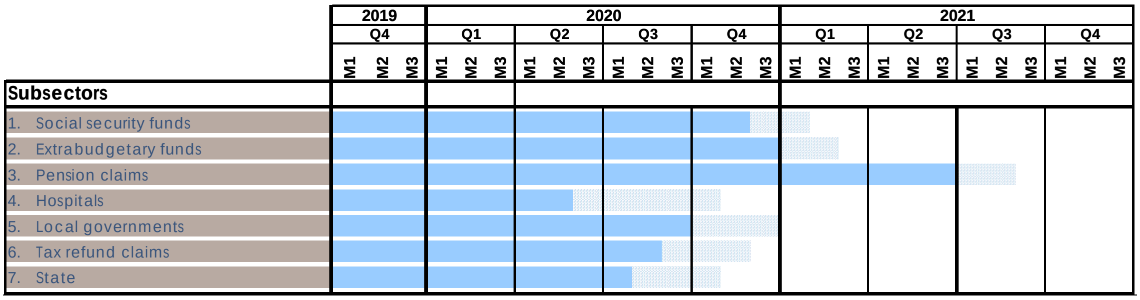
The authorities will shortly establish a Steering Committee to ensure a timely implementation of the clearance plan and the plan against accumulation of new arrears. This is a very welcome initiative that shows the authorities' commitment and ownership of the reform. The Steering Committee will oversee the full implementation of the structural reforms on arrears management based on the HCA recommendations, monitor the implementation of the proposed targeted actions per subsector and the adopted horizontal measures ([18]). It will also be in a position to propose potential solutions where necessary to reach the set targets. This new committee will be composed of representatives from all relevant entities, including the HCA and the GAO. It will convene once per month until all reforms are implemented, at the latest, the next 18 months. A monitoring report will be will be submitted to the Minister of Finance every six months in addition to two interim shorter reports. The European Institutions would encourage the authorities to empower the Committee to make recommendations regarding further audits and to incentivise the entities to clear their arrears.

The new administration adopted a broad action plan to clear the remaining stock of arrears by mid-2021 and avoid the creation of new arrears. The plan would bring the net stock down to €1 billion by December 2019. Most of the remaining arrears will be cleared within 2020, with only a small amount of €140 million pertaining to pension claims left by December 2020 ([19]). These would be cleared by June 2021, in line with the envisaged digital transformation of new pension claims (see below). Although the plan could be further strengthened for some subsectors (especially for extra-budgetary funds and local governments), the European institutions welcome the specific quantitative targets and intermediate ones that have been adopted for some crucial entities (social security funds and IAPR). Moreover, dedicated actions were designed and initiated in all subsectors. The combination of targeted actions for specific entities and horizontal measures is expected to prevent the accumulation of new arrears. The European institutions urge the authorities to work intensively on the proposed plan. A summary of the actions per subsector is described below.

([18]) It would also record any emerging needs in terms of training and information provision regarding arrears clearance. Moreover, it will be responsible for the coordination and implementation of any additional measures proposed to further streamline payment processes.

([19]) It should be noted that in a more conservative scenario, another €160 million could remain by December 2020 and eliminated by June 2021.

Table 3.5: **Arrears clearance plan schedule**



(1) The hatched part corresponds to a safety margin (conservative scenario)
Source: GAO

A major source of arrears are social security funds. Their arrears amounted to approximately €402 m in August 2019. The highest amounts of arrears in this subcategory is held by three funds: the Subsidiary Insurance Fund (ETEAEP) with arrears amounting to €101 m, the Organisation for the Provision of Health Services (EOPYY) with arrears of €86 m and the Unified Social Security Fund (EFKA) with arrears of €210 m. This latter is also responsible for the clearance of pending main pension claims, amounting to €300 m in August 2019.

The clearance of EFKA's arrears, which are both health and pension arrears, would rely on an administrative reorganisation and on an increase in EFKA's capacity. The EFKA is a relatively new social security fund that was created through consolidation of a number of social security funds. A significant share of its arrears related to health therefore pertains to amounts that were created by the former social security funds. Their arrears were initially transferred to EOPYY in 2012 and later to EFKA. The necessary legislative interventions needed to allow the EFKA staff to perform the clearance of this backlog have been adopted since 2018, but several other problems remained and resulted in a relatively slow clearance until September 2019. The insufficient staffing, the fact that the existing teams were not fully dedicated to the arrears clearance, the manual calculations of pension rights, the lack of electronic files and other deficiencies stemming from the time elapsed since the creation of these debts are part of the issues encountered. To tackle this situation and to accelerate the clearance of arrears, the recently appointed EFKA administration has presented a set of actions. To address the lack of digitisation, the number of staff in the relevant departments has been increased. The departments are also being reorganised and the public sector mobility scheme has temporarily been frozen in order to make sure the EFKA will benefit from a sufficient human capacity ([20]). A daily target for arrears clearance has been set to facilitate the monitoring of the quantitative targets and taking corrective actions if necessary. Taking into account these measures, the authorities deems that the existing stock of arrears is expected to decrease by approximately 50% until January 2020 and be completely cleared by June 2021.

The clearance of ETEAP's arrears would rely on digitalisation and administrative reorganisation. The arrears under the ETEAEP are related to pending lump-sum

([20]) Art 71 law L.4635/2019 voted on 25 October 2019. Although in principle exceptions to the mobility scheme should be avoided, it is understood that this provision will not be extended further and should facilitate the ongoing reorganisation of EFKA.

pensions that were consolidated under the ETEAEP. According to the results of the HCA follow-up audit, the situation has improved compared to the initial audit in 2018 and 75% of the proposed recommendations for the ETEAEP have been completed or are currently in progress. A harmonised IT system is being developed for the claims' management. The pending adoption of ETEAEP's organisational chart shall also ensure a more suitable allocation of staff across departments. Following these measures, GAO's plan shows that ETEAEP arrears are supposed to fall to just €9 m by October 2020.

The clearance of EOPYY's arrears is based on administrative reorganisation and legal actions. The existing stock of arrears in EOPYY comprises overdue payments of both EOPYY itself and entities that were incorporated in EOPYY in 2012. Organisational issues, lack of staff or expertise as well as the difficulties in clearing some of the old arrears have driven the accumulation of these arrears. The HCA follow-up audit states that two of its five recommendations are currently being implemented but the rest is delayed. According to GAO, the full implementation of the recommendations, namely the staffing and training of the Internal Control Unit should improve the clearance path and minimise arrears by November 2020. Concerning arrears of entities that were incorporated in EOPYY, GAO deems the abolition of the statute of limitations that is currently being prepared would speed up the clearance of EOPYY's debts toward the private sector ([21]).

Clearance of pension claims relies mainly on digitalising the processing of new pension claims and reassigning more staff to work on the existing paper claims. The stock of unprocessed pension claims amounted to more than €300 m in August and increased in the past few months. The digital transformation would take place in three phases and is planned to be completed by June 2021. At this date, 90% of new pension claims would be processed and awarded automatically. As the transformation progresses, staff would become available to clear the existing paper claims. According to the action plan, around €140 million pension claims would remain in end-2020 and would eventually be cleared by June 2021.

The action plan on hospitals, which aims at reinforcing their accounting services and improving the supplies management, could be further enhanced. Despite the fact that hospital arrears are only €25 m in net terms, gross arrears are substantial and put the State at risk of infringing the Late Payments Directive. The main driver of gross arrears in hospitals are the legality issues of hospital expenses. Hospitals tend to obtain material supplies through direct contract awards instead of an open regular tender process. This irregularity in the supply chain has prompted the authorities to systematic *ex post* legalisation of the procedure for securing the supplies. This process has led to frequent delays in the payment of hospitals' providers. The authorities expect that the implementation of the central procurement system (EKAPY) would solve the issue. Nevertheless, this project has been progressing slowly. Moreover, even if according to the Minister of Health the planned transformation of EKAPY into a public limited liability company (S.A) was supposed to improve its future efficiency, given the

([21]) It should be noted that delays in clearing the EOPYY arrears also arise while Complaints Commission examines complaints lodged by health providers. The respective amounts €40.5 m that are subjected to such an examination are however not part of the agreed definition of the net stock of arrears.

timeline of the central procurement reform, a more timely action to address the legality issue of the supplies management would be appropriate. This is all the more important because EKAPY may not be responsible for all hospitals' supplies in the future. Potential liquidity issues are monitored by the Ministry of Health, according to which their financial services transfer funds to low liquidity hospitals. Separately, another action undertaken to clear the arrears stock and avoid new arrears is the outsourcing of accounting services with a view to supporting hospital accounting offices in cases where existing hospital personnel is not able to handle accounting operations. This had been legislated in summer 2019 ([22]) and it is expected to reinforce hospitals' payments capacities, especially needed in the context of the recent phasing out of ex ante audits performed by the HCA.

Targeted measures are currently being undertaken to address identified issues in the local government sector, where arrears amounted to €207 m in August. The most important identified reasons for the creation and accumulation of arrears are related to staffing and expertise as well as legality issues. The lack of internal control and audit is also playing a role. To promote the setting up and operation of internal control units in local government, a technical support project has been undertaken to build internal audit services. This project also includes the development of an internal audit manual and practical guide to support ongoing efforts of municipal and regional entities to develop or further strengthen their internal audit function. It shows encouraging results so far in most of the local governments. Since 2017, 20 local authorities and one decentralised administration have implemented at least one internal audit thanks to this project. Even though is not clear up to date which entities have formally and durably established an internal audit unit in their organigrams, this is a first and very welcome step. The challenge lies now in designing the next milestones to ensure the enhancement and sustainability of the reform. Another technical support project will target the smallest municipalities' internal audit and is currently running until August 2020 with a view to testing a dedicated tool (inter-municipal cooperation) for the delivery of internal audit services that would take into account smallest municipalities' characteristics. To ensure greater success for this significant reform, the European institutions would encourage the authorities to make internal audit mandatory for all regions and biggest municipalities. According to the plan supervised by GAO, the above actions are estimated to result in a significant decrease in the stock of arrears in the short-term. By December 2019, arrears are expected to amount to approximately €60 m in net terms.

The reasons for accumulation of arrears in the extra budgetary funds (EBFs) subsector differ for each EBF, hence specific targeted actions are currently being undertaken in each of them. EBFs' arrears amounted to €231 m in August 2019. A full implementation of the reforms suggested by the HCA in combination with horizontal actions and specialised trainings are expected by GAO to minimise arrears before December 2020 and to streamline EBFs' payment systems. This should also help the EBFs to endorse their full responsibility for payments in view of the abolition of the *ex ante* payments audits by the HCA.

([22]) Legal provisions were adopted in August with Law 4623/2019, OJ A-134/09.08.2019, Article 79.

Implementation of the HCA recommendations as regards tax refund claims has been a priority for the Independent Authority of Public Revenue (IARR) and is almost fully completed. Although the clearance entailed solving complex issues, significant progress has been made in this field since mid-2017. The more than six-month-long audit performed by the HCA in 2017-2018 had proved helpful in this regard. Moreover, the amounts of arrears declared by the IAPR are often overestimated due to delays in the calculation of the net stock of arrears. The arrears related to tax refunds claims are currently being collected in a more systematic way and should, according to the IAPR, contribute to the decrease of the pending stock.

Necessary actions to clear the backlog of arrears created by the two ministries responsible for the major part of the arrears of the State subsector have been initiated. "State" arrears amounted to €76 m in August.

- *Approximately €28 m of arrears are attributed to the Ministry of National Defence and pertain to the supply of consumables of military hospitals.* Their clearance depends on the payment by EOPYY for the provision of hospital services and on settling legal issues. The government is currently taking legislative actions to enhance the procurement process with a view to significantly reducing the stock of arrears by December 2019 and full clearance by February 2020.

- *Arrears of the Ministry of Education amounted to approximately €23 m in August 2019***.** This Ministry is currently undertaking actions to address the relevant issues and to accelerate payment processes. According to the plan, the authorities will decrease arrears by €16 m by December 2019 and the remaining stock of arrears is expected to be cleared in 2020.

- *Other ministries have reported minor delays in the clearance of arrears, predominantly for administrative reasons and shortage of staff.* Nevertheless, continuous assistance and information support by GAO is provided. According to their action plan, this should alleviate the remaining issues and result in minimisation the remaining stock of arrears in the short-term. However, the plan presented by GAO does not fully address the weakness noted by the HCA in the audited central state payment services.

In conclusion, the new plan tackles the main challenges of the arrears clearance in a satisfactory manner and is accompanied by a number of legal, administrative or IT actions to achieve its objectives. If implemented as endorsed, net arrears would be fully cleared by end-2020, with the exception of €140 m in pension claims ([23]) that would be cleared by mid-2021.

The remaining ex ante audits by the HCA for EBFs and local governments were phased out as of 1 August 2019, as envisaged. A similar reform was undertaken in line ministries in 2017. An extension was however provided until January 2019 for hospitals and until July 2019 for EBFs and local governments, since they were not fully ready to implement the reform. To support local governments and the EBFs in this

([23]) In a more conservative scenario, another €160 million could remain by December 2020 and eliminated by June 2021.

transition and to allow them to assume their new responsibilities for the whole payment process, GAO undertook several actions including provision of trainings and information. In addition to the above-mentioned measures targeting specific sectors, the Ministry of Interior is preparing to issue guidelines, which, following consultation with the HCA, will be available on the website of the ministry as a supporting material for the authorising and payment officers.

3.4.2. Treasury Single Account

The implementation of the Treasury Single Account, which is an end-2019 commitment, is progressing well. The full implementation of the Treasury Single Account would allow the State to see its cash position nearly in real time. Pursuing this goal will require some further analysis and potentially changes in the financial circuit and payment procedures. The European institutions have encouraged the authorities to provide an action plan for the remaining steps to ensure full implementation of the reform, which so far remains on track.

By end-September 2019, half of all general government entities had already opened an account at the Bank of Greece, yet additional steps will be needed to ensure that all entities do so, as required under the TSA. A significant number of general government entities have opened new accounts at the Bank of Greece or reactivated accounts that were inactive or dormant in the last few years. Many of them maintain multiple accounts, either for historical reasons or due to the fact that their internal organisational structure necessitates that they rely on the banking infrastructure of the Bank of Greece ([24]). As of end-September, 976 general government entities (i.e. approximately the half of the total) had a cash management account in the Bank of Greece, which is significant progress compared to the June report. This amount correspond approximately to the number of entities relying on State grants.

According to the information provided by GAO, all State grants and subsidies are credited to general government entities through their cash management account at the Bank of Greece. This acts as a strong incentive for general government entities to open and use a cash management account at the Bank of Greece, since the use of the funds granted by the State is inextricably linked to the existence and the use of these accounts. In order to make sure the entities that are not receiving State funding through their cash management accounts at the Bank of Greece will effectively follow the general framework of the TSA, GAO has adopted a set of measures ([25]). These would act as incentives to open such an account and would need to be applied if necessary.

Minor delays have been encountered in transferring excess liquidity of general government entities to the Bank of Greece, which is part of the TSA reform. A Ministerial Decision ([26]) and a GAO circular ([27]) postponed the deadlines regarding the

([24]) As of September 2019, there were 14 general government entities with more than 5 cash management accounts, six of them with more than 10 accounts, and two entities with more than 50 cash management accounts.

([25]) In case of non-compliance, the Board of Directors and Finance Manager shall be deprived of their functions.

([26]) Ministerial Decision 2/66482/29.8.2019.

([27]) GAO Director General's circular 2/72810 of 26 September 2019.

general cash planning framework for general government entities and the launch of the pilot process with 27 general government entities that was initially planned in July. General government entities are now required to open a cash management account at the Bank of Greece by November 2019. They will have to transfer their cash surpluses from the commercial banking system to the cash management accounts in the Bank of Greece by 11 December instead of July 2019. However, this delay in the implementation of the project should put at risk neither the timeline nor the achievement of the project by end-2019. Entities have already been transferring some of their excess liquidity. The Bank of Greece forecasts are that the remaining amount of funds to be transferred in 2019 should not exceed €2 bn. This is not expected to cause any liquidity issues for the banking sector.

Progress has also been made on the governance of the TSA project. A new directorate has been created in the Ministry of Finance to manage the TSA project, with a task to monitor general government entities' cash flow projections based on their approved annual budget. At the pilot stage, monitoring of the requirement to keep at most a 15-day liquidity buffer in commercial banks ([28]) will be performed by the GAO on an *ad hoc* basis, but a proper IT support for the monitoring of all general government entities cash buffers has been required by GAO.

The Bank of Greece payment platform is fully operational and could increase the efficiency of payments and help tackle the excessive amount of cash payments made by the general government. The current Bank of Greece platform allows electronic transfers of funds between cash management accounts and commercial bank accounts. The bulk of the transactions on behalf of general government entities is carried out electronically, but the initiation of the transaction still relies on paper orders. The new "Portal" platform is expected to provide a promising alternative, which avoids the need for paper orders. It could also tackle the excessive amount of cash payments. For reasons of efficiency and to ensure compliance with legislation on anti-money laundering and combatting the financing of terrorism, cash as a means of payment is allowed only for payments via cheques to be cashed-in. However, cheques are used in 7% of general government transactions, or 5.5% of their total volume. This is deemed excessive by the Bank of Greece and signals high tolerance levels embedded in the existing regulatory framework. The introduction of the "Portal" platform could help reducing the use of these cheques and deserves support of the authorities supervising general government entities.

3.4.3. Chart of Accounts

The authorities are broadly on track with implementing the Unified Chart of Accounts (UCoA) in all general government entities and moving to accrual accounting by 2023. The UCoA is a key step forward for improving fiscal monitoring, decision-making and reporting. It is also a crucial element in increasing transparency and reliability of fiscal and financial data. The substantial progress achieved over the recent years, also benefitting from technical support, has put a strong foundation for delivering the remaining and most challenging part of the UCoA. The newly defined digital governance policy, together with public finance management and accounting

([28]) Law 4549/2018.

reforms, appears among the priorities of the new administration, which signals a strong political commitment towards the remaining reform agenda. The new administrative and financial classification of the State budget, which was introduced in 2018 ([29]), defines single analytical codes for recording expenditures. As for the State budget, the changes were implemented successfully alongside the release of the first audited double-entry financial statement. The 2019 and 2020 budget preparations took place under the new UCoA.

GAO remains at a crossroads and crucial decisions still have to be made. By mid-2020, Greece will need to complete the UCoA requirements with deeper economical, administrative and functional classifications. The implementation of the UCoA by general government entities other than line ministries requires progress on the ambitious IT project. The European institutions welcome that the development of a single Enterprise Resource Planning (ERP) common to all central state budgetary entities is among GAO's priorities for 2020 since it a prerequisite for the success of the reform. In effect, the implementation of the UCoA is a culture-changing reform that has far reaching spill-over effects across general government namely in terms of policy-making and management and offers an opportunity to move towards a better management of public finance.

The governance structure of this major public finance management reform is to be reinforced with the appointment of a dedicated Steering Committee, which should begin to operate by the end of 2019. Establishing a governance structure fully dedicated to the UCoA was considered as one of the precondition for successfully rolling out the accounting reform. The European Institutions would however strongly encourage the authorities to align with international best practices by avoiding policy makers to be in a position to decide on accounting standards or policies and by providing assurance that deliberations regarding the UCoA abide by generally accepted governance principles. This is a critical issue touching upon the credibility of the financial statements that are to be delivered. Technical support therefore recommended either instituting a public sector accounting standards board comparable to the Accounting Standardisation Board for the private sector or adopting and abiding by a code of good practice.

The implementation of the UCoA by the Public Investment Budget (PIB) was previously identified as meriting progress by end-2019 and was addressed, although greater clarity is needed as to its full implementation in this area. The overall implementation of the UCoA by the PIB is slowly progressing, in particular thanks to closer cooperation between the Ministry of Development and GAO. While the ordinary State budget is executed through individual commitments, the PIB is executed via a multi-beneficiary commitment with a view to maximising spending on investment. Subjecting the PIB to individual commitment rules would be detrimental to this goal, and the European institutions took note of the Ministry of Development's concerns that the implementation of the UCoA in the preparation of the PIB could increase administrative burden. However, PIB expenditures have to be recorded and reported in accordance with UCoA standards, through the single Enterprise Resource Planning (ERP) for the whole of the State. According to the action plan drafted by the Ministry of

([29]) Presidential Decree 54/2018.

Development and GAO, the execution of the PIB will follow the new administrative and financial classification by end-March 2021. However, this action plan is not very specific about the full implementation of the UCoA in the PIB and does not foresee a way forward to integrate the ERP common to all State budgetary entities, whereas this should be a priority. The Ministry of Development responsible for the PIB intends to seek technical support with a view to identifying measures that could possibly be taken in order to align the PIB budget preparation and its execution with the new administrative and financial classifications set out in the Presidential Decree that put into force the new national accounting framework.

4. SOCIAL WELFARE

4.1. PENSIONS

The Council of State (CoS) has declared unconstitutional some aspects of the 2016 pension reform. The CoS has ruled unconstitutional the contributions for self-employed (20%) in comparison with that paid by employees (6%). Furthermore, the provisions cutting part of the supplementary pensions for overall pensions higher than €1 300 has been found unconstitutional because it violated the principle of proportionality and equality. Also, the replacement rate of pensions especially for high pensions and pensioners who have worked for many years was found unconstitutional. The authorities are elaborating proposals for addressing these aspects of unconstitutionality and have committed to find solutions that contain the cost of the necessary amendment within the budget of the Ministry of Labour for 2020 though it will be challenging. At this stage, as there is no specific proposal, is too early to assess if this will be the case.

Nonetheless, the key parts of the 2016 pension reform were found constitutional. On the positive side, the CoS has found constitutional the creation of EFKA and the integration of all pension funds (including the one for civil servants) into EFKA, and the recalculation of all pensions with the new rules (and thus the recalibration of pensions in payment and the recalculation of acquired rights of future pensioners). Moreover, for the aspects of the reform that were found unconstitutional the CoS has not granted the affected persons a right for a retrospective financial compensation.

However, the Second Chamber of the Court of Auditors has recently reached an opposite conclusion regarding pension rights of public sector officials compared to the Council of State decision above, which creates an additional uncertainty. Based on the ruling, the solidarity levy for public sector pensioners, the replacement rates of 2016 pension reform and the integration of civil servants and public sector pensioners to EFKA were found unconstitutional. Although the Court of Auditors extensively presented the grounds for considering unconstitutional the relevant provisions of the 2016 pension reform, it abstained from adjudicating the case, choosing instead to refer the matter to the plenary formation of the Court. Should the plenary reach the same conclusion as the chamber and rule that the pension reform law is unconstitutional in this respect, the matter will be submitted before an *ad hoc* Supreme Special Court of Article 100 of the Greek Constitution, so that the conflict created by the two mutually exclusive precedents may be resolved.

The authorities have decided to confirm legislation passed by the previous government that repeals important elements of the pension reforms adopted in 2012 and 2016 and leads to an increase in spending on pensions as a share of GDP. This pertains to the repeal of the 2016 reform of the survivors' pensions that had modernised and aligned the pension entitlements to standard practices of other EU Member States and the reinstatement of a permanent 13th pension, which had been eliminated in 2012. It will be paid once a year at a level of 30%-100% of current pensions (the highest percentage for pensions below €500 per month and the lowest for pensions above €1 000 per month) and will cost as much as €0.8 bn. These measures will decrease the relative share of social benefits spent on the young and working age population where the risk of poverty is much higher.

As regards the implementation of the action plan for the completion of the setup of the unified main pension fund EFKA, which is a mid-2020 commitment, delays have accumulated, and the new administration is launching corrective action. The authorities have planned a revision of the action plan and intend to accelerate the process of digitalisation of the pension award system. They have also started to address delays in the full integration of EFKA local offices, the integration of the different IT systems of the previous pension funds, in the launch of the tender for new IITS, the completion of the full insurance history for social security contributions, all elements that are key for the completion of the EFKA reform.

4.2. HEALTHCARE

The authorities have accumulated non-negligible delays with the collection of the 2018 clawbacks, a specific mid-2019 commitment, which has been delayed due to the introduction of the new repayment schedule, though the needed legislation will enter into force shortly. The delays in the start of the collection are due to the decision of the authorities to amend the legislation regarding the maximum repayment period for the clawback, to extend it from an initial maximum duration of 24 to 120 monthly instalments. The authorities have preserved the feature of a minimum floor to the instalments, which are set as a fixed share of companies' turnover, and instalment schemes are intended for clawback amounts above a certain threshold. Although the longer envisaged duration for the repayment plan, above 5 years, is reserved to a relatively small share of providers and represents only 15% of pharmaceutical clawback amounts, the legislative change still results in an overall dilution of payments, aside from the delay in the start of the procedure, and in an avoidable deterioration of the liquidity situation of the National Health Fund. The necessary secondary legislation (Ministerial Decision) to start the process of collection and clearance of the uncollected amount over the period 2012-2018 (approximately €900 m, with collection to start by 30 November 2019) was signed and will enter into force shortly. Overall, progress in this area is thus to be considered satisfactory but the European institutions have encouraged the authorities to step up the efforts in this area.

Progress towards achieving a share of centralised procurement in total hospital expenditure of 30%, a mid-2020 commitment, has been very limited and a planned reconfiguration of the central procurement body (EKAPY) may enable progress at the expense of additional delays. The commitment to strengthen EKAPY so as to reach increasing targets of items to be centrally procured, for instance by appointing the permanent board and completing the staffing, has not been met and the likelihood of reaching the targets under the initially agreed timeline is increasingly unlikely (so far, only about 10% of total spending value of €1.6 bn has been centrally tendered in 2019). Although the authorities have confirmed their intention to proceed with centralised procurement, they are currently reconsidering the features of the recently established EKAPY and are leaning towards the framework of a private-law legal entity with similar features to other agencies (TAIPED, Enterprise Greece, Public Properties Company etc.). Proceeding with the transition from the current status to that of a private legal entity, which it is expected by the authorities to enable EKAPY to operate more flexibly and efficiently in the future, may nonetheless lead to additional delays in the coming months, thereby adding to what was originally an already challenging progress towards the targets.

Consolidation of the existing primary health care network by opening the planned 240 primary health care centres (TOMYs), a mid-2020 commitment, does not seem feasible based on current progress. Similarly to the area of centralised procurement, the authorities have so far frozen the opening of additional TOMYs, to reconsider the most suitable structure of delivery of primary health care over the territory. In the next six months, the authorities consider feasible only the opening of at most 10 additional TOMY. This will result in the almost certain failure to meet the deadline for the completion of the TOMYs by mid-2020. As for the fundamental features of the model of primary care, such as compulsory registration with a family doctor and gatekeeping, these would be only gradually introduced, at a pace that is not yet known. The likely delay in setup of a comprehensive primary health care network with compulsory registration with a family doctor, coupled with the preservation of a prevalent side-system based on contracted private family doctors (providing maximum 200 visits per months). This essentially seems to replicate the old model, may undermine the achievement of full coverage and with that, patients' access to primary care. Lastly, any reconfiguration of the currently planned network has the potential to generate waste as the TOMYs are currently being financed by the Commission.

The authorities are considering a number of actions to support the rationalisation of health care spending. Amongst these are the development of a National Cancer Registry, the establishment of a Health Technology Assessments (HTA) Agency to support the existing HTA Committee, the strengthening of the already established Drug Negotiating Committee, stepping up the work on the development of clinical protocols and further building on progress made in updating the hospital reimbursement scheme (DRGs). In addition, the authorities intend to strengthen the role of the National Health Fund as an active purchaser and to commission services efficiently, amongst other things by adopting best practice and rationalising its structure, legal framework and operations. Many of these measures are a continuation of past actions and all represent steps in the direction of a reduction of the clawback, though their impact is expected to materialise only over the medium-long run.

In the area of pharmaceuticals, the authorities are delaying further the yearly update of the price bulletin (due in February/March 2019), which usually leads to a downward revision of pharmaceutical prices. The regular publication of the price bulletin has historically been one of the most important tools to reduce pharmaceutical prices. In addition, the authorities intend to eliminate the 25% entry fee for innovative drugs. Both these measures go in the opposite direction than of reducing excess spending and thus, potentially increase the amount of clawback in the coming months.

4.3. SOCIAL SAFETY NETS

The new housing benefit for persons living in a rented accommodation introduced at the beginning of 2019 is operating smoothly. The scheme provides a means-tested subsidy to low-income households to cover rental costs. The benefit ranges from €70 to €210 per month, depending on the household size. As of 30 September 2019, some

232 700 households were receiving the benefit, corresponding to more than 600 000 individuals (about 5.6% of the Greek population). In terms of household composition, the largest groups are single individuals (about one third of approved applications), followed by households with 4 members (23%), 3-member households (20%) and 2-member households (16%). About half of the beneficiary households belong to the lowest income group (with equivalent incomes of less than €7 000). About 20% of the applicants (46 500 households) are also beneficiaries of the SSI benefit. The average benefit amount is €120.60 per month, for an average total monthly expenditure of just over €28 million, broadly in line with the annual budget allocation foreseen.

The reform of the system of disability benefits is advancing but with significant technical-related delays, outside the control of the authorities. While upgrading and simplification of the administrative processes to determine disability status is progressing, the new approach to determine the disability status based on both medical and functional assessment **(specific commitment for mid-2019)** is still to be adopted. The Authorities have provided a summary report of the improvements made so far in administrative processes and intend to work closely between the Ministries of Labour, Health and Digital Governance to further digitalise and update procedures. The new disability benefit methodology should have been developed on the basis of an analysis of the results of a pilot project. Unfortunately, delays in the implementation of the pilot have meant that the pilot evaluation has not yet been finished by the World Bank, though it should be received shortly. A revised timeline, detailing the intermediate steps and a final deadline for adoption, will be agreed once the evaluation is received.

The implementation of the social inclusion and labour market (re-)integration elements of the Social Solidarity Income (SSI) scheme, an end-2019 commitment, is progressing. The SSI is based on three pillars: (i) income support; (ii) social inclusion; and, (iii) labour market reintegration. With respect to the second pillar, a network of Community Centres has been established throughout the country with the support of the European Social Fund, expanding the provision of social services at local level in a coordinated way. The third pillar relies on the provision of active labour market services (ALMPs) to help SSI recipients (re-)enter the labour market, and is still being developed. Between October 2018 and June 2019, about 14 000 SSI beneficiaries (5.8% of registered unemployed beneficiaries) have drawn up or updated their individual action plan, based on individual profiling, and 75% of them were included in some active labour market programme. To improve on this, the authorities are shifting from an ad hoc and irregular to a more systematic approach to the design and management of the ALMPs. Concretely, this entails: i) a shift to a new delivery model for ALMPs, whereby a menu of options and programmes is continuously made available to the unemployed; ii) a strengthened provision of counselling services; and, iii) a better mapping of the needs of the labour market which in turn informs the design of new programmes. The new system is being tested in a pilot project in one local office of the public employment service covering three municipalities, and the business processes for its national expansion will be determined following a process evaluation in December 2019. The gradual expansion will take place between February and July 2020.

The specific end-2019 commitment on the review of subsidies for local public transport remains on track. Ten different categories of people such as students, persons over 65, the unemployed, the disabled and members of large families currently benefit from subsidised fares for local public transport. Thanks to the recent introduction of electronic ticketing on the public transport network of Athens, data on actual transport usage by each category of beneficiaries has become available, allowing a more precise costing of these policies in the Attica region. The Greek authorities confirmed their commitment to carry out a study to review the appropriateness of the current system of subsidised fares for local public transport across Greece by the end of 2019, and to follow up on eventual recommendations to improve the system. To this end, they have created a working group which will come up with relevant findings by 15 December 2019, the conclusions of which will lead to a new draft law addressing among others the following issues: i) clarification of definitions of the different categories of beneficiaries; ii) the technical failures of the current electronic systems and interoperability with the databases of the disabled and the unemployed to address the issue of the fictitious increase in the number of beneficiaries; iii) streamlining costing.

5. FINANCIAL SECTOR

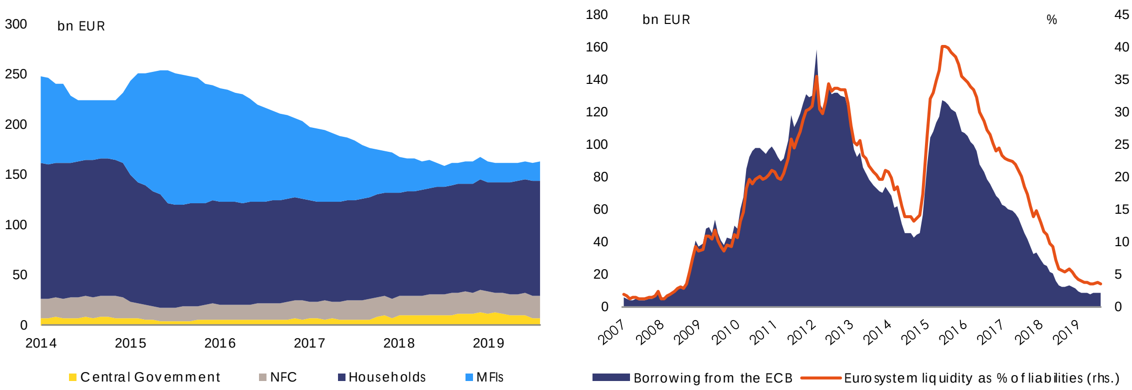
5.1. FINANCIAL SECTOR DEVELOPMENTS

5.1.1. Financial sector overview and financial stability assessment

The liquidity situation of Greek banks has further improved and there are signs that the banks' market access may be gradually re-established but legacy risks and challenges remain high. The banking sector's profitability has slightly improved but it is constrained by poor asset quality and a low differentiation of products and revenue sources. The liquidity situation of Greek banks has further improved while banks have tapped the market for the first time since 2015 with two subordinated bond issuances during the summer. Overall, access to long-term unsecured funding is only slowly being re-established and still at a relatively high cost. As a result, banks continue relying primarily on their internal capacity to generate capital, which remains very challenging. Going forward, the Greek banking sector is faced with the challenge of boosting its resilience and accelerating NPL reduction, while improving its ability to finance growth via an on-going flow of new business, with a sustainable risk-adjusted return profile.

The improving liquidity situation of Greek banks and increased depositor confidence led to the complete lifting of capital controls as of September 2019. In the first nine month of 2019, banks' private sector deposits increased by about 3.5% and the total central bank funding significantly decreased (see graph 5.1) as emergency liquidity assistance (ELA) was fully repaid in the beginning of the year. Whilst the abolition of capital controls normalises the functioning of the Greek economy within the Economic and Monetary Union (EMU) and is supportive for confidence building in the Greek market, this move places even more importance on accelerating efforts to strengthen the banking system and underpin depositor confidence.

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



Source: European Central Bank, IMF

The quality of capital of Greek banks remains a concern, as the high level of deferred tax credits (DTCs) in banks' Common Equity Tier 1 (CET1) contributes to the strong sovereign-bank nexus in Greece. According to ECB data as of the end of June 2019, the Greek banking system had a CET1 ratio of 15.6% on a consolidated basis, about the same as a year earlier and still broadly comparable with the EU average.

Although preliminary data suggest that the average CET1 ratio has increased in the second quarter of 2019 due to a combination of a strong performance of the marked-to-market sovereign portfolio, and the reduction of risk-weighted assets due to the sales of non-performing exposures (NPEs), the banks’ capital position is constrained by low recurring profitability and the still high cost-of-risk. The share of DTCs in the banks’ capital has only marginally decreased over the first half of 2019 and still exceeds 57% of the CET1 capital on average for the four systemic banks as of end of June 2019 ([30]). Furthermore, future NPL securitisations, for example under the new government sponsored ‘Hercules’ scheme, might increase the average share of DTCs in CET1 capital, if NPE sales are undertaken at less than book value. Moreover, the fully loaded CET1 ratio ([31]) is still well below the EU average (12.8% vs. 14.4%), which shows that Greek banks will need to deal in the near future with the gradual phasing out of beneficial transitional arrangements, particularly related to the transition to the new IFRS9 accounting standard ([32]). In addition, Greek banks will need to issue bail-inable debt in the coming years in order to meet the *minimum requirement for own funds and eligible liabilities* (MREL) ([33]) as per the EU legislation.

Profitability has slightly improved but it is constrained by poor asset quality and a low differentiation of products and revenue sources. Greek banks have returned to profits in the second quarter of 2019 but their return on equity (ROE) remains at low levels (2.6% on an annualised basis against the euro area average of 6.4%). Moreover, results have been partly boosted in some cases by non-recurrent trading gains, mainly reflecting the positive revaluation of Greek sovereign bond holdings. With net fee and commission income accounting for 14.6% of operating income vs a euro area average of 30% as of end June 2019, Greek banks are particularly exposed in case of a narrowing of their net interest spread in the current low interest rate environment.

Going forward, further differentiation of banks’ sources of income and efforts to contain operating expenses and reduce headcount costs are warranted. These efforts have already allowed them to reach an average cost-to-income ratio for the four systemic banks significantly lower than the respective euro area average (50.4% vs 66.2% respectively as of June 2019). Moreover, Greek banks aim to increase commission and fee income generation from bancassurance and asset management

([30]) Deferred tax credits for the four systemic banks amounted to €15.5 billion as of end of June 2019, representing a share of 57.3% of CET1 capital, approximately 3.5 pps less than at the end of 2018.

([31]) The fully loaded CET1 ratio is an estimate of the ratio of the CET1 capital of a credit institution over its total risk weighted exposure, as if the beneficial transitional arrangements under the CRR/CRD IV framework, affecting both the amount of CET1 capital and the risk weighted exposure, did not apply (i.e. had already been phased-out).

([32]) IFRS 9 replaced the previous accounting standard for financial instruments (IAS 39) and was endorsed in the EU in November 2016. It is effective for periods beginning on or after 1 January 2018. IFRS 9 moves from an incurred loss model (under IAS 39) to an expected credit loss (ECL) model. Given that this change could lead to a significant capital, the EU legal framework allows for a five-year transitional arrangement for banks who choose to make use of it.

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

activities. However, the still high level of NPLs coupled with weak pre-provisioning profit generation creates challenges for Greek banks, especially due to the need to swiftly reduce NPL levels and comply with the forthcoming provisioning calendar, in line with the ECB Banking Supervision Guidance and also in view of the application of the prudential backstop in the coming years ([34]).

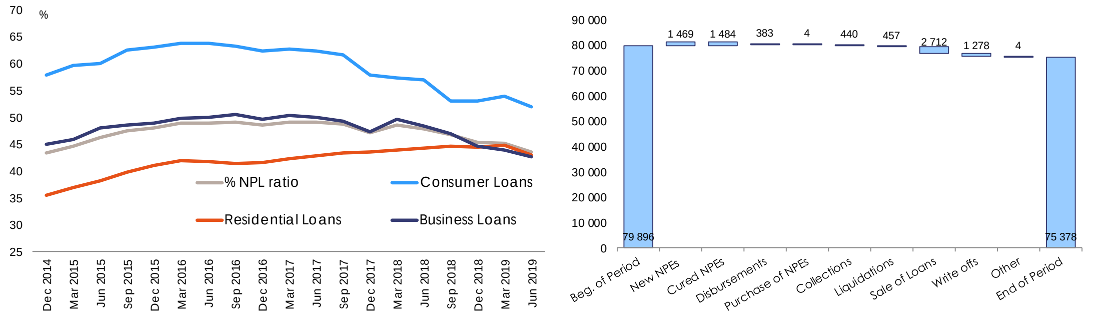
The pace of NPL reduction accelerated in 2019 but levels remain very high. NPLs in the Greek banking system peaked in March 2016 at €107.2 billion or 48.8% of total customer loans. Since then, both the stock and ratio of NPLs started declining, and the pace of decrease has accelerated since 2018, with the ratio of NPLs to total customer loans reaching 45.4% and 43.6% at end-2018 and mid-2019 respectively. By end-June 2019, the stock of NPLs were lower by €13.5 billion or 15% year-on-year and stood at €75.4 billion (see graph 5.2). This was overall in line with the operational targets set by the four systemic banks, under the oversight of the supervisory authority. By segments, the rate of non-performing residential loans decreased only by 1.2 percentage points over the year to 43.1% by mid-2019, also on account of protection schemes of primary residence currently in place, while non-performing consumer and business loans saw a larger reduction of 4.2 percentage points and 5.7 percentage points in their respective ratios over the same period ([35]). During the second quarter of 2019, according to the Bank of Greece, the banks recorded new NPEs and cured loans roughly at the same volume (€1.4 billion). They managed to sell gross NPLs of €2.7 billion and wrote off €1.3 billion. Collateral liquidation reduced gross NPLs by about €0.5 billion and repayments amounted to €0.4 billion. The coverage of NPLs by provisions decreased year-on-year by 2.6 percentage points to 46.0%. The coverage by collateral is at 57.1%, up by 0.3 percentage points. According to ECB data, the NPL ratio in Greece on a consolidated basis for the four systemic banks (39.6% of total gross loans and advances) remained the highest in the euro area at end June 2019, twelve times larger than the euro area average (3.4% of total gross loans and advances).

For the coming years, the four systemic banks plan substantial reduction in NPLs but the levels of the latter will still stay very high. According to the current plans of the four systemic banks, their average NPL ratio would decline from 43.1% at mid-2019 to 19.2% by end-2021 (still more than five times higher than the current euro area average), with large differences among banks. The stock of NPLs of the four systemic banks is planned to decrease from €72 billion to €26 billion at solo level by end-2021. Banks plan to achieve such an NPL reduction mostly by moving these loans out of their balance sheets using various securitisation and sales techniques.

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

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

Graph 5.2: **Evolution of NPL ratio as a % of total customer loans (left) and NPL stock within second quarter 2019 (right: m EUR) for the Greek banking system**



Source: Bank of Greece

Systemic initiatives, like the Hercules asset protection scheme can help clean up the balance sheet of Greek banks. Under the scheme, banks may transfer NPLs to separately managed, private securitisation vehicles (Special Purpose Vehicles or SPVs), which may issue junior, mezzanine and senior notes. The state would provide a public guarantee for the senior, less risky notes of the SPVs. The state guarantee on the senior tranche would become effective only after the originating bank has sold to private investors at least 50% plus one share of the junior tranche at a positive value and has sold at a positive price a part of the junior and mezzanine tranches which is sufficiently large to achieve accounting de-recognition of the sold NPLs. Furthermore, the senior note needs to reach a risk rating of minimum BB- by one or, in some cases, two independent rating agencies. In exchange for the guarantee offered, the state will receive remuneration at market terms from the SPVs. Furthermore, external servicer companies will need to manage the assets. In October 2019, the European Commission concluded that the scheme, which is similar to the Italian GACS scheme, does not constitute State aid within the meaning of Article 107 (1) TFEU.

The focus now falls on completing the design of the asset protection scheme and commencing its swift implementation. The current market environment and the historically low interest rates for the sovereign provide an opportunity for banks to achieve a relatively low price for state guarantee. However, the price of guarantee may increase in the future in case of negative market sentiment toward the Greek state. Furthermore, the success of the scheme will, inter alia, depend on the balance of regulatory capital gains, guarantee related expenses and losses stemming from the sale of notes to the investors. Participation in the scheme is will be voluntary for all Greek banks while the envelope of guarantees could support a substantial NPL derecognition for all banks. The scheme would run over an 18-month period, with the possibility of renewal.

To reduce NPLs faster to even lower levels, additional efforts will be needed by both banks and the authorities to clean out banks' balance sheets. The authorities could explore additional measures, including complementary schemes, to further support the health of the banking sector. Banks will need to accelerate 'organic' NPL resolution activities, and to strengthen efforts to identify and adequately address the issue of strategic defaults, since the moral hazard behaviour had significantly affected payment discipline in Greece. The process could be facilitated by the authorities by ensuring that NPL servicers and banks operate in an effective legal environment. These include a modern, post-crisis insolvency framework for households and corporations, the enforceability of collateral also through electronic auctions, as well as an active secondary market for non-performing loans as further discussed in Section 5.2. Key to the success of any reform of the insolvency regimes will be the effectiveness of the judicial system. Reducing the legacy NPLs, but also dis-incentivising the inflow of new NPLs are key priorities. At the same time, merely removing the NPLs from banks balance sheet will not be enough to restore the viability of the borrowers. Economic recovery with the support of new lending can only take place when a significant number of borrowers will have found sustainable solutions to their over-indebtedness.

Table 5.1: **Main financial stability indicators**

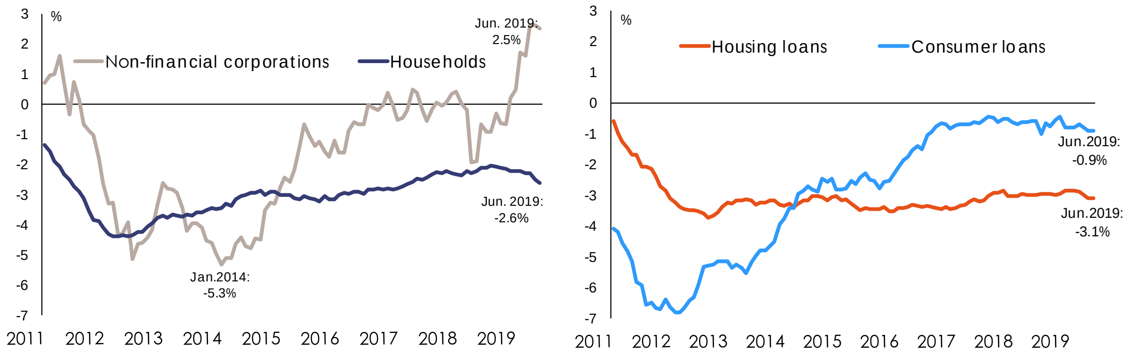
	2014q4	2015q4	2016q2	2016q3	2016q4	2017q1	2017q2	2017q3	2017q4	2018q1	2018q2	2018q3	2018q4	2019q1	2019q2
Non-performing loans	39.7	46.8	47.2	47.4	46.3	46.6	46.9	46.7	45.0	45.4	44.9	43.5	41.6	41.6	39.6
o/w NFC & HH sectors	41.8	49.5	50.1	50.3	50.4	50.3	50.6	50.4	49.4	49.2	48.4	47.3	46.3	45.6	43.8
o/w NFC sector	44.7	52.5	53.2	53.9	53.9	53.4	53.3	52.6	51.4	51.1	49.4	47.9	46.1	44.5	42.8
o/w HH sector	38.5	45.9	46.5	46.2	46.3	46.8	47.5	47.9	47.1	47.0	47.3	46.6	46.5	46.8	45.1
Coverage ratio	43.5	48.5	48.1	48.2	48.2	48.1	47.4	47.2	46.7	49.5	49.0	47.8	48.0	47.7	46.7
Return on equity(1)	-10.6	-24.2	-15.8	-9.9	-7.5	1.3	-0.4	-0.3	-1.3	0.7	-2.4	-0.8	-0.4	1.6	2.6
Return on assets(1)	-1.0	-2.8	-1.9	-1.2	-0.9	0.1	-0.1	0.0	-0.2	0.1	-0.3	-0.1	-0.1	0.2	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	16.3	16.0	15.6	16.5
CET 1 ratio	13.8	16.3	17.8	18.1	16.9	16.7	17.1	17.2	17.0	15.8	15.8	15.7	15.3	14.9	15.6
Tier 1 ratio	13.8	16.3	17.8	18.1	16.9	16.7	17.1	17.2	17.0	15.8	15.8	15.7	15.3	14.9	15.6
Loan to deposit ratio	79.1	72.3	74.5	75.5	75.9	77.2	78.2	81.8	83.5	78.8	78.4	76.0	74.7	75.8	74.3

(1) Annualised data
Source: ECB - CBD2 - Consolidated Banking data; own calculations

5.1.2. Financing of the economy

In the first semester of 2019, net bank lending to non-financial corporations has further improved, while credit growth to households remained negative. From 2011 until late 2018, the annual growth rate of loans extended to non-financial corporations (NFCs) had either hovered in negative territory, or, from mid-2016 onwards, was close to zero (Graph 5.3). Most recently, the gradual recovery in lending to NFCs that started in December 2018 has picked up pace on the back of a declining credit risk, positive economic growth and a generally declining average cost of funding on the part of commercial banks. Credit to NFCs recorded seven consecutive months of positive growth and reached 2.5% year-on-year growth in June 2019, a pace last observed in mid-2010. Most of this recovery in credit growth to NFCs is driven by loans to large NFCs, with new loans to large NFCs as a share of total NFC loans increasing in 2017 and 2018. According to the Bank of Greece, a large part of the credit growth is driven by the increased contributions of loans to energy, transport and tourism sectors. Regarding households on the other hand, although the growth rate of loans to households, has been slowly recovering since July 2016, it still remained in negative territory as of the end of the second quarter of 2019, slightly deteriorated relative to second half of 2018. At a more granular level, growth in consumer loans has remained broadly unchanged since late 2016 at close to zero while housing loans have been contracting at a slightly increased pace in the first six months of 2019, in spite on the increase in demand. Survey data suggest that demand has been growing for all categories of credit throughout 2018 and in the first semester of 2019. In particular, better housing market prospects, improving consumer confidence and spending on durables have contributed to increasing demand for credit by households. Increased demand for corporate credit since the third quarter of 2018 has been motivated by greater needs for fixed and working capital investment as well as mergers and acquisitions activity.

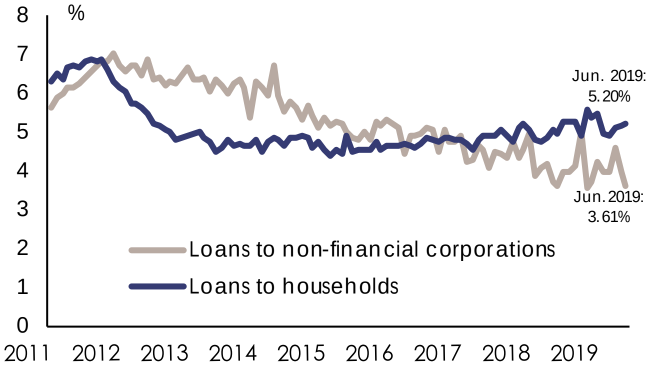
Graph 5.3: **Bank credit to non-financial corporations and households**



Source: Bank of Greece

Lending rates to non-financial corporations have broadly followed a downward trend, stabilising close to historical lows, while interest rates for credit to households have largely remained at high levels (Graph 5.4). The bank lending rate for non-financial corporations has been on a downward trend since the end of 2011 and has shown signs of stabilising below 4% in recent months, still above the euro area average but reflecting diminished risk perceptions. By contrast, lending rates to households have broadly remained at the high level they have reached, following the upward trend of the past four years. As a result, in the first semester of 2019, the average lending rate for households was more than 100 basis points above the corresponding rate for corporations, with the gap reaching on average 159 basis points in June. This divergence mainly reflects credit risk developments, as the NPL ratio for consumer loans remains particularly high, albeit diminishing, and the NPL ratio for mortgage loans has proved quite impervious to NPL reduction efforts from banks, deteriorating throughout 2018, unlike other loan categories. On a positive note, bank surveys indicate that competitive pressures have led to a narrowing in the margin on average-risk loans to NFCs for seven consecutive quarters, while this narrowing trend was observed for the first time also for loans to households in the second quarter of 2019. Overall, the persistently high lending rates facing households and the ongoing contraction of credit for housing loans are indications that government policies directly affecting the banks' loan portfolios most notably in the context of insolvency legislation imply a cost to the banks, as they cannot seize the collateral and provide sufficient incentives to borrowers to agree to loan restructurings. This adverse effect is exacerbated by delays in the judicial process linked with the very high backlog of pending cases related to insolvency procedures as well as an overall lengthy procedure linked with collateral seizure and liquidation. This appears to have contributed to accumulation and persistence of high mortgage NPLs, partly due to a more general deterioration of payment discipline, while exerting upward pressure on average lending rates in the economy.

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



Source: Bank of Greece

Small and medium-sized enterprises (SMEs) in Greece continue to be adversely affected by constraints to access to finance. According to the Survey on the Access to Finance of Enterprises (SAFE), the external financing gap for SMEs is still high in Greece, although it has been contracting mainly from the part of the supply of credit. SME access to credit is gradually recovering, albeit at a slower pace than credit to large NFCs, as overall SMEs are still disproportionately affected by limited access to bank financing. This is also reflected in the high spread between the interest rate on small bank loans (up to €250 000) and on larger bank loans (above €1 million) to non-financial corporations, which was on average 150 basis points during the first seven months of 2019, unchanged from the 2018 average. The importance of financial instruments from the EU programme for the Competitiveness of Small and Medium-Sized Enterprises (COSME), the Hellenic Fund for Entrepreneurship and Development (HFED), the European Bank for Reconstruction and Development (EBRD) and the European Investment Bank (EIB) in SME lending remains significant, as loan disbursements supported by the instruments offered by these organisations amounted to 44% of total loan disbursements to SMEs in the first half of 2019.

5.2. FINANCIAL SECTOR POLICIES

The authorities are working on a range of initiatives to strengthen the NPL resolution framework, though there is scope to accelerate the pace of implementation. The actions outlined below are monitored and assessed under enhanced surveillance as part of the continuous specific commitment to "*continue to implement reforms aimed at restoring the health of the banking system, including NPL resolution efforts*".

Electronic auctions

Despite progress in the first semester of 2019, the majority of electronic auctions continue to be cancelled or suspended, or have failed due to lack of interest among bidders and many successfully auctioned real estate assets are still acquired (re-possessed) by banks. According to data collected by the e-auctions platform throughout 2019 ([36]), approximately 58% of launched auctions were eventually aborted

([36]) Up to 12 November 2019.

or cancelled for various reasons, reportedly due in part to procedural issues and filings under the household insolvency law. From the 1 928 auctions conducted in the first semester of 2019, 1 186 (or 61.5%) proved unsuccessful, while the banks ended up purchasing the collateral in 76% of the successful auctions, i.e. of those terminated by a transaction. On the basis of such results it appears that e-auctions have not as yet performed as a fully effective tool to reduce NPL levels.

Despite the effective addressing of hindrances to the physical conduct of auctions (mainly activism against auction officials) that had affected the performance of the mechanism in its beginnings, the impact of e-auctions on NPL resolution continues to fall short of expectations. The conduct of e-auctions was repeatedly suspended pursuant to the applicable legal provisions ([37]). As a result, the number of auctions decreased markedly until end-July 2019, when the August summer recess started. Finally, the penal protection of notaries officiating as e-auction officials, first introduced in December 2017 in the Penal Code and subsequently abolished by the Penal Code that entered into force on 1 July 2019, was reinstated by the adoption of amendments to the relevant provisions of the Penal Code, on disruption of the performance of a public service and on bodily harm ([38]), currently under discussion in Parliament.

Identified impediments leading to the cancellation or suspension due to procedural abuse are currently under assessment. The main adverse factors cited by the Hellenic Banking Association relate to the strategic behaviour of debtors resorting to last-minute filings under the household insolvency law after the launch of enforcement proceedings and shortly before the auction, in an effort to block the process, and the filing of reserve price revision requests with a similar motivation. The Greek authorities have established a working group to assess the extent of the problem as well as other potential impediments, and to define and recommend the necessary mitigating measures that could be taken in the context of the ongoing review of the implementation of the Greek Code of Civil Procedure. On 29 October 2019 and 10 November 2019, the authorities provided a number of preliminary findings and proposals of the working group and stated that they would provide its full report shortly.

Clearing of the household insolvency backlog

The elimination of the backlog of cases in the context of the household insolvency framework, a specific end-2021 commitment, remains significantly behind schedule, notwithstanding the expiry of the Household Insolvency law protection framework in end-February 2019. The collection and processing of data on the clearing of court backlogs is progressing, but is adversely affected by a high percentage of statistically unreliable input from around one-third of the magistrate’s courts involved. The completion of data collection and consolidation is necessary to establish a revised action plan by the authorities by end-December 2019. The impact of the new mechanism for the protection of primary residences ([39]) on new filings should materialise in the last quarter of 2019 at the earliest. While recently received data pointed to an increase in new cases through the first quarter of 2019, it is most likely

([37]) Article 959 para. 8 of the Greek Code of Civil Procedure; Communication of the Coordination Committee of Notarial Associations under protocol number 219 issued on 13-5-2019.
([38]) Article 168 para. 3 and article 308 para. 2 of the Penal Code.
([39]) Law 4605/2019 (OJ 52/A/01.04.2019), articles 69 ff.

attributable to last-minute filings by debtors under the household insolvency law. It is key for the authorities to increase the processing capacity of magistrate's courts in order to achieve full elimination of the backlog, including cases created under the new regime, by end-2021, via the elaboration of above action plan. The European institutions have encouraged the authorities to assess the change in numbers of cases in the past (processed cases vs. inflows of new incoming cases) and present adequate measures to anchor the projected path of the elimination of the backlog by the end of 2021.

The latest data received (October 2019) confirm the tenacity of the backlog situation. Recent data, although partial, indicate that the number of pending cases remains high though incoming cases have decreased substantially since the second quarter of 2019. Overall, the number of pending cases at the end of the third quarter of 2019 (100 906 pending cases against a target of 61 910 for December 2019) is well above a trajectory that would allow the elimination of the backlog of cases by 2021. Since the elimination of the backlog is a specific commitment undertaken by the Greek authorities to the Eurogroup, sustained efforts will be necessary to realistically cut the latency period between the filing of a case and its hearing by the court, which currently exceeds 12 months in three-quarters of cases, and to increase the processing capacity of magistrate's courts. A number of problematic issues and contemplated preliminary solutions were highlighted by the authorities in a working document provided to the institutions on 29 October 2019; the revised action plan should however comprehensively and systematically complete the identification of problems and propose the appropriate solutions. Going forward, it will be necessary to extend the backlog monitoring to the newly adopted primary residence protection scheme, taking into account the rescheduling of hearings achieved either under the electronic platform procedure or further to litigation ensuing from unsuccessful platform procedures.

The addition of a new function to the electronic platform created for the Primary Residence Protection (PRP) scheme and providing creditors with data on debtors' assets should facilitate the identification of strategic defaulters and the design of tailor-made solutions to bona fide debtors while contributing to restoring payment culture, limiting moral hazard and assisting the judiciary in ruling on household insolvency cases. The usefulness of the feature in question will depend on the capacity of the judiciary to make use of it. The authorities reported that the platform went online on 1 November 2019 and draws on the state tax database containing data on taxpayers' income and assets. Institutional creditors will henceforth be able to identify strategic defaulters and take appropriate legal action to have the protection provided by courts rescinded. Bona fide debtors would also profit as banks can use the data provided to design and extend tailor-made restructuring proposals based on actual repayment capacity and the liquidation value of debtors' assets.

An amendment reinstating the favourable tax treatment of loan write-offs that had expired at the end of 2018 for restructurings made up to end-2019 is currently in public consultation. The relevant provision stipulates that the amount of the write-off will not be considered as an income of the debtor and will be exempted from the tax levied on donations. This addresses the disincentives to restructurings caused by the expiry of the previous tax treatment.

Primary residence protection

Following the adoption of primary and secondary legislation establishing a new system for the protection of eligible primary residences in support of the restructuring of non-performing loans, the launch of the electronic platform and the approval of the state subsidy scheme by the Commission under the state-aid rules, debtors have started submitting restructuring requests. The volume of completed requests that were submitted and received a restructuring proposal remained small up to the beginning of November 2019. According to data provided by the Greek authorities on 4 November 2019, of 44 446 users who accessed the platform 29 895 started drafting an application, of whom only 267 eventually concluded and submitted it to the relevant bank. Over the same period, banks extended 56 proposals to debtors, 10 of which were accepted.

In an effort to facilitate the submission of applications through the platform, the authorities issued new secondary legislation. A recent Joint Ministerial Decision ([40]) abolished the obligation of applicants to attach an encumbrance certificate to their application. The dispensation from this requirement was decided because it was ascertained that applicants could not receive the certificate due to a long ongoing strike of land registrars. On 14 November 2019, the authorities adopted a number of projected amendments to the law ([41]), to address inefficiencies and remedy to a number of identified shortcomings.

A number of important upgrades to the platform took place since its entry into service. The first upgrade in July added the capability for the automatic retrieval of tax- and bank-related data. The second upgrade in September allows for the submission of an application without the uploading of an encumbrance certificate, and the third upgrade, concerning the state subsidy, was tested by the relevant stakeholders. As a result, the Ministry of Finance announced that on 15 October 2019 the first State loan subsidy was approved. The General Secretariat for Private Debt assured the European institutions of its intention to continue updating the platform on a monthly basis in cooperation with the General Secretariat for Information Systems, in order to further address the needs of all stakeholders of the Primary Residence Protection procedure.

The authorities intend to prolong the scheme by four months and terminate the scheme by end-April 2020. While such a technical delay could help increase the uptake of the scheme from its current low levels, it slows down the normalisation of payment culture. The authorities also committed to accelerate the work on the harmonisation of insolvency frameworks. The institutions will report on the completion of both elements under enhanced surveillance. Under the new framework, it would be warranted to ensure the free enforcement of all collateral including primary residences, which would help normalise the banking sector's credit provision to the economy.

([40]) Joint Ministerial Decision 245/28.8.2019 "Amendment of the list of supporting documents required by the filing of the petition under the article 72 of law 4605/2019" (OJ B-3331/28.8.2019).

([41]) Ministry of Finance Bill on the Ratification of Cabinet's Act of25.09.2019, article 6, as shown on the Hellenic Parliament's website.

Harmonisation of the personal insolvency framework

Preparatory work on the harmonisation and integration of the bankruptcy and insolvency regimes has started. Given that the multiplicity of frameworks addressing corporate and personal insolvency makes their monitoring harder and exacerbates the risk of an erroneous choice of framework or even of procedural abuse (by means of parallel or consecutive recourses to several mechanisms), the elaboration of a well-defined and systemically consistent unified framework is highly desirable. For this reason, the harmonisation should be entrusted to a law-drafting committee and be effected without undue haste but in a holistic and technically thorough manner. The aim should be to adopt a revised personal insolvency law that would provide for a discharge of consumer (non-mortgage) debt upon liquidation of a debtor's assets, while limiting moral hazard issues.

On 30 October 2019, authorities shared with the institutions a concept paper, which serves as a basis for the elaboration of a new single insolvency framework by end-April 2020 and sets out the basic objectives of this reform. The concept paper was drafted jointly by the Ministries of Finance, Development and Justice. The effectiveness of any reform of insolvency procedures hinges on providing accompanying measures to guarantee that the judiciary would be in the position to effectively implement any new framework.

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

Progress with assessing the implementation of the reformed Code of Civil Procedure is underway but behind schedule, due to inherited delays. A working group was formed in February 2019 ([42]) for assessing the implementation record of the reformed Code of Civil Procedure is currently conducting a comprehensive evaluation of the reform**.** The dispatch of questionnaires to stakeholders took place in August 2019 (compared with the initial deadline of May) and feedback received up to the beginning of November covers all topics save the chapter on liquidation proceedings, also imminently expected according to the authorities. The working group is currently conducting a comprehensive evaluation of the reform based on information received, collated and processed so far. The intention is to quantify the influence on the achievement of targets and to elaborate new proposals, taking into consideration relevant legal precedent in view of completing the final stage of its work, i.e. the formulation of proposals for the adoption of potentially needed legislative amendments by the end of 2019. This will be followed by the formation of a law-drafting committee that will examine said proposals and draft the requisite amendments by the end of June 2020.

Training of judges and appointment of court clerks

The authorities reported further progress in the provision of financial training to judges, notably in the area of household insolvency. The two Presidential Decrees drafted by the Ministry of Justice, Transparency and Human Rights under the previous administration were revised by the authorities and are due for submission to the Council

([42]) Ministerial Decision No. 5542/φ.325/24.1.2019, of the Minister of Justice, Transparency and Human Rights (OJ YODD-56/11.22019). The working group consists of judges, academics, legal professionals such as lawyers, notaries, bailiffs and representatives of stakeholders.

of State for a constitutionality assessment that should be completed approximately two months following submission.

The authorities are also proceeding with the appointment of successful candidates for clerical court positions based on recently completed Supreme Council for Civil Personnel Selection (ASEP) competitions ([43])**.** The authorities reported that the completion of this action is delayed due to lengthy delays attributable to co-competent entities and to the fact that a significant number of successful candidates eventually refuse appointment or resign shortly thereafter, thus requiring a replacement procedure.

Out-of-court workout framework

Despite the numerous amendments and improvements that followed its initial adoption, the out-of-court workout (OCW) scheme has not attained its main goal, i.e. the conclusion of successful multilateral restructurings of viable businesses' debt. Given the overall performance of the OCW since its inception, the authorities are currently designing a unified insolvency regime that may become a more effective platform for restructuring viable businesses.

The situation has not changed materially in the second quarter of 2019. According to the data provided by the authorities in September 2019, the use of the out-of-court workout mechanism, which had recorded a modest increase up to the first quarter of 2019, remained more or less stationary in the second quarter of the year. No significant increase was recorded in the number of new applications. Successful multilateral business restructurings remain very few (approximately 5% of applications submitted) while bilateral restructurings fare better (37.5% of cases submitted). However, the highest percentages of successful restructurings continue to be those involving self-employed individuals (37%) and farmers (50%), whose outstanding debt is predominantly to the State and social security funds. The recent adoption of legislative amendments to the framework, which extended for the second time its cut-off date regarding the time limit set to the inclusion of debt in the restructuring, does not seem to have given the mechanism an impetus.

The authorities attributed the situation to a variety of causes, ranging from the rigidity of the OCW framework to the availability of competing schemes. More specifically, the authorities cited the strictness of eligibility criteria, the inherently complicated character of the procedure, the unwillingness of banks to participate, and the availability of the new 120-instalment scheme (see Section 3.1). They intend to adopt a number of envisaged amendments to the law shortly and are contemplating a further extension of its duration. However, short of an innovative proposal that would also entice the banks to endorse the OCW, it is unlikely that a further extension would reverse this picture. It might make better sense to concentrate efforts on the effective harmonisation of the insolvency regimes and their integration into one consistent whole.

([43]) Competitions 1K/2017 and 8K/2017 for the appointment of Court Clerks, 2K/2017 for the appointment of IT employees.

Legal safeguards for bank officials dealing with debt restructuring cases:

The authorities adopted an amendment to the relevant provision of the Penal Code aiming at addressing the issues of pending court cases against bank officials involved in past debt restructurings, and the protection of these officials in the context of ongoing and future restructurings. According to a statement by the Special secretary for the management of private debt, approximately 600 such cases are pending. The new provision ([44]) states that penal charges for disloyal behaviour directly against a banking institution may only be pressed pursuant to the filing of a complaint by the injured party, as opposed to ex officio. A pre-existing transitional provision of the Penal Code ([45]) stipulates that already pending cases may proceed if such a complaint is filed within 4 months from its entry into force. The impact of this legislation in the context of the Greek legal framework will be monitored under enhanced surveillance.

State guarantees

In September 2019, the backlog of called loan guarantees by the state remained considerable and increased since the previous report largely due to an increase in claims by the banking sector despite efforts to accelerate the processing rate. The stock of guaranteed loans called by commercial banks reached €2 bn. Such guarantees were granted by the state in the last decade on loans to private companies and individuals, mainly for social and humanitarian reasons. The slow clearance process has resulted in a considerable administrative backlog at the Ministry of Finance, which faced bottlenecks in its cooperation with banks and the responsible department was understaffed.

In March 2019, the authorities drafted an action plan to improve the clearance rate, which is facing minor implementation delays. The plan focuses mainly on the improvement of the electronic repository of claims and the interoperability of IT systems with local tax offices with a view to fully automatise the assessment process. The migration of data to the system was smoothly performed. The necessary legal steps were also successfully completed. As regard the IT part of the project, it is experiencing some delays since a key tender did not receive any offer. However, it was relaunched successfully since it received two offers. In the authorities' view, providing the commercial banks would proceed with their part of the action plan, the new system should still be ready by end-2020 as initially foreseen. However, in spite of these efforts, the clearance path envisaged in the action plan would not allow for a full clearance of the backlog in a foreseeable future without additional measures.

The authorities have presented an updated action plan to clear the backlog in a shorter period, which aims to deal with bottlenecks in cooperation with banks, while strengthening the General Accounting Office and upgrading the IT framework. The department of the General Accounting Office responsible for the clearance of called guarantees (currently employing 10 full time staff) will be reinforced. At first, they would recruit ten external staff by the last quarter of 2020 for a

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([44]) Article 405 para. 1 of the Panel Code.
([45]) Article 464 of the Penal Code.

six years period, another dozen of permanent employees would join the department in 2022 and a last dozen of external staff would reinforce it during three years in 2023. From early-2021, the department would then be employing approximately the same number of people than it was back in 2014. Furthermore, a steering committee, with the participation of commercial banks, was established to strengthen cooperation with banks and to address operational issues related to the clearance process. It is already examining IT, managerial and legal issues in order to make, by the end of the year, proposals to speed up the clearance. The additional capacity of the General Accounting Office combined with the efforts to improve collaboration with banks could facilitate the completion of the interoperable IT system projects, which is likely to speed up the clearance of the backlog.

The action plan is accompanied by a seven-year payment plan to clear the backlog of called guarantees though the authorities are exploring the possibility to expedite payments. Under the seven-year plan the payments would gradually increase, from €4.2 m in 2020 to €133 m in 2026. The plan includes €522 m from a recovery of revenues by taking into account the information on the debtor's credit profile provided by commercial banks. Taking into account *inter alia* the long lag from the time the guarantees were called, which for some dates back to 2012, the authorities are seeking scope for a payment profile not exceeding four years with adequate measures to ensure its credibility.

5.3. HELLENIC FINANCIAL STABILITY FUND

The Hellenic Financial Stability Fund (HFSF) continued exercising its shareholding rights in the four systemic banks, contributed to NPL resolution polices and improved their governance. In 2019, the HFSF as shareholder evaluated and approved several divestments of subsidiaries and NPE portfolios and in order also to improve corporate governance and to introduce international best practices, challenged bank strategies and policies. To help NPL resolution, the HFSF among others (i) actively contributed to the elaboration of important structural and technical details of the asset protection scheme, (ii) took part in interbank NPE reduction initiatives by participating as an observer in the NPE Coordination Committee and NPL Forum, and (iii) challenged banks' NPE resolution plans. The HFSF also regularly evaluates the performance of the Boards of Directors of the systemic banks and their governance arrangements. By October 2019, these banks have mostly implemented the HFSF's recommendations from the 2017 board performance & governance review that focused primarily on risk management culture, compliance and internal control frameworks.

The HFSF continued implementing its divestment strategy for the HFSF's stakes in the systemic banks approved in November 2018. Its implementation is in the first phase where the HFSF challenges the banks' strategies and business models to promote value-enhancing initiatives. In the next, preparatory phase, the HFSF will among others define and assess the banks' performance versus key performance indicators and develop a potential timetable. In the final phase, the actual divestments will be initiated and implemented. The discussions between the HFSF and the Ministry of Finance on the potential involvement of the authorities in the final stage of the divestment and the legal protection for the HFSF governing bodies and staff have not been finalised yet. The preservation of the HFSF independence is a cornerstone in the process toward restoring the health of the banking sector.

6. LABOUR AND PRODUCT MARKETS

6.1. LABOUR MARKET

The authorities committed to continue monitoring labour market and wage developments and intend to conduct an ex post assessment of the recent increase in the minimum wage. The statutory minimum wage was increased by 10.9% in February 2019. The next increase will take place after June 2020, following a consultation process that will start in February 2020. The government has agreed to conduct an ex post assessment of this year's minimum wage increase and to improve the information base available to monitor labour market developments, relying on technical support from the World Bank provided through the European Commission.

The authorities are on track to complete the implementation of an action plan to fight undeclared work for 2017-2019 by end-2019 and are preparing a follow up. The action plan promoted an integrated approach to undeclared work, including measures to reinforce the cooperation among different institutions, improve the capacity to detect undeclared work, strengthening incentives and reinforcing the capacity of the labour inspectorate. Results from labour inspections have shown a constant fall in the incidence of undeclared work since the implementation of the action plan. The Greek authorities will elaborate a follow-up to the action plan, after an ex post evaluation of all implemented measures will have been completed through technical support provided through the European Commission. In addition, a number of new measures have been recently adopted: to limit the abusive use of part-time work (which is considered to often mask undeclared full-time work), the additional hours provided beyond the normal part-time schedule have to be remunerated at an extra 12% of the agreed remuneration. Furthermore, the ERGANI system for the registration of employment contracts is being enhanced to cover also non-standard forms of employment such as work vouchers ('ergosimo') and 'contracts of independent services', while a digitalised system for the recording of working time will enter into force in 2020.

The new Development Bill adopted on 24 October 2019 introduced a number of changes in the collective bargaining system. While sectoral-level bargaining remains in principle the predominant level of bargaining, the possibility of opting out is introduced, in particular for businesses facing economic problems (bankruptcy, restructuring, liquidation, non-performing loans), or in businesses operating in areas with high unemployment rates, or in start-ups and social economy firms. The procedure for the extension of sectoral agreements is also changed substantially: the process is no longer automatic, but the decision is now at the discretion of the Minister of Labour, following an explicit request introduced by one of the signatory parties, which needs to be accompanied by an analysis of the estimated economic and labour market impact, in addition to the existing criterion of representativeness (50% of labour force already covered by the agreement). In practice, these new requirements are likely to limit significantly the extension of collective agreements. Furthermore, the new bill provides for the creation of a Public Registry for, respectively, employer associations and trade unions, in order to verify their representativeness to conclude collective labour agreements and to conduct a strike. Finally, the unilateral recourse to arbitration (which is constitutionally protected) is restricted to collective agreements concerning public utility companies and to collective disputes 'whose resolution is essential for reasons of general social or public interest'. It remains to be seen how these changes brought by the new Development Bill will affect collective bargaining in practice. While the new requirements for the extension of collective agreements may reduce the incentives for sectoral-level bargaining, the opt-out possibilities – if taken up by the social partners – may promote social dialogue both at firm and at sector level.

Education

The Greek educational system faces long-standing challenges, including inefficient allocation of resources, low autonomy, poor educational outcomes, skill mismatches, and weaknesses in the governance of higher education institutions. These challenges have been identified in the 2018 OECD review of the Greek education system and are reported in the education monitor published annually by the European Commission. Some measures taken in recent years undermine consistency with the past reforms.

A matter of concern remains the mismatches between the education system and labour market needs, which risk that the emigration of recent graduates to other countries continues, contributing to the ageing of the country's labour force. In the private sector, employment prospects for technological institutes graduates improved much more than those of than their university peers ([46]). Equally, employment of VET graduates has risen since 2015 and labour market projections predict possible shortages of medium-qualified workers until 2030 ([47]).

The new government has embarked on an ambitious programme of reforms aiming at addressing the specific challenges and modernising the education system and bringing it closer to good practice. On higher education, the declared goals include introducing performance-based funding, strengthening of quality assurance, and enhancing internationalisation by opening up bachelor-level programmes in English. The Ministry of Education also intends to improve links to the labour market by expanding work placements for vocational students and improving higher education institutions' autonomy by amending the governance structure.

6.2. PRODUCT MARKETS AND COMPETITIVENESS

Although there are few product market and competitiveness reform commitments with a deadline relevant to this enhanced surveillance cycle, it is worth stressing that key structural reforms in this vital area have been initiated under the programme and will require several years of sustained implementation, so as to secure a lasting improvement in the business environment, investment and growth. These broad-based structural reforms have contributed to significant improvements in the functioning of Greece's product markets and have helped support exports and attract investment. Export performance was buoyant in 2018, registering an annual growth rate of 8.7%, while export market shares increased significantly for a second year in a row. According to the Commission 2019 Autumn Forecast however, the subdued outlook for the euro area economy is set to dampen export growth in the coming years, though this

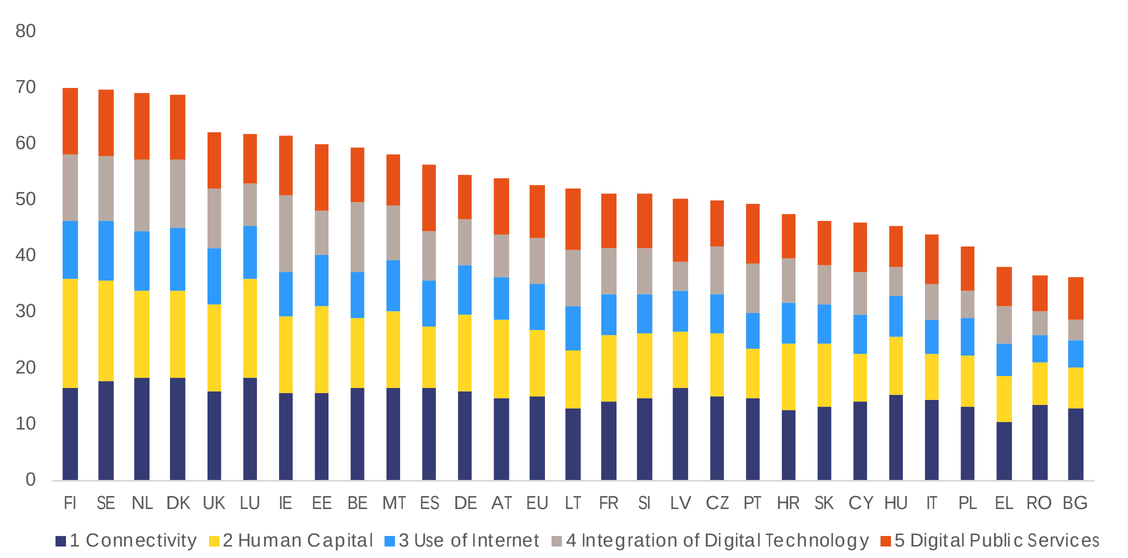
([46]) IOBE (2018), Education and labour market in Greece: Impact of the crisis and challenges.
([47]) Cedefop (2018), 2018 skills forecast – Greece.
http://www.cedefop.europa.eu/files/cedefop_skills_forecast_2018_-_greece.pdf

effect is likely to be cushioned somewhat by the solid market share gains being made by Greek exports. Meanwhile, despite a fall in gross fixed capital formation (-12.2% in 2018 partly due to public investment), net inflows of Foreign Direct Investment (FDI) to Greece increased by 13.8% in 2018, and reached some 2% of GDP. This follows the gains in net FDI inflows recorded in the previous two years, albeit starting from a low level. As domestic savings appear insufficient to meet the significant investment needs of the Greek economy, stepping up on efforts to attract FDI will be key, including by proceeding with key privatisation transactions and improving the management of state assets.

This is evidenced also in a number of non-cost competitiveness indicators, which still remain relatively weak. Greece has one of the lowest levels of business dynamism in the EU, as measured by firm churn rates, which points to difficulties in business creation and growth, and has implications for aggregate productivity and competitiveness. According to the recently released 2019 Global Competitiveness Index of the World Economic Forum, Greece has slipped two places to 59th compared to last year (out of a total 141 countries). Greece's deteriorating relative performance is largely due to its credit system (115th, from last year's 114th), given the persistently high NPL levels and financing constraints for SMEs. In the same vein, the World Bank ranks Greece 79th among 190 countries in its 2020 Doing Business report (seven places down compared to its previous assessment), pointing to persisting weaknesses in the areas of accessing credit, registering property and enforcing contracts. Meanwhile, Greece has the third least advanced digital economy in the EU, according to the latest (2018) Digital Economy and Society Index (DESI) (see Graph 6.1) and its product markets continue to be heavily regulated in comparative terms, according to the latest OECD assessment. Lastly, according to the Commission's newly released 2019 Regional Competitiveness Index, five out of the ten lowest ranked regions across the EU (out of a total of 268) are Greek ([48]), indicating low ability of such regions to offer an attractive and sustainable environment for businesses and residents.

([48]) These correspond to Notio Aigaio (259th), Dytiki Ellada (262nd), Dytiki Makedonia (263rd), Anatoliki Makedonia, Thraki (265th), and Voreio Aigaio (268th).

Graph 6.1: **Digital Economy and Society Index (DESI)**



Source: European Commission, Digital Scoreboard

The positive momentum in economic indicators provides an opportunity to tackle the remaining structural weaknesses. Despite a slight decline in September and October 2019, the Economic Sentiment Indicator reached a 12-year high in August 2019 at 108.40 index points, whilst consumer confidence is at its highest level since 2000. Meanwhile, Greek bond yields are at historical lows, with 10-year yields well below 2%, while Greece has managed to borrow with a negative interest rate at the three-month T-bill auction of 9 October 2019. Addressing remaining structural weaknesses of the business environment, including inefficiencies in public administration and the justice system, would be key to sustain this positive trend. Further steps towards fostering competition in network industries, transitioning to the new energy model, and completing the spatial planning framework for industrial and business sites are also warranted. Moreover, there is room to improve the effectiveness and labour market relevance of the education system, notably in vocational education and training, given the high and increasing degree of skills mismatches.

6.2.1. Business environment

The new administration has signalled its intention to pursue a strongly pro-growth and investment policy agenda, maintain and strengthen reform momentum where needed, and meet the policy commitments made towards its European partners. It is welcome that the government is oriented towards an ambitious package of growth-supporting policies and measures to be adopted progressively over the next four years. To this end, the authorities are working on a new National Growth Strategy that places greater emphasis on investment-and export-led economic policy, accentuated by measures that aim at creating a more favourable taxation system and economic environment. A national high-level Committee composed of renowned experts and chaired by Nobel Prize economist Christopher Pissarides will be set up and work towards policy proposals to be included in the National Growth Strategy.

Since entering into office, the government has taken a number of initial steps that pave the way towards improving the business landscape. The new administration has adopted legislation to promote the transition to a digital State, including through the establishment of a new Ministry of Digital Governance, as well as to modernise justice and public administration. The latter includes the establishment of a framework to promote better-targeted and effective legislation via structured regulatory impact assessment and legal codification. These steps are expected to help create a more stable, predictable and transparent legislative framework in the medium term and facilitate transactions between the state and businesses. In addition, with the adoption of the law amendment that lifted remaining restrictions on the movement of capital as from 1 September 2019, a significant burden on the credibility and confidence building in the Greek economy was removed, sending positive signals concerning the robustness of the economy.

Further measures have been introduced through the recently adopted Development Law of 24 October 2019, which are expected to contribute to the improvement of framework conditions and the business climate. Amongst others, these include the alignment of the nuisance classification system to the environmental classification which is harmonised with relevant EU legislative acts ([49]), the reduction of licensing requirements in specific cases – especially for businesses established in zoned areas with defined industrial uses for land and in business parks – and the development of a Single Digital Map to record all geospatial data and criteria against which construction and investment projects will be evaluated. The law also provides for the establishment of a National Programme for Administrative Simplification to cut red tape, an Observatory for measuring and monitoring the impact of regulation on the administrative burden, and a National Development Plan that sets out the framework for the management of the national component of the Public Investment Budget. Further, legislative provisions are also included to accelerate the preparation of local spatial plans and the approval of special spatial plans, which are expected to have a direct impact on investment.

The new government places the promotion of the digital economy high on its policy agenda, as part of the enlarged mandate of the new Ministry of Digital Governance. The Ministry is expected to lead key policy-specific IT projects, including on pensions and property valuation, as well as a number of horizontal initiatives. Projects to be pursued in the short-term include the development of a single digital identity for the authentication of all transactions with the State, the simplification of specific administrative procedures for citizens and businesses, and the setting up of a unified platform (gov.gr) to bring together information and electronic services offered by the State. An action plan is being prepared to set out measures for 2020, along with a study that identifies stakeholders, roles and industrial policy issues. In the medium- to long-term, the Ministry aims at further developing the infrastructure for 5G networks and promoting the interoperability of public systems and registries. Further, the authorities are currently working on a 'Digital Bible' with a view to finalising it by the end of the year. This will revise, and eventually replace the existing National Digital

([49]) The environmental classification in Greece, which is used for the environmental permit system, is harmonised with the Environmental Impact Assessment Directive (85/337/EEC) and the Industrial Emissions Directive (2010/75/EU).

Strategy, setting the framework for the digital transformation of the public administration and the economy as a whole. Progress will be monitored on a quarterly basis, whilst targets will also be set for each area of digital performance as captured by the Digital Economy and Society Index (DESI) in order to bring Greece in line with the EU average.

The new administration is also taking first steps towards a coordinated approach to promoting the outward orientation of the Greek economy. Despite broad-based reforms pursued over the last decade and recent macroeconomic improvements, the trade openness of the country, as well as the stock of FDI remain amongst the lowest in the EU. With a view to facilitating coordination in overlapping domains and responsibilities, the authorities are drafting a bill to set out a new structure and mandate for the Ministry of Foreign Affairs. The bill, which is expected to be completed by the end of the year, will gather all actions and policies aimed to promote exports and attract FDI under the remit of this Ministry. In addition, within the new single organisational structure, 'Enterprise Greece' will constitute the main vehicle of the Greek State to implement the National Strategy for Extroversion that is currently under preparation by the government.

The new administration has presented a revised Action Plan setting out economic diplomacy initiatives for the next years, but there is scope to further enhance its ambition. Building on the previous government's Action Plan, a number of follow-up initiatives are being pursued. These include efforts to set up a unified IT platform (AGORA+) for providing information to potential exporters and investors by end-2021, upgrade the Help Desk services of Enterprise Greece by mid-2021, develop business guides by October 2021, and upgrade the functioning of the Economic and Commercial Offices by July 2023 through the standardisation and certification of related procedures. Whilst these measures are relevant for supporting extroversion, they appear limited in scope. Specifically, the Action Plan is largely based on existing initiatives and lacks concrete policy tools to support non-price competitiveness, innovation and smart specialisation in promising exporting sectors, such as agro-food, tourism, transport and logistics, and high-tech. Moreover, the Action Plan does not establish the necessary links with trade facilitation and investment promotion strategies.

Lifting remaining administrative, regulatory and institutional barriers to exports would be key to support the government's efforts to enlarge Greece's export base. Based on the latest Product Market Regulation assessment of the OECD, barriers to trade facilitation were higher in Greece compared to EU peers as a whole at the beginning of 2018. Reforms with the greatest benefit, both in terms of bilateral trade flows and trade costs, relate to information availability, advance rulings, fees and charges, and automation and streamlining of procedures. In addition, the take up of privileged trade statuses (e.g. Authorised Economic Operator) which allow for less control and swifter customs procedures, remains particularly low. To this end, it would be advisable for the authorities to review the current administrative, regulatory and institutional framework that applies to exporters, with a view to identifying and lifting remaining administrative impediments to exports. Moreover, it would be encouraged to expedite the pace of ongoing trade facilitation reforms which are facing persistent delays, notably the setting up of the integrated IT platform on import and export procedures (Single Window) that is supported by EU funds (€1.6 m), and to ensure interconnectivity with relevant IT systems.

Progress with rebalancing the economy towards promising export-oriented sectors would help strengthen the current account and the deteriorating net international investment position. There is considerable export potential in sectors such as agriculture and agro-food where product quality is relatively high, and the development of smart specialisation strategies would be warranted to exploit Greece's comparative advantage. Policies to support tourism and export sectors with a higher value added and innovation component are also needed and could benefit from knowledge transfer via inward FDI and privatisation.

The government is off to a good start in terms of launching initiatives to strengthen the business environment and is planning further actions to streamline regulatory processes and stimulate investment in key sectors. Indeed, it is essential to provide sustained certainty and greater incentives to investors. To that end, the government has indicated it will continue to prioritise further actions on tackling procedural impediments and rationalising the licensing process, especially in relation to environmental licensing. This would be particularly important for boosting investments, especially in activities of high economic impact. It would also be important to review the framework on the land use and conditions for the licensing of industrial activities in Attica, a core region with access to high-quality human capital resources, good logistics and transport connections, with a view to further promote the sustainable development of this region. Greater emphasis on establishing appropriate mechanisms to ensure the actual enforcement of positive legislative measures, such as licensing deadlines and the use of intervention tools to expedite processes, would also be a priority. Furthermore, it is important for the government to promptly proceed with the completion of flagship reforms such as the Hellinikon project and the concession agreement on Egnatia, and take swift action towards the transitioning to the new energy market model. Such actions would send a strong positive signal to investors and markets.

Investment licensing

To guide the completion of the investment licensing reform, which is part of the specific commitments up to 2022, the new administration has produced revised action plans with a timeline for intermediate actions. According to the revised action plans, the authorities commit to meeting the deadlines for the outer years set out under the enhanced surveillance framework. Nonetheless, previous delays and staffing issues have made conforming to some reform elements more challenging, notably as regards the extension of the simplification of legislation in the 24 sectors not yet covered by the investment licensing reform and one of the domains of the inspection framework (i.e. environmental protection). It will be key that the government commits adequate resources to the process, notably for the Better Regulation Delivery Directorate responsible for the coordination and monitoring of the licensing reform, to ensure that the timeline of the abovementioned reform is met. As regards the commitment on the review and revision of the nuisance classification, the new action plan is in line with the provision introduced in the recently adopted Development Law, which foresees the alignment of this system with the environmental classification system by mid-2020, a year earlier than the commitment deadline. In addition, the authorities committed to issue the relevant Presidential Decree for the certification of External Environmental Assessors by mid-2020, a pending requirement since the ESM programme, and also to review environmental licensing rules by March 2019, with a view to facilitate the expedition of the environmental permit process.

The new administration has committed to safeguarding the integrity of critical reform gains achieved and to this end it is expected that a formalised mechanism will be established. This is a much welcome development given that the adequacy of control mechanisms to contain the risk of potential policy reversal was relatively weak. Speeding up the reinforcement of the Better Regulation Delivery Directorate would help ensure continuity of the reform and accelerate the pace of implementation. The state of play on specific commitments is as follows:

- **The tendering procedure on the relevant IT system (ILIMS), due to be completed by end-2019, appears to be largely on track, despite some delays in the technical and financial evaluation of the tenders that seem to be outside the authorities' control**. The authorities envisage awarding the contract by the end of the year, still in line with the commitment deadline, save for any appeals against the final decision. According to the revised Action Plan, project implementation is expected to commence in February 2020 (and to be completed over the course of 34 months, as provided for in the tender documents). The first deliverable of the contractor, i.e. the implementation study, should be made available within six months from the awarding of the contract. In light of the legislated responsibilities of the new Ministry of Digital Governance, it would be helpful to clarify the roles and responsibilities of the aforementioned Ministry and the Ministry of Development and Investments regarding the design and implementation of the system, so as not to risk losing focus on the project due to lack of clarity on ownership.

- **Work on the implementation of the inspections framework law, and specifically in the development of sector-specific actions in the environmental protection domain, is experiencing some delays.** However, in accordance to the revised Action Plan, the authorities have committed to completing the work in line with the objective to finalise the inspection legislation by mid-2020, as per the commitment deadline. This appears to be rather ambitious, given that all actions pertinent to the last inspection domain (i.e. product safety) have been pushed back to be completed within the three-month period prior to the mid-2020 deadline. The work on the development of sector-specific tools in the food safety and environmental protection domains will be completed with Commission technical support provided through the World Bank.

- **Regarding the extension of simplification, by mid-2020, of the investment licencing procedures in the 24 remaining sectors, the authorities have produced a set of proposals on the simplification of most primary production sector activities** (i.e. livestock installations, fish farming, and veterinary clinics installations) and are expected to finalise soon their proposals on the last remaining activities pertaining to this sector (i.e. forestry). Progress on this reform component appears rather limited since the last assessment round, in part affected by the change of government. Specifically, delays are experienced both in the passing of primary and secondary legislation in relation to the primary sector (which is expected to take place by the end of 2020), and also in the first phase of simplification of the next sector (i.e. the assessment of the licensing procedures for the transport sector). Nonetheless, according to the revised Action Plan, the new government has committed to meeting the mid-2020 deadline. This, however, is considered challenging taking into account the current level of staffing of the Better Regulation Delivery Directorate, given that the review and reform of the last two sector activities (i.e. transport and post-secondary education and vocational training) would essentially have to run in parallel.

- **As regards the revision of the nuisance classification, which is due to be completed by mid-2021, the authorities have provided a revised action plan.** This includes intermediate actions that need to be taken to align nuisance classification with the environmental classification system by mid-2020 through the issuance of a Joint Ministerial Decree, as per the provision introduced in the recently adopted Development Law. As per the revised Action Plan, work will resume on this area following the reconstitution of the relevant Steering Committee and Working Group through the issuance of a new inter-ministerial decision and Secretary General decision respectively, starting with a comparative analysis of the legislation and regulatory barriers on the categorisation of activities. The authorities have also committed to the continued engagement of social partners in the process on a monthly basis, which is highly encouraged.

Cadastre and Land Use

The authorities committed in June 2018 to complete a number of reforms in the area of land use. Specifically, the authorities committed to complete the cadastre project by mid-2021 and as intermediate steps to complete the remaining forest maps by mid-2019 and fully establish the cadastral agency and complete 45% of the cadastral mapping by mid-2020. The authorities have adopted a comprehensive road map in order to achieve these objectives.

Forest maps for some 95% of the country have been completed, materially reaching the target of completing the drafting of the last phase of forest maps. Out of these, 53.3% have been uploaded for public consultation and 44.5% have been ratified, and thus became definitive. The remaining 2.1% of the country's forest maps has been contracted in May 2019 and will be finished by February 2020. To this end, 100 specialists (forestry and agronomists) have been recruited on eight-month contracts to strengthen the local forestry offices and the committees on objections are ongoing.

Cadastral mapping proper has been completed for around a third of the property rights and the remaining part is in progress. The declaration of properties for cadastral mapping is picking up and the authorities are considering further steps to accelerate the process. Following previous delays due to consecutive extensions of deadlines, and a limited campaign to boost public awareness to the project, the declaration pace regained strength in September, and the authorities have decided to limit the extensions of the declaration period and are considering starting applying penalties from January 2020. As a result, the critical mass of declarations of rights necessary to process the maps has been reached in twenty-one Regional Units. In September, declarations were successfully completed in the Regional Units of

Thessaloniki, Pieria, Arta, Preveza, Lefkada, Korinthia and Larissa as well as the islands of Kalymnos, Karpathos, Kos and Rhodes. The rate of declarations for these areas goes beyond the technical and contractual target of 55% initially set with the contractors, with the latest compilation showing that the overall rate reaches 68%. This trend continued in October, where declarations for another fourteen Regional Units were completed with an anticipated rate of 65% of declarations. In absolute terms, in October 950 000 individual property rights were recorded, the highest number so far for a single month. In summary, of the estimated 39.1 million total active titles in Greece, for 12.9 million (33%) the cadastral mapping has been completed, 22.7 million (60%) are in progress (out of which 8.5 million or 37.5% have already been declared), and for 2.7 million (7%) titles, the contracts are currently suspended due to court procedures.

The government has appointed the President, Vice President, Board of Directors and General Manager of Hellenic Cadastre. The government has committed to adopt legal provisions to establish an open selection process for the senior management positions in the future. A draft Business Plan and Corporate Strategy have been prepared with the help of the World Bank and are currently under scrutiny by the new management. The shortage of staff in the legal department risks causing delays in the processing of the ongoing contracts, which will result not only in delay of completing the contracts but also to additional costs. The Hellenic Cadastre intends to address this problem by contracting temporary staff and outsourcing to cover the immediate needs, but there is need to address it in a more permanent way. Equally, the shortage of staff in the IT department needs to be tackled.

According to the Cadastre Law, 396 mortgage offices need to be consolidated and merged into the new structure, which will consist of 17 regional cadastral offices and 75 branches. This transition has been very slow. The first three offices were established in April, May, and September respectively and a major regional office is planned to open in November 2019. However, the revised schedule of January 2019, which foresees the establishment of 45 offices by December 2019 and the remaining 47 in 2020, is clearly no longer realistic. Slow implementation of the action plan to migrate existing offices into Hellenic Cadastre is in part due to the lack of staff to guide the institutional transition, while the national elections have also delayed decision-making. As it stands, there is high risk that the transition to the new agency will not be achieved within the two-year timeframe established by the legislation. The most important downside of this situation is that cadastral information continues to be registered in different places and through different systems, resulting in incomprehensible situations for the citizen.

The authorities have committed to take measures to accelerate the transition to the new entity. These measures include setting up a realistic time frame for the migration process based on the progress achieved so far, initiate the hiring procedures for all the available positions of scientific staff of the regional structure of the Hellenic Cadastre and the hiring of a temporary 50-person taskforce to support the migration. Furthermore, the authorities have committed to speed up the development of electronic services and establish programmatic agreements with regional bar Associations to overcome operational problems. The World Bank is providing technical support to assist the Hellenic Cadastre to complete the transition to the new structure by consolidating and merging the National Cadastral Mapping Agency (EKXA) and the

396 mortgage offices into one single agency, and to advance the completion of the cadastre and property registration for the country in general.

On spatial planning, the government has amended the spatial planning Law 4447/2016 in order to accelerate the implementation of local spatial plans and the approval of major investments. The main changes are: (a) the local spatial plans can be drawn at municipal unit level (fraction of the municipal area) and (b) the pre-approval of the special spatial plans has become optional, as it proved that the mandatory pre-approval did not lead to either legal certainty or an acceleration of the process.

The authorities also plan to simplify the technical specifications for the Local Spatial Plans to reduce steps and red tape but a faster implementation of the land use reform is hindered by low administrative capacity. The Local Spatial Plans will be tendered at smaller scale and the authorities are preparing a first set of 200 such plans to be tendered in January 2020. There will be three criteria of prioritisation: development pressures, serious environmental problems and downgraded areas to facilitate the regeneration of disadvantaged and/or de-industrialised zones/areas (as foreseen in annex D of the Greek Country Report). The capacity of the Ministry to implement the land use reform remains low and should be strengthened. Institutional strengthening is also needed at municipal level.

6.2.2. Network industries

Energy

The Greek authorities have announced ambitious plans for energy market reforms, which will affect the timeline for the implementation of the target model for electricity (a specific mid-2019 commitment). A large amount of focus over the last months was placed on the incumbent energy player, Public Power Corporation (PPC) after its annual financial results for 2018 included a warning about its status as a going concern. Regarding the implementation of the antitrust commitments, Greece is currently in breach of this commitment. The Target Model for the electricity market seems on track for delivery by the new deadline of June 2020; since the last report, progress was made with stakeholder meetings and the clearing rulebook. The last NOME (*Nouvelle Organisation de Marché de l'Electricité*) auction was cancelled by the authorities. The authorities have proposed an ambitious plan that modernises the energy market and addresses its main issues, including the dominant position of PPC and the impact that this might have. The cornerstone of its new energy strategy is the early decommissioning of lignite capacity, which is an ambitious plan that, combined with the implementation of the revised anti-trust remedies and of the target model, could see a transformation of the energy market.

The authorities have undertaken efforts to stabilise the PPC's financial position. On the back of the PPC rescue plan involving energy policy and PPC structural changes, certain measures were taken in the run-up to the publication of the half-year financial report in September. Action by the authorities included pricing changes such as the reduction of VAT on energy bills to allow for increased tariffs while keeping the same price level for consumers, and settling of amounts owed under the Public Service Obligation to be returned to PPC. Several key actions were also taken by PPC, inter alia: adding a CO_2 price component to low voltage invoices, securing long-term borrowing to the amount of about €230 million, and securitising some of its consumer arrears. Following of these measures, the financial report in September was positive. Arrears remain a great challenge for the company, though measures are being taken to address this, such as putting further pressure on cutting the power of strategic defaulters, and the introduction of new instalment schemes. There are signals that PPC will sell its remaining stake in the distribution grid, which would help both its financial situation and with market opening.

The failure of the tender for the lignite plants resulted in a breach of the anti-trust commitment, and an alternative remedy hast to be found. The first round tender for the divestiture of the plants launched by PPC in June 2018 attracted several investors, three of which carried out an extensive due diligence and expressed an interest to submit offers. Upon requests by the authorities, the end of the divestiture process was significantly postponed from October 2018 to February 2019. Offers were made but PPC rejected them based on a valuation of the plants commissioned by PPC itself. However, the valuation used by PPC violated the principles set forth in the commitments for the preparation of such a valuation and was based on unrealistic assumptions. Following the failure of this first tender, a fast-track second tender was organised with the divestiture process closing end-June 2019. However, PPC did not follow the agreed timeline and unilaterally postponed the bidding date to mid-July 2019. This final round, already outside the agreed timeline, led to no bids, against the background of the legal uncertainty and lack of transparency. Since the enduring distortions on the wholesale market in favour of PPC due to its exclusive access to lignite-fired generation persist, the authorities are engaging in the preparation of alternative anti-trust remedies aiming at granting PPC’s competitors access to that that lignite-based generation. The access would last until the full phase out of lignite in the country. As indicated by the Greek authorities to the Commission, following technical discussions with the Commission services, Greece formally communicated their intention to submit revised remedies in January 2020. Given the importance of this issue for proper functioning of the Greek wholesale market, the effectiveness of other reforms will be impacted by progress in this respect.

The target model for electricity has been underlined as a political priority, and the goal to go-live by June 2020 is on track for now. Whilst a lot of the regulatory preparation has been carried out, technically demanding project delivery remains to be undertaken by the Transmission System Operator, ADMIE (Greek Electricity Transmission System Operator) and the market operator, HENEX (Hellenic Energy Exchange). The original commitment was for April 2019 but this has been missed, partially related to the technical complexity of the project, leading to a formal hearing of the parties by the regulator RAE; the new proposal of delivery by June 2020 has been acknowledged as feasible by all relevant parties and it seems that any new delay would be difficult to justify. Given the importance of this delivery, RAE has been encouraged to exercise its authority to ensure prompt delivery. Since the previous report, progress has been made on issues such as the clearing rulebook being sent to RAE for submission, and outreach through stakeholder workshops with market participants. Adherence to the day-ahead coupling governance structures took place and work is ongoing between Greece-Italy and Greece-Bulgaria to implement the coupling as soon as possible after the go-live of the markets in Greece. As a replacement for NOME, the authorities recently announced they would speed up the delivery of the forward market component of the target model. Originally planned to follow the day-ahead, intraday and balancing markets, plans are now to put in place some derivative financial products by February, prior to the main target model launch. Whilst much is positive, a monitoring system still needs to be established so that RAE is able to monitor and take measures in case of dominance abuses.

The administration decided to cancel the planned October NOME auction. This was the last scheduled auction as per the original plan, which had been set out under the assumption of the lignite divestiture and target model being completed by that time. Thus, the auction system was operating in a different environment than was envisaged, due to internal factors to the Greek energy market. Prior to this the July auction started at a reserve price of €58.12 per MWh (megawatt-hour), higher than the April reserve price of 36.34. The July auction saw 763 MW (megawatt) product put on sale with 549 taken up; essentially only two thirds of the offered quantities were taken up by the market. As noted above, the authorities are currently working on making up for the withdrawal of the NOME system by speeding up the delivery of a forward market organised by HENEX as a replacement. Whilst this may help to keep new entrants into the market, further information regarding the nature of the offered products is needed. It will be challenging work to deliver such a project in a short amount of time, thus determined efforts are required.

PPC's share in the retail market has been declining slightly but is still high at 72% in September, down from some 77% in March. At the wholesale level, PPC is still responsible for about 70% of generation, excluding renewable energy sources which do no exert competitive pressure on the wholesale market as they benefit from priority dispatch; with intermittent RES included, PPC's installed capacity is closer to 55%. Greek wholesale electricity prices are amongst the highest in Europe; recent data shows Greece prices at €65.5 per MWh (compared to €43.3 per MWh in the EU on average), driven by an increase in EU ETS (Emissions Trading Scheme) costs. Retail prices are closer to the EU average.

Renewable Energy Sources (RES) are important for Greece's energy future. On this front there are concerns that the RES Special Account may be negatively affected by the lowering of the ETMEAR supplier surcharge, which was the main revenue stream, without a replacement. Moreover, administrative issues, such as the issuing of fees for the production licenses that have to be paid during project delays that are not the fault of RES producers, are harmful to investment in RES projects. RES consistently took up a share of around 25-30% of the monthly generation mix in 2019, In the EU context, this is broadly a median figure; some Member States have much higher levels, others are lower. Wind projects provide around 3 GW capacity whilst solar projects, both large and small, provide about 2.5 GW. Greece's total installed capacity is about 17 GW. The July RES auction auctioned 143 MW final capacity of solar at €62.77 per MWh and 187 MW final capacity of wind stations at €67.31 per MWh. The revision of Greece's Spatial Plan and improvements to the licensing system will be crucial for making the most out of investments.

Greece's gas market is still small, but growing. The final certification by RAE concerning the transmission grid, DESFA (Natural Gas Transmission System Operator), has been signed. Attention will now be on investors coming in and the protection of unbundling rules. Regarding the state-owned DEPA (Public Gas Company of Greece), the planned sale stalled as the new administration focused on the PPC rescue plan. Legislation relaunching the sale, on slightly different terms but still in full accordance with the agreed term-sheet, is expected soon. The new plans to accelerate the de-escalation of lignite suggest that gas-fired generation will play a large role in the new future, which assumes that plants will have to be built. The construction of new gas-fired capacity in Greece is being envisaged, with five applications for new gas units with a combined capacity of 3 460 MW recently submitted to the Greek regulator. Gas currently provides about 35% of generation capacity, and its share has seen significant increased in recent years. The consumer market for natural gas is still quite small, and Greece lags behind European averages in terms of connected households; indeed some areas of Greece have no connection. Investment in grids should help this share to grow, and there are some encouraging signs with the successful sale of DESFA, the transmission grid, to investors.

Greece has made progress with its work towards becoming an 'energy hub', as a transit point for energy. Regarding the Bulgaria-Greece Interconnector, a joint agreement was signed between the two countries. On the LNG (liquefied natural gas) front, Greece saw a threefold increase in LNG imports, through the Revithousa terminal. A noticeable amount was from the US, showing that supplier diversification is taking place.

Overall, recent events have been a precursor to ambitious announcements for a planned change to the Greek energy outlook, revolving around an early exit from lignite, with decommissioning to be completed by 2028. Such an ambitious plan, involving the closing down of a substantial part of its lignite capacity in the next few years, needs strong political commitment and clarity, but is in principle a highly commendable way forward. Greece will deliver its National Energy and Climate Plan (NECP) at the end of this year which will be consistent with this strategy. In this respect, Greece will have to show strong political commitment for its planned closedown of lignite, and inter alia show that this package of reforms, and in particular the revised anti-trust remedies that the authorities committed to proposing in January 2020, will ensure that the market will finally open up so that the unaddressed issue of PPC's lignite dominance is no longer a blocking issue. Much remains for Greece to show that its energy commitments are being tackled directly. Solutions to issues such as the interconnection of Crete with the mainland, the new plans for a permanent capacity mechanism in line with new EU rules, and the breach of the Industrial Emissions Directive will also need to be found. At the time of going to press the authorities have sent proposals regarding: the sale of DEPA, PPC reform, and a timeline for the alternative forward market. In line with the programme, the authorities have demonstrated their political commitment to the lignite closure and are engaging with the Commission to identify alternative structural measures to remedy the anti-trust commitment.

Water

In the water sector, an information system was set up in January 2019 to monitor the performance of water companies throughout the country. The functioning and objective of the system is to ensure the sustainability, quality and affordability of water provision in Greece, which is currently suffering from a lack of transparency, accountability and coordination across different actors in the sector. All water service providers are expected to fill in the required information. The system was set up by the Special Secretariat of Water, a service within the Ministry of Environment entrusted with some regulatory tasks. It includes information on cost recovery, infrastructural investments, planned human resources, and drinking water quality across the country, among others. A strategic plan was finalised in June 2019 and an operational plan in October 2019 to streamline its supervisory activities among other things.

There are 456 registered users representing water supply service providers in total. Out of these, there are 297 municipalities, 128 Municipal Water Utilities (DEYA) and 2 water companies (concessionaires) for the cities of Athens and Thessaloniki. The total number of entities that provided data for 2017 is 128, representing approximately 28% of the registered entities, which is far below expectations. Moreover, the information received was not comprehensive and reliable enough to be able to draw meaningful conclusions. The same applies with regard to waste water data. Here too, municipalities and DEYAs are obliged to feed the central database with data on quantities of waste water treated, quality of discharged water, quantities of sludge, etc., but many of them do not, and the data is often delayed and unreliable.

The information system needs to continue being maintained and the Ministry of Environment must allocate sufficient qualified and dedicated staff to run it. In July 2019, the Special Secretariat for Water was abolished and its tasks were merged into the structure of the Ministry of Environment. It will be critical to ensure a smooth transition to the new setup. The strategic and operational plans must now be put in practice. In addition, many municipalities lack the appropriate staff and competence to be able to feed the system with valuable information and the Ministry needs to provide support to them if the information system is to become operational and fulfil its purpose.

Transport and Logistics

A Strategic Transport Master Plan for Greece to identify future policies and investments in the transport sector has been prepared by the Ministry of Transport with the support of the Commission's Structural Reform Support Service and the European Investment Bank. The plan covers all transport modes for the years 2027 and 2037, the necessary supporting planning tools as well as accompanying capacity-building activities. The Master Plan is a powerful tool for policymaking and now needs to be adopted by the Government and implemented. For this, the role of the Strategic Planning Unit in the Ministry of Transport should be enhanced.

Several contracts for new projects continue to be delayed (Athens metro line 4, Patra-Pyrgos motorway, Amvrakia – Aktio highway, Athens and Thessaloniki busses). Among the reasons of the delays are the abnormally low prices and the lack of capacity of contractors. Greece also urgently needs to start with the elaboration of sustainable urban mobility plans as these will be the condition for investment in urban transport. No progress has been made either with the development of projects for the accessibility of the port of Thessaloniki. While the port has great potential as a freight gateway to the Balkans and Eastern Europe, and has recently been privatised, its functioning is seriously hampered by bad or inexistent rail and road connections to the hinterland.

On logistics, little progress was made in the "Thriasio logistics complex" which remains unutilised. Once fully operational, this investment – co-financed with EU funds – could give a big boost to rail freight and the overall competitiveness of the country. However, the concession contract for the private freight centre has not been activated and the tender for the management and operation of the park of 1 450 hectares is severely delayed. The European Commission has started the procedures for recovering EU structural funds and hence determined action by the authorities would be warranted.

The situation of the public transport company of Thessaloniki (OASTH) raises concerns. The government had nationalised the company in 2017 in order to undertake a substantial restructuring and generate savings on an expensive private concession. The number of operational buses has decreased since then from 550 to 215. All buses are more than 15 years old, quality and reliability of service are very low and the negative impact of the environment and air quality is particularly high. According to law 4482/2017 the company should have been liquidated and replaced by a new entity by the end of 2019, but this did not take place. Regarding the financial situation, OASTH has in 2019, €24 million of income to which a subsidy of €44 million is added. The expenses for staff salaries are €66 million per annum, allowing little space for fuel, maintenance and replacement of equipment. In this respect, the absence of a business plan with cost containment measures remains a source of concern. The authorities have expressed their intention to prepare a restructuring plan in order to reduce the operating costs to a sustainable level. There is also a plan for procurement of new busses using EU structural funds.

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

7.1. HCAP

Greece made commitments to European partners in June 2018 to continue and complete the important work of HCAP, which gathers under a single institutional structure a significant portfolio of assets and shareholdings in public enterprises. The Eurogroup statement of June 2018 foresees that the strategic plan of HCAP will be implemented on a continuous basis (a continuous commitment). In addition, the authorities committed to support HCAP in completing the review and replacement (if required) of all State-Owned Enterprises' (SOE) Boards by mid-2019 (a specific mid-2019 commitment). Furthermore, the authorities committed to transfer the Olympic Athletic Centre (OAKA) to HCAP (a specific end-2018 commitment).

The authorities have engaged meaningfully with the institutions and with HCAP to address immediate challenges and to support the intentions of the HCAP reform. The authorities have coordinated initial engagement between line ministries and HCAP, have re-launched the Coordination Mechanism to enable further dialogue while preserving HCAP's independence, and have materially improved the situation of low caps on SOE director remuneration. There are three vacancies on HCAP's Supervisory Board. These vacancies need to be filled with independent, senior experts so that HCAP's work can continue and develop. The process for filling the vacancies should be fully in line with the letter and spirit of the HCAP law and its internal regulation.

HCAP's work on the key areas covered by the Eurogroup commitments is continuing. The implementation of the strategic plan is ongoing and the Board review is progressing. The transfer of OAKA will be delayed due to practical complexities, which are unavoidable due to the status of the asset. Since the publication of the third enhanced surveillance report in June 2019, progress has been made in improving corporate governance in the SOEs. The first consolidated financial accounts for the group for the year 2018 were prepared and submitted for approval to the General Assembly. The implementation of the coordination mechanism, which governs the interaction between the authorities and HCAP regarding the mandates and objectives of the SOEs under HCAP, was relaunched in October with the reconstitution of the competent committees provided for in the relevant internal regulation.

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

HCAP's real estate portfolio is managed by its subsidiary ETAD, which was restructured during 2018 with a view to increasing its effectiveness in the management of real estate assets. Achieving the full potential of the real estate portfolio remains a key challenge for HCAP and should be a primary source of value creation. As yet ETAD's performance is not reaching this potential. Given the importance of the real estate portfolio, a thorough set of performance targets have been set for ETAD in 2019 in order to consolidate and test the effectiveness of the restructuring. These targets include asset registry, maturation and exploitation, portfolio management (existing and new contracts for commercial assets) and revenue enhancement objectives and will be monitored by HCAP. If necessary, corrective actions will be taken in order to achieve the expected operational performance. Over the past months more progress has been made in relation to real estate valuations and increasing the book value, as well as on improvement of lease revenue collection. It should be noted that HCAP is in the process of filling the executive posts of ETAD in the Board of Directors of ETAD, with experienced, high calibre professionals as they will be key in the efforts for a significant enhancement in the utilisation of the real estate portfolio.

The authorities have made some progress in evaluating a further package of real estate for transfer to HCAP. A large package of real estate was identified for transfer in 2018, although screening indicates that many properties are ineligible for transfer to HCAP. The authorities expect the screening process to be completed by February 2020.

HCAP continues its work on SOEs governance, in particular regarding the review (and replacement, if needed) of the boards of the SOEs (a specific mid-2019 commitment), and improving internal and external audit capabilities. The HCAP Board has completed the review/replacement of the Boards of Directors in the following SOEs: ELTA (Hellenic Post), GAIAOSE (SOE active in the fields of railway real estate property and rolling stock exploitation, management and development), OASA (Athens Urban Transport Organisation), AEDIK (Corinth Canal), KATH (Central Market of Thessaloniki), PPC (Public Power Corporation), the water companies EYDAP (Athens) and EYATH (Thessaloniki), and ETVA VIPE (SOE whose main activity is the sale of plots of land for industrial use). It is noted in this context, that HCAP proceeded in August and September respectively to the appointment of new executive and non-executive directors in PPC and ELTA, operating in highly specialised sectors, with a view to facilitating the required changes in both companies, which will be key for their medium- and long-term performance. The assessment of the Board of Directors of OKAA (Central Market of Athens) by an external advisor has been completed. Pending is the assessment of the Board of Directors for Helexpo (Hellenic Exhibition Organisation) and the Greek Saltworks as well as for the subsidiaries of OASA (OSY/buses and STASY/metro), in cooperation with OASA's management. Candidates for the Chairs of the Audit Committees have been selected for almost all subsidiaries of HCAP, and in total 12 Chairs of Audit Committee have been appointed (pending: Helexpo and OKAA). Furthermore, the on-boarding of all new Board of Directors members has been completed with an induction programme prepared by HCAP in relation to the strategic and business priorities for each company. Up to the present, HCAP has appointed 52 Board members (executive and non-executive) in its SOE subsidiaries through open, professional and transparent procedures.

HCAP has also focused on improving the compliance functions and on implementing a standardised method for monitoring reporting of financial information of the SOEs with the purpose of preparing the consolidated financial statements as well as monitoring performance on the specific KPIs set by HCAP. In September 2019, HCAP prepared and submitted to the General Assembly for approval for the first time the consolidated financial accounts for the group, for the financial year 2018. The consolidation required a significant amount of work and technical expertise due to the fact that SOEs were used to different accounting standards and their financial departments had to be trained to prepare advanced and timely financial reporting.

The authorities have materially improved the situation of low legislative caps on SOE directors' remuneration. Appointing professional members in the Boards of Directors in the bigger non-listed SOEs – in particular executive members – had proved to be challenging for HCAP due to the low legislative caps on the remuneration of SOE board members (both executive and non-executive). The low caps limited the remuneration that could be offered to prospective members of SOE boards to uncompetitive levels, considering the level of responsibility and the business activity of some of the SOEs. This has been a serious issue affecting HCAP's ability to sustainably attract and retain new board members for the bigger non-listed SOEs, with implications for the improvement of SOEs' operations and performance, and delays in finding suitable candidates, as manifested for example in the difficulties to renew the board of OASA. The authorities proceeded in October 2019 to a substantial increase in the maximum level of remuneration for the members of the boards of the bigger non-listed SOEs. This is a positive development in effectively dealing with the challenge of appointing professional members in the boards of the bigger non-listed SOEs. There may be a need for revisiting the new arrangement should it not prove to be adequate in ensuring a sustainable long-term solution.

In September 2019, HCAP prepared principles and guidelines for the elaboration of a remuneration policy for the listed SOEs, in parallel with the request to set up remuneration committees at Board level of the listed companies. The elaboration of the overall remuneration policy will be the responsibility of the Remuneration Committees as per the provisions of the respective legal framework for the listed companies.

In addition to the extensive work on governance, HCAP is increasing its focus on operational improvements in SOEs, following the development of new business plans in 2018. A key challenge will be to effectively address the significant operational and financial issues in the Hellenic Post, which also faces a serious liquidity problem. Discussions should progress with its new management (new Chief Executive Officer appointed at the end of September 2019), HCAP and the competent Ministries. The company will need to be restructured to reduce its cost base and ensure sustainable revenue streams over the medium to long term. The government needs to provide funding for the restructuring plan, including full payment of universal service costs, adequately justified and approved by the Commission in line with state-aid rules.

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

The authorities have taken important steps to coordinate effective implementation of the Coordination Mechanism across relevant parts of the government, and relevant line ministries are engaging meaningfully with HCAP. The authorities proceeded to reconstituting the Cabinet Committee provided for in the Coordination Mechanism and HCAP law, with a view to operationalising the mechanism. The General Secretariat for Coordination and the Ministry of Finance and the management of the HCAP met in October 2019 and agreed on the schedule and the prioritisation for dealing with the SOEs for the prompt implementation of the Coordination Mechanism. The implementation of the coordination mechanism has commenced and priority has been given to four SOEs, namely the central markets of Athens and Thessaloniki, the Corinth Canal and Helexpo. The mandates and deliverables for these SOEs are expected to be finalised soon since significant preparatory work has been done by the HCAP and discussed with the competent authorities. With the reconstitution of the Cabinet Committee, it should be possible for the government to 'speak with one voice' on the priorities regarding activities of SOEs under the Coordination Mechanism and expedite the procedural steps.

The transfer of the Olympic Athletic Centre OAKA, which was a specific end-2018 commitment, proved to be very complex, involving multiple stakeholders as well as a series of administrative (including maintenance requirements) and procurement steps. These include procurement for the repair or overhaul of significant facilities, in order to ensure that the asset is provided in a satisfactory condition. The authorities have taken a number of steps to proceed with this work, which include the hiring of a technical advisor in July 2019 to review the current status of all the infrastructures and the preparation of the tender documents for a main technical study, scheduled to be undertaken through 2020, ending in early 2021. Given the complexities and involvement of third parties, the date of transfer will need to be determined upon the completion of the main technical study. The process should continue to be pursued as diligently as possible.

The 20 year concession agreement between EYDAP and the Hellenic Republic, which was due to expire on 25 October 2019, was extended for a six months period. This is intended to provide sufficient time to the parties to finalise the negotiations.

7.2. IMPLEMENTATION OF THE ASSET DEVELOPMENT PLAN

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

Hellinikon (a specific end-2018 commitment): The authorities have attached great emphasis and strong engagement on the transaction, intensifying significantly the efforts to complete the conditions precedent to allow the transfer of shares to the preferred investor, Lamda. The overall recent progress is significant and the financial closing could be feasible in the coming months. The current state of play on key elements is as follows:

- *Award of the casino licence*: The tender process for awarding the casino licence is ongoing. Binding offers were submitted on 4 October by two international bidders. The due diligence exercise of the documentation submitted by the bidders has been launched.

- *Metropolitan park*: Shortly before the change of government there were complications on the Joint Ministerial Decision (JMD) on the metropolitan park. Specifically the said JMD was issued without the consensus of the investors, creating potential additional obstacles to the investment. A revised JMD on the metropolitan park and the JMD on the development zones for the casino were issued in late August. The JMD for the development zones for the areas beyond the casino was issued in early September, while the last JMD, on urban planning zones, was issued in early October 2019. Thus, the specific condition precedent has been completed.

- *Relocation of public and private users*: the relocation of public users still on the site can be completed soon without any problems; there is a problem with one private user against whom two civil court litigations were pending, one of which resulted at the beginning of September in a second instance court decision in favour of Hellinikon SA, the Greek State and TAIPED, paving the way for its enforcement and hopefully the resolution of the issue.

- *Partition of the site*: Preparatory work regarding the partition of the Hellinikon site is further progressing (open issues related to the Cadastre were resolved by August).

Marina of Alimos (a specific mid-2019 commitment): the marina of Alimos is one of the largest marinas in the South-Eastern Mediterranean, located on the South-Eastern waterfront of Athens. The preferred investor was selected on 16 April 2019. The Court of Audit approved the tender procedure on 26 June 2019. The next steps are procedural. Thus, satisfactory progress is being made in the tender for the long-term concession of the marina of Alimos, although the financial closing is not expected before end-2019.

Hellenic Petroleum – HELPE (a specific mid-2019 commitment): No binding offers were submitted for the joint sale (along with PanEuropean Oil and Industrial Holdings S.A., the other strategic shareholder of HELPE) of a majority stake (50.1%) and thus there was no positive outcome of the specific transaction. The financial closure is thus inevitably subject to significant delays. Within the framework of the third enhanced surveillance round and with a view to minimising the time delays, an agreement was reached between the Greek authorities and the institutions that TAIPED is given the technical mandate to explore all options available towards proceeding with the transaction. The transaction was discussed between the Greek authorities and the institutions in the context of the 4th enhanced surveillance cycle. The ultimate decision as to the structure and the timing lies with the Greek authorities and should be determined on the basis of what provides the best commercial and strategic value for Greece. The approach is expected to be clarified and a timeline finalised by end 2019.

Sale of 30% of Athens International Airport – AIA (a specific end 2019 commitment): According to the Airport Development Agreement in place, any transfer of shares exceeding 25% of AIA's share capital requires the consent of all existing shareholders. In this context, the complications which had arisen from a decision of the Governmental Council for Economic Policy (KYSOIP) in February 2019 and delayed the process, have been resolved. The Greek authorities and the private shareholders of AIA have also reached agreement on the Waiver Agreement to be executed, which has been approved by the Governmental Council for Economic Policy on 11 September. The Waiver Agreement between AIA's shareholders provides for: a) Consent requested by the Airport Development Agreement of the existing shareholders' for the sale of the 30% stake of TAIPED to AIA through the privatisation process b) Collaboration of AIA towards the provision of all required information in the context of the privatisation process and c) Corporate governance rights (i.e. Board of Directors members etc.) that will be accompanying the 30% of shares under sale. The agreement is expected to be executed in a timely manner, in order to facilitate the smooth development and completion of the tender process. The tender process is thus proceeding. Ten investment schemes expressed on 29 October 2019 their interest (Phase A) to acquire the 30% stake in AIA. Following the evaluation of the investors' proposals, the eligible investors will proceed either to a Non-Binding Offers Phase, provided that TAIPED selects to include such an intermediate phase to the tender, or directly to the Binding Offers Phase. Should a Non-Binding Offers phase take place, the binding offers are expected to be submitted by April 2020, and the financial closing of the transaction is expected by the end of the year. In case TAIPED proceeds directly with the Binding Offers Phase, the deadlines are expected to be brought forward by around two months.

Public Gas Corporation – DEPA (a specific end 2019 commitment): The authorities are considering changes to DEPA's corporate restructuring (Law 4602/2019). The approach to be followed, based on the current information provided during the technical meetings and according to the draft legislative amendment submitted to the institutions in mid October by the Ministry of Energy for consultation, is that the Government will proceed with the demerging of DEPA into DEPA Commercial (wholesale and retail gas supply) and DEPA Infrastructure (gas distribution networks), while DEPA's interests in international strategic gas infrastructure projects (envisaged by the previous administration to be transferred under DEPA Infrastructure) are contemplated to be transferred to a new corporate entity and remain under state-owned control. These international projects are fundamentally separate from the rest of DEPA's activities but have a strategic value for the country. The new proposed corporate structure should be in accordance with the principles of the agreed term sheet of June 2018. The Greek authorities have also reviewed the labour issues related to the corporate restructuring of DEPA with a view to achieving a balance between securing employees' rights and the attractiveness of the transaction for investors. The legislative amendment of Law 4602/2019 is expected to be enacted by the end of November.

The authorities have indicated their intention to increase the stakes subject to sale in both DEPA Commercial and DEPA Infrastructure. The authorities, according to the draft legislative amendment submitted, will proceed with the full divestment of their stake in both activities (65%) and thus increase the expected privatisation proceeds, while also facilitating the unbundling of the gas market, which has been identified as a priority by the authorities. Given that the two tender processes are expected to be running in parallel, it is important to practically ensure that the unbundling provisions envisaged in the draft Law are enforced.

Egnatia (a specific end-2019 commitment): The privatisation process for the Egnatia motorway entails the award of a long-term concession for the operation and maintenance of the motorway and its three vertical axes. The transaction has been characterised by systematic delays and problems, showing a lack of ownership. The authorities have stressed their commitment to proceed with the transaction. However, it is important to pay due attention to the timetable for the completion of the various actions that are needed before the submission of binding offers, which is currently scheduled for 21 February 2020; i.e. all actions (including construction and operation of toll stations and the implementation of the approved by the Commission toll pricing policy) have to be completed on time and prior to submission of binding offers in February 2020 and the respective timetable for these actions has to be adjusted to comply with this constraint. More specifically, the following actions are still needed before the submission of binding offers in order for the Concession Agreement to be adequately balanced without any of the two parties (Concessionaire or State) assuming excessive risks:

- *Implementation of the new toll pricing policy approved by the Commission*.

- *Completion of the construction and operation of all remaining frontal and lateral toll stations.* The relevant contracts were signed in early May 2019, but construction progresses slowly.

- *Licensing of all tunnels by the Tunnel Licensing Authority.* For the tunnels that require large-scale works and are currently limited to obtaining restricted licenses excluding the transport of dangerous cargo, the Tunnel Licensing Authority needs to specifically define the necessary works for unrestricted licensing. Once this is done and the cost of necessary works is calculated, the concession agreement will specify who will implement the works and who will assume the relevant risk.

- *Establishing clarity on what works need to be carried out for bridges to be classified as safe.* In March 2019 some of the motorway's bridges were classified by Egnatia S.A. as "potentially dangerous". Egnatia needs to clearly define the measures to be taken as well as the cost for the bridges to be completely safe. Once this is done, the specification of the allocation of risk between the Concessionaire and the State will be set out in the concession agreement.

- *Commencement of operation of already constructed and ready to operate frontal toll stations* in Oreokastro (Thessaloniki), Asprovalta and Strymoniko is necessary and it will give a positive signal towards the success of the transaction.

- *Resolution by Egnatia S.A. of the open issues related to the motor service stations contracts regarding* Eleftherochori, Oraiokastro, Ardanio and Sostis, that have been inactive since 2011. The current draft of the Concession Agreement released to Prequalified Bidders, specifies that all the motor service stations will be procured and constructed by the concessionaire.

- *Completion of the necessary actions (advisor appointment) for all the preparatory work necessary for the remaining land expropriations, by Egnatia S.A.* While the completion of the land expropriation process with issuance of Ministerial Decisions is not a prerequisite for binding offers or for Concession Commencement Date, and it is handled accordingly in the Concession Agreement, the process should be initiated promptly.

Regional Ports (a specific end 2019 commitment): The privatisation structure agreed with the previous government was the granting of sub-concessions for selected activities in each of the ten regional ports. The tender process was stalled following the May elections. Different options for the potential privatisation structures are available, namely (a) master concession – a long-term concession of all the activities of a port to a private entity (b) sale of majority share capital of each regional Port Authority to a private party, and (c) granting of the right to operate specific and/or combined port activities/services for the ten Port Authorities i.e. sub-concession of specific activities of each port.

The authorities are positive with respect to providing flexibility of choice on the privatisation transaction structure (i.e. master concession, sub-concession, sale of equity) so as to allow the best privatisation transaction structure to be chosen for each port. Within this framework, the consultants of TAIPED are working on the best privatisation transaction structures for each port and they are expected to deliver the relevant study shortly. Further, a legal amendment providing TAIPED the flexibility of choice (i.e. master concession, sub-concession, sale of equity) will be required. The required legal amendment is expected to be enacted shortly, so that the tender procedure for Alexandroupolis and Kavala can be launched.

8. PUBLIC ADMINISTRATION AND JUSTICE

8.1. PUBLIC ADMINISTRATION

8.1.1. Appointments of senior management positions

An independent assessment of the selection process for the Administrative Secretaries, a specific commitment for mid-2019, has been completed. The independent assessment was expected to take stock of the selection process and to identify scope for improvements, in light of various delays and issues. For example, 22 job announcements for Administrative Secretaries posts (out of 69 in total) were re-launched in June 2018 due to a lack of clearly defined minimum eligibility criteria. The independent assessment was completed in accordance with the schedule. It concluded that, compared to other selection processes (e.g. for Director-Generals), the provisions of Law 4369/2016 for the Administrative Secretaries was generic and allowing for manifold interpretations. The assessment also observed that the independence and objectivity needed in the process was secured through the involvement of the Supreme Council for Civil Personnel Selection (ASEP). However, at the same time, ASEP's involvement made the process heavy and time-consuming for both the candidates and the evaluating panel, but it was acknowledged that these two prerequisites cannot be sacrificed for the sake of speeding up the process. Based on the independent assessment the authorities had been expected to adopt relevant follow-up measures by September 2019. However, the adoption by the 'Executive state law' ([50]) removed the position of Administrative Secretary, which made the follow-up steps redundant.

The selection process for Administrative Secretaries, a specific commitment for end-2018, was cancelled with new provisions adopted for Secretaries-General. The completion of appointments of Administrative Secretaries (69 posts in total) was seen as a key element for the depoliticisation and strengthening the institutional continuity in the public administration. They were expected to support execution of policy implementation and overall administration by the government and its ministries. However, the selection process, which was launched in January 2018, experienced significant problems and delays as has been reported in previous enhanced surveillance reports, thus diminishing its overall credibility. The new administration considered that the role of the Secretaries-General remained vital and that a prerequisite for these officials to be effective in their role is that they enjoy the full trust of their political leadership. The 'Executive state law' reintroduced the right for the Prime Minister and the relevant line Minister to directly appoint the Secretaries-General and set some basic qualification criteria that need to be fulfilled ([51]).

The establishment of a Permanent Secretary post in each ministry ([52]) to be appointed through a more elaborate and time efficient selection process is expected

([50]) Law 4622/2019 (OJ A/133/07.08.2019).
([51]) Law 4622/2019 (OJ A/133/07.08.2019), Articles 41 (3) and 44.
([52]) Law 4622/2019 (OJ A/133/07.08.2019), Articles 36 and 37, concerning the Permanent Secretary do not apply for the Ministry of Defence, the Ministry of Foreign Affairs, Ministry of Citizens Protection and Ministry of Shipping. The main reason for the exclusion of these four ministries is according to the authorities a possible inconsistency with specific provisions applied to uniformed officials.

to be launched shortly and be completed by January 2020. The ’Executive state law’ sets out that the Permanent Secretary will be responsible for human resources and the budget (incl. procurement) and will oversee policy coordination within the ministry as well with other ministries on cross-cutting issues. The Permanent Secretary will be appointed through a selection process open for all permanent public officials. The selection process will be overseen by ASEP and based on a similar process as for the Directors-General and compared to the legal provisions foreseen for the Administrative Secretaries, the adopted provisions for the Permanent Secretaries are more comprehensive. Importantly, the scoring criteria for these posts are much more detailed, thus addressing one of the key weaknesses identified by the independent assessment for the selection process of the Administrative Secretaries. Further, the job announcement will be the same for all ministries and prepared by ASEP, which is also addressing a weakness of the previous process where 69 separate calls had been issued with significant deviations between them. The appointments of the 13 Permanent Secretaries are expected to be launched shortly and completed by January 2020. In preparation of the launch, the following actions have been completed to date: (i) adoption of a Ministerial Decision concerning the validation of applicants’ documents proving their eligibility ([53]); and (ii) development of an IT tool for the submission of electronic submissions. Although the Permanent Secretary posts will likely contribute to the further depoliticisation and facilitate the institutional continuity in the public administration, the scope of the now cancelled Administrative Secretaries posts was broader. At the same time the well-known problems and significant delays of this process, which damaged its credibility, need to be acknowledged. In order to make a comprehensive and balanced assessment it is essential to also consider other reforms included in the ‘Executive state law’ that are linked to the depoliticisation and continuity agenda. These are presented in the following section (section 8.1.2).

The authorities reiterated their commitment to continue with the selection process for Directors and Heads of Division in accordance with the approach agreed during the programme period. It should also be noted that the authorities have confirmed that the new Director-General posts ([54]) for the recently established Ministry of Digital Governance will also be selected through a similar process that was applied in 2018 (90 appointments in total). Due to the elections, no appointments of Directors have been made since the publication of the third enhanced surveillance report (i.e. 101 appointments have been made, out of 390). However, a circular has been published on the re-establishment of the selection committees ([55]) and the selection process is expected to be re-initiated shortly. The job announcements for Heads of Division posts are expected to be launched once all appointments for Directors have been made at the ministry level. According to the authorities, ASEP has indicated that considering its current capacity it will probably need until June 2020 to complete the ongoing appointments for Directors. The authorities have indicated that they are considering

([53]) Law 4061/2019 (OJ B-4061/07.11.2019).

([54]) Exception foreseen for the Director-General for Cyber Security, who will be appointed directly by the Minister (Law 4635/2019 (OJ A-167/30.10.2019), Article 50). According to the authorities there is lack of in-house capacity to restrict this post only for permanent public officials. The remaining five Director-General posts will be selected through the process set out in Law 3528/2007 (OJ A-3528/09.02.2007).

([55]) Circular issued by the Ministry of Interior, 6 September 2019.

targeted amendments for the Director and Head of Division posts yet to be published, such as changes in the scoring between qualification and experience and a number of changes to speed up the selection process. As long as the overall principles are maintained and, crucially, ASEP maintains a role in overseeing the selection process, the provisions aiming to fine tune based on lessons learnt from the completed appointments to date are welcome. Finally, it will also be important to complete as a matter of priority the exercise of appointments of managers of ESPA-related structures which is unduly delayed ([56]).

The 'Executive state law' cancelled the selection process for senior management posts in the legal entities of public and private law ([57]), but the authorities have committed to adopt provisions by May 2020 to reintroduce a more elaborate selection process for these entities. It needs to be acknowledged that also this selection process had been faced with difficulties and significant delays, as evident in the failure to complete a single appointment to date. However, the reversal to the previous system where these posts are directly appointed by the relevant minister remains problematic. It is therefore welcomed that the authorities have committed to adopt legal provisions by May 2020 to establish an open selection process for these positions. It is encouraging that the authorities are considering introducing a selection process that will be setting out the eligibility and scoring criteria in more detail and in accordance to the specific requirements of the post, thereby addressing one of the key criticisms of the independent assessment. The selection process foreseen for the legal entities of public/private law was broadly similar to the one for the Administrative Secretaries.

8.1.2. The Executive state law

The government has adopted a codification law that brings together and modernises its rules of procedure through a set of new provisions, including delegation of signature powers of individual acts to the administrative level. The first main legislative action of the new administration was the law entitled "*Executive state: organisation, operation and transparency of the government, government institutions and central government administration" (Law 4622/2019, OJ A-133/07.08.2019).* This law consolidates numerous provisions on the organisation and the operation of the government and its central public administration. Further, it includes provisions to strengthen the annual programming and overall monitoring of the government's work. As concerns the efforts to depoliticise and to strengthen the institutional continuity of the public administration, it is noteworthy that all individual administrative acts are delegated to the Permanent Secretary and/or Director-General level (Articles 37 and 109). Given the tradition of all decisions being centralised and requiring the Minister's signature, this provision assigns the vast majority of decisions adopted by the Ministry at the level of non-political appointees. In order to ensure its proper enforcement when the provision will come into effect (i.e. 7 February 2020), a circular was issued in November 2019 ([58]) by the Ministry of Interior that requests all

([56]) Separate selection process of managerial posts as set out in Law 4314/2014 (OJ A-265/2014.12.23) and Ministerial Decision 133426/2017 (OJ B-4273/06.12.2017).
([57]) Law 4622/2019 (OJ A-133/07.09.2019), Article 111 (point 14).
([58]) The Circular was signed by the Minister on 12 November 2019 but had not been given a reference number by the time this report was finalised.

ministries to delegate the signature powers in accordance with the new provisions ([59]) and thereafter proceed with the publication at the Government Gazette before the new provisions come into effect. Further, the Secretariat General for Legal and Parliamentary Affairs will issue a letter requesting each ministry to list the various administrative/individual acts that will be delegated.

The 'Executive state law' includes provisions to improve the programming and monitoring of the government's work as well as strengthening the government's centralised coordination capacity. The law consolidates and clearly defines the role of the Council of Ministers while also setting out specific provisions for the annual programming and monitoring of the government's priorities. It also strengthens the role and capacity of the Government's Presidency Office as a self-contained structure attached to the Prime Minister, whose main task is to ensure the coherence and effectiveness of the government's work. The Presidency has the overall responsibility to monitor and coordinate the work of the whole government, with a view to enhancing coordination, which has been a long-standing weakness for the proper functioning of the public administration. To further enhance the institutional continuity of the Presidency's Office, the authorities have committed to adopt measures to create permanent organisational structures at the Presidency Office.

8.1.3. Improving the human resource management in the public administration

The new administration has made the implementation of the Human Resources Management Strategy (HRMS) a main priority and adopted measures to facilitate this reform. Overall good progress has been made as concerns the specific commitment for end-2019 relating to the HRMS, in particular regarding the completion of job descriptions (140 788 out of 192 878 posts). To date close to half of all general government entities have completed their respective digital organigrams. Encouragingly, a circular ([60]) has recently been issued to allow for the link between each jobholder and a specific job description. Entities not complying with the instructions of the circular will not be eligible to participate in the mobility scheme or secure hiring of new permanent staff. Completion of the overall HRMS remains a priority for the new administration. The project will be delivered through the implementation of a number of EU-funded sub-projects aiming to (i) ensure horizontal interoperability with public administration systems (e.g. ASEP, Single Payment Authority); (ii) prepare an action plan for the administrative reform and process modelling for human resources; and (iii) enable storing of HRMS data. The various sub-projects are expected to all be tendered during 2020 and completed by 2022-2023. The authorities have committed to a detailed road map in order to track the progress of implementing this important project. The next milestone is the launch of a consultancy support contract by February 2020 to provide support to the Secretary General for Human Resources of the Public Sector.

The mobility cycle launched in August 2018, a specific commitment for mid-2019, experiences minor delays, while a more streamlined mobility scheme is in the making. Overall, the gradual increase in the number of entities and applications for

([59]) Law 4622/2019 (OJ A-133/07.08.2019), Article 13 and Law 4365/2019 (OJ A-167/30.10.2019), Article 174.
([60]) Circular issued by Ministry of Interior, 22 October 2019.

each cycle three cycles to date is encouraging and a clear signal that the public sector has embraced this public administration reform. However, the timeline as set out in the relevant law is not being respected. Indicatively, for the mobility cycle that was launched in August 2018 and was expected to be completed by mid-2019, to date 1 930 posts ([61]) have been appointed out of 5 340 posts that were announced. For close to 50% of the announced posts the selection process has not been initiated by the requesting entity. It is therefore estimated that ongoing selection processes remain for around 500 posts, which are planned to be completed in the next months. The new administration has indicated its commitment to the mobility scheme reform as shown by proceeding with the preparations in order for the first cycle for 2019 to be launched soon, with approximately 8 000 vacant posts. At the same time it is important that the overall principles are maintained. It is therefore a cause of concern that an adopted law amendment ([62]) means that public officials in certain staffing groups employed by municipalities need to receive an approval from their current employer to complete their transfer. Although, it is understood that the provision was adopted in order to address that the problems of some municipalities in replacing competent staff moving through the mobility scheme, it would had been preferable if more targeted solutions had been sought. This could risk setting a precedent, as one of the mobility scheme's key principles was that there is no need for the official's current employer to agree with the transfer, as long as the set threshold for existing staff coverage is being respected. Given this, the authorities' commitment to adopt provisions by end-2019 to enhance the efficiency and relevance of the mobility scheme is particularly welcome. The provisions are expected to introduce measures to improve the compliance with the set timeline, reduce the number of annual cycles to two and strengthen the mobility scheme's link with the annual hiring system.

Performance assessments for 2018, a specific commitment for mid-2019, has been completed. The assessment round was launched in March 2019 and completed in June. The validation of the electronic performance assessment reports was completed in October 2019. In terms of participation, 64% of the registered employees took part ([63]). On the negative side the participation rate dropped, as it had stood at 74% last year. According to an initial assessment by the authorities, the reason behind this decline was due to technical problems with the online platform experienced during the previous year's assessment resulting in public officials proceeding to fill the assessment in hard copy. The new administration has confirmed its support and intention to proceed with the annual performance assessment. It has also indicated that it will proceed with a review of existing performance assessment systems for specific categories of civil servants (e.g. teachers and uniformed personnel). It further plans to review performance criteria for specific categories of civil servants that belong to the group of registered employees eligible for performance assessment, but whose tasks/duties fall outside the current scope of the performance assessment approach (e.g. nurses).

The new administration is committed to proceed with the rationalisation of the job classification system. It also plans to enable a direct link between the job classifications

([61]) 1 224 transfers and 706 secondments.

([62]) Amendment introduced by the Ministry of Interior in Law 4635/2019 (OJ A-167/30.10.2019), Article 229.

([63]) 175 799 registered (for the 2017 performance assessment round this number was 155 894).

and the general job descriptions (expected to be 181 in total). The streamlining of the job classification with a view of harmonising it with the functional domains of the generic job description template is seen as an important action aiming to accelerate and modernise the recruitment process. For this purpose, the authorities intend to establish a legislative committee with the participation of ASEP.

8.1.4. Strengthening the legislative process and legal codification

The "Executive state law" includes provisions for improving the legislative process and the impact assessment carried out. The law sets out that the Secretariat General for Legislative and Parliamentary Affairs, which is part of the Presidency Office, is responsible for the quality assurance and subsequent approvals of draft laws prior to their submission to the Parliament. As part of this mandate it will ensure timely publication of regulatory acts and use of rules of good law-making across the central administration. There are also provisions relating to impact assessments: the Secretariat General for Legislative and Parliamentary Affairs is expected by January 2020 to present a revised template and a detailed manual on how to complete the template. To enhance the capacity of the public administration, a new job classification was established for lawyers preparing draft laws. The selected staff are expected to be assigned to the Presidency, but also across ministries.

The codification of labour law is progressing whereas the tender for the national gateway for legal codification is faced with delays. The 'Executive state law' includes a specific chapter that defines the legal codification framework. Provisions include the annual programming/selection and mandates of key bodies, such as the Central Codification Committee. In what concerns the specific commitments relating to legal codification, the unified Labour Law Code and Code of Labour Regulatory Provisions are expected to be completed on time by mid-2020. As concerns the national gateway for legal codification, the new Ministry of Digital Governance has been assigned the responsibility for this project. The same ministry has a mandate for simplification of the legislative framework and administrative processes. The tender process for this flagship project is currently being reviewed and it is likely that this project will not be completed by mid-2022. The authorities are encouraged to complete the ongoing review as soon as possible, in order to minimise the delay.

8.1.5. Controlling the size and cost of public sector

The Executive state law' introduces a detailed process for preparing the annual hiring plan, which should improve the recruitment planning and increase control of hires. The annual cycle is set to start in May each year, with each general government entity setting out the needs for permanent and temporary staff on the basis of their multi-annual job planning. The Ministry of Interior then formulates a draft annual plan, taking into consideration the requests received and the overall strategic priorities of the government following consultation with the Ministry of Finance, to ensure that the hiring ceilings are respected. By the end of July, the hiring plan will be presented to the Presidency as part of the draft action plan of the Ministry of Interior. In September, the Council of Ministers approves the draft action plans as part of the consolidated government policy programme for the next year. The hiring plan will then be part of the preliminary budget submitted to the Parliament at the beginning of October. The 2020 hiring plan is currently being updated, with the ministries expected to submit their requests by 18 November 2019. This should allow for the hiring plan to be approved by the end of the year. The authorities clarified that the adopted hiring plan for 2020 will not have any negative fiscal impact compared to the wage bill included in the budget for 2020.

While hiring of permanent staff is proceeding in compliance with the 2019 hiring plan, the number of temporary staff has continued to increase sharply. The current hiring limit of permanent staff (i.e. one new entry for each exit) is being respected and, on current estimates, the hiring space for 2019 may not be fully utilised, partly due to the general and local elections that took place earlier this year, as no hires of permanent staff can be carried out for a certain period before and after the elections. In contrast, the number of temporary staff continued to rise since 2018. Not only has this trend not been reversed, but it further increased in the first half of 2019.

Table 8.1: **Evolution of public sector staff and wage bill (2009-2019)**

	Permanent staff	Temporary staff burdening the budget /1	Elected staff	Other categories	Total
2009	730 234	153 087	21 286	3 366	**907 973**
2010	700 962	109 968	21 286	3 262	**835 478**
2011	674 012	57 853	12 113	3 088	**747 066**
2012	654 781	41 869	12 031	3 053	**711 734**
2013	618 572	22 626	13 252	3 103	**657 553**
2014 /4	576 856	12,833 /5	6 188	2 891	**585 935**
2015	600 484	56 385	7 149	4 773	**668 791**
2016	598 870	58 053	8 057	4 851	**669 831**
2017	602 908	59 731	8 248	5 728	**676 615**
2018	601 789	64 911	8 887	6 027	**681 614**
2019 /6	599 536	71 643	8 475	5 306	**684 960**
Δ 2009-2019	-17.9%	-53.2%	-60.2%	57.6%	-24.6%

(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 2014-2018 the figure is a yearly average (Jan-Dec) and for 2019 the figure is the Jan-Sept average.
(2) General Government Imputed social contributions are not included.
(3) General Government Imputed social contributions are not included.
(4) 2014 figures are not comparable because data on personnel of legal entities of private law (permanent & 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 census 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).
(6) Data for 2019 is for the period January-September 2019.
Source: Apografi (census) database

To counter the increase in temporary staff, the new administration has adopted provisions to regain control over their hires, in order to ensure that the size of the public sector remains stable. More specifically, the government has adopted a law amendment ([64]) that removes previously granted exemptions ([65]) which allowed for hiring of temporary personnel to proceed outside the normal hiring process foreseen. In practice, this enables a more stringent control of hires of temporary staff, as both the Ministry of Interior and the Ministry of Finance will be informed prior to the approval of such hires approved. The authorities currently estimate that the number of temporary

([64]) Law 4635/2019 (OJ A-167/30.10.2019), Article 186.
([65]) Examples for such exceptions: (i) contracts for the needs of cleaning, catering, security (Article 63 of Law 4430/2016); (ii) contracts for the cleaning of central, decentralised and all buildings of the Ministry of Health (Article 97 of Law 4468/2016); (iii) and contracts for the needs of cleanliness and care (Article 8 of Law 4506/2017).

staff will need to be reduced by approximately 5 200 persons in order to comply with the benchmark ([66]), compared with only 1 500 estimated in the previous enhanced surveillance report based on census figures until February 2019. Therefore, the adopted measures by the authorities are welcomed and is expected to result in a gradual decrease of temporary staff.

Table 8.2: **Hiring limits of permanent personnel and indicative ceilings for temporary personnel to be monitored in the enhanced surveillance reports (2018-2023)**

	2 018	2 019	2 020	2 021	2 022
Permanent staff - new hirings (as per Hiring Plan): compliance with attrition rule (1:3 for 2018 and 1:1 for 2019-2022) /1	**4 858**	**6 628**	**19 331**	**13 436**	**9 223**
Ceiling of temporary staff burdening the budget - total number of staff contracted /1 /2	**64 911**	**71 643**	**63 796**	**63 796**	**65 277**
of which					
Temporary staff of General Government entities	*49 126*	*52 770*	*45 013*	*45 013*	*46 494*
Temporary staff of public entities of private law	*15 785*	*18 873*	*18 783*	*18 783*	*18 783*

(1) Commission services' projections of the number of permanent and temporary personnel for the period 2019-2022 on the basis of the 2020 budget and the commitments made during the program.
(2) 2020 figures include corresponding reductions of 7 757 persons due to the hirings of 4 500 teachers and 3 257 persons in "Home assistance" programme.
Source: European Commission

The 2020 hiring plan for permanent staff is in accordance with hiring limits in accordance with the 2020 Budget and the Medium-term Fiscal Strategy. During 2020 a number of temporary posts (7 757 for teachers and 'home assistance' staff) are expected to be converted to permanent posts, as these posts have been assessed as meeting permanent needs. Given that these permanent hires will be done with a corresponding reduction of temporary staff (i.e. with no or a very small fiscal impact), they are not considered by the authorities as falling under the current hiring rule. The European institutions do not in principle agree with new permanent hires not being accounted for under the existing hiring rule. At the same it is acknowledged that the teachers constitute a special group, as a significant number that to a large extent cover permanent needs are currently on temporary contracts.

A few recent salary provisions raise some concern about the integrity of the unified wage grid. For example, for specific categories of staff the so-called 'personal difference' they are entitled to is no longer reduced in accordance to their salary progression ([67]) while a previously adopted amendment has also been extended in its scope and coverage ([68]). It is worth recalling that the 'personal difference' was installed to ensure that public officials employed when the initial unified wage grid was introduced (1 November 2011) would not see their remuneration being reduced by more than 25%. Further a number of provisions have been adopted that places specific categories of staff at the most senior remuneration grade ([69]). It is acknowledged that the constraints of the unified wage grid might make it difficult to fulfil new government priorities, in particular when it requires new staff with specific qualifications, who might not be attracted to the public sector with the remuneration offered. In these cases,

([66]) The benchmark used is the ceiling set for temporary staff in 2016 (yearly average) and was a commitment under the ESM programme.
([67]) Law 4622/2019 (OJ A-133/07.09.2019), Article 93. Concerns the National Transparency Authority.
([68]) Law 4635/2019 (OJ A-167/30.10.2019), Article 221. Concerns the Hellenic Competition Commission.
([69]) Law 4635/2019 (OJ A-167/30.10.2019), Article 174. Concerns the Presidency's office.

it would be preferable to establish new ‘special wage grids’ for these entities and/or staff categories, instead of introducing *ad hoc* exceptions to the unified wage grid. While the immediate fiscal impact of these provisions is estimated to be small, it raises structural problems and creates fiscal risks going forward, as other ministries/authorities may seek similar salary provisions. In this regard, the European institutions encouraged the authorities to consider moving towards a more position-based system compared to the current career system based on education qualification and seniority. The human resources reform currently being implemented by the IAPR is a step towards this approach. However, it is acknowledged that this would indeed constitute a major reform and it would be essential that it is based on a comprehensive strategy by the Secretary General for Human Resource of Public Sector, while also considering the impact of the wage bill. Finally, an adopted provision ([70]) relating to the ’Enterprise Greece’ which sets out that it is no longer seen as a public sector entity raises questions about its consistency with the mandate of the Hellenic Statistical Authority to maintain a list of the general government entities.

Aiming to consolidate the unified wage grid reform as well as ensuring compliance with the hiring procedures (incl. the mobility scheme), the authorities have committed to centralise and strengthen controls through implementation of specific measures by January 2020. More specifically, an inter-ministerial working group will be established with the participation of the Ministry of Finance (GAO – Directorate for wages), Ministry of Interior (Secretariat General for Human Resources of the Public Sector) and the Presidency that will be given the mandate to present specific measures by end-2019.

Legal measures to firm up on the unified wage grid remain pending, but the new administration has committed to continue the work initiated as concerns the hazardous allowance. Secondary legislation to set up a coherent and transparent approach on eligibility and size of the hazardous allowance is yet to be adopted, although the inter-ministerial committee is continuing its work. In order to allow for more time, an amendment ([71]) has been adopted which sets out that the committee should conclude its work and provide its recommendations to the ministers by mid-2020. The authorities have committed for the Joint Ministerial Decision to be adopted by September 2020. The same amendment also sets out that members for this specific committee can receive a fee. It will be important to ensure that clear rules for committee work where the members are entitled to a fee are established and that GAO (payroll management service) is fully consulted, in order for all such committees across the public sector to be listed. In addition, further clarity as concerns the actual implementation of a specific allowance granted for public officials carrying out controlling tasks that was adopted earlier this year ([72]) would be welcomed. A circular is expected to be issued with guidelines concerning the beneficiaries and details regarding the payment of this allowance.

The new administration has committed to proceed with the third phase of the Single Payment Authority (SPA) reform, which had been significantly delayed. The

([70]) Law 4635/2019 (OJ A-167/30.10.2019), Article 84.
([71]) Law 4635/2019 (OJ A-167/30.10.2019), Article 212.
([72]) Law 4613/2019 (OJ A-78/24.05.2019), Article 22.

completion of this phase would allow the SPA to carry out the clearance of salaries for all general government entities jointly with the Directorate-General for Financial Services of each entity, as an integrated information system will be established. Today, the SPA's mandate is confined to executing the payments of all salaries paid to public officials employed at general government entities. The authorities have committed for the Ministry of Finance to adopt a legal amendment by end-2019, in order to allow for a Presidential Decree ([73]) on the SPA's organisational structure to be updated. This is important as it will allow for the contract of a flagship IT project (€ 2.3 million) funded by the National Strategic Reference Framework to be signed by January 2020. The IT system is expected to be operational by mid-2022 and an implementation period of up to three years is foreseen until all general government entities will be covered. Finally, a Governance Steering Committee and a working group with members from all relevant parties (incl. SPA and GAO's wage directorate) have already been established. The main responsibility of these structures is to look at all relevant issues (business and IT) regarding the preparation and implementation of the new IT system. One of the most crucial issue that the working group will tackle is the preparation of the user requirements which includes the review of the current clearing controls.

8.2. JUSTICE

8.2.1. Electronic Justice

Despite inherited delays, the authorities moved forward with the preparatory stage of the second phase of the Integrated Judicial Case Management System, which is a commitment for mid-2020. Following the completion, in January 2019, of the first stage (covering the civil and criminal courts of Athens, Piraeus, Thessaloniki and Chalkis, as well as the Supreme Court), the second phase will cover all judicial and prosecutorial offices, as well as other justice bodies to be identified in the course of the implementation study for the project. Its key objectives are: (a) the introduction of a uniform IT environment in all criminal and civil courts, in order to raise the quality, speed and efficiency of the administration of justice through a uniform centralised system and (b) the creation of the conditions for interoperability of this environment with the IT systems of other entities of the State and the EU. Pursuant to the Decision of the Minister of Justice for launching the public consultation procedure regarding the draft tender for the project ([74]), the latter was put on public consultation, which was recently concluded. Following further processing in the light of the feedback received, the tendering procedure was completed in November 2019, and the publication of the tender is due by December 2019, upon completion of ongoing administrative proceedings at the Ministry of Digital Governance.

The gradual switching to the mandatory electronic filing and processing of legal documents (writs, memoranda, means of evidence and related documentation), which was a commitment for 2019 (mid-2019 for the completion of the tendering procedure and end-2019 for the implementation), is progressing, starting from the administrative jurisdictions. Following the extension of the possibility of electronic filing of court documents (legal writs, memoranda and means of evidence) with the first-instance court of Athens, in October 2019, the authorities adopted provisions

([73]) Presidential Decree, 142/2017, Article 50.
([74]) Ministerial Decision 245/30.8.2019.

amending the Presidential Decree on the Council of State and the Code of Administrative Procedure to introduce a mandatory electronic filing of legal writs, memoranda, means of evidence and administrative documentation as of January 2021, as well as allowing for remote access to the case files by the parties to judicial proceedings ([75]).

8.2.2. Alternative dispute resolution

The mandatory mediation framework, whose entry into force was twice postponed ([76]), will soon become effective. Following the recent redrafting, due to inherited delays, of a number of provisions on mediation of law 4512/2018 ([77]) with a view to addressing objections raised in 2018 by the Administrative Plenary formation of the Supreme Court as to the constitutionality of certain aspects of the mediation framework, as well as to complying with decision C-729/2017 of the European Court of Justice and addressing issues of a practical and technical nature, the Ministry of Justice will shortly table for adoption amendments ensuring conformity of the mediation framework with the Greek Constitution and EU law. Most notably, the amendments will reduce the categories of disputes subject to mandatory mediation as well as the minimum cost of mediation, and modify a number of procedural and technical aspects of the framework, introducing a number of changes to the provisions on training of mediators and the recognition of their professional qualifications.

8.3. ANTI-CORRUPTION

In August 2019, the national anti-corruption action plan, the implementation of which constitutes a mid-2021 commitment, became part of the mandate of the new independent National Authority of Transparency (NTA). The NTA replaced the General Secretariat for Anti-corruption and should be endowed with greater institutional capacity to fight corruption. It is expected to become fully operational by 2020. The agency brings together a number of functions previously followed by different bodies: investigation of corruption, prevention, and improving public awareness. As far as the investigation and audit role of the agency is concerned, it merges five sectoral inspector bodies existing until now, which is a major step forward considering the previous fragmentation of the different audit bodies and the need to streamline competences and allocate resources more efficiently. The prevention arm of NTA’s policies will broadly encompass the former General Secretariat for Anti-corruption. Raising awareness around the benefits of strengthening integrity in both public and private sectors is part of NTA’s mission in relation to corruption prevention.

The progress report on the national anti-corruption action plan for the first semester of 2019 has been published and signals that a great majority of actions has been completed or launched. There are more than 100 NACPA actions. The vast majority have been launched, are completed or are continuous actions. Under the 14 pending actions, only 2 should have been launched before end-2019. They deal with

([75]) Law 4635/30.10.2019, OJ A 167/30.10.2019, articles 75 to 79.
([76]) By virtue of article 19 of law 4566/2018 (OJ A 175) and article 3 of law 4626/2019 (OJ A 141/16.9.2019).
([77]) Articles 179, 180, 182, 183, 184 para. 4, 185, 186, 188 para. 1, 194, 198, 199, 201 para. A, 202, 203 and 206.

corruption at local government level (follow up the implementation of the specific sectoral strategy and annual reporting by local authorities on audits related to corruption). Their relevance and feasibility will be reassessed by the NTA by January 2020. In effect, in view of enhancing the efficiency and the impact of the plan, while adopting a more results-oriented approach, the NTA intends to update the action plan and propose amendments in line with the recommendations of the United Nations Convention against Corruption, the Group of States against Corruption (GRECO) and the OECD. It should be pointed out that issues regarding the detection of money laundering by banks are not part of the NACAP. The regulation of such matters and the provision of prevention and treatment mechanisms are indeed undertaken by the Bank of Greece in cooperation with the financial institutions.

Even if the effectiveness of the new modern system of party financing and the reformed asset declaration system is not fully certain, steps have been taken on the matters that were previously identified as in need of improvement. The establishment of a more unified framework for controlling bodies, asset recovery and asset management ([78]) and the political party financing framework ([79]) show progress. The reformed asset declaration system is now fully operational ([80]) but as for the new modern system of party financing implemented after a series of reforms, their full implementation is a matter of concern since their control mechanism are not fully effective yet. In effect, the competent audit committee of the Parliament has not yet imposed administrative sanctions related to party financing to date ([81]). However, in view of returning public assets obtained corruptly, a project has been drafted and will be implemented with technical support and external funding. Besides, on internal auditing services, the gaps have been partially filled with legislation regarding the internal audit function in line ministries, while measures have been taken to establish modern internal audit functions in local governments (for a more detail analysis see section 3.4.1). The NTA plans to review and revamp the existing internal audit arrangements across the public administration, which also address a statement of the Hellenic Court of Audit made in 2019 ([82]).

However, the coordination mechanism for corruption and other financial crimes, which is part of the NACAP actions ([83]), remains a pending issue in need of immediate attention. According to the evaluation submitted to the former responsible of NACAP, the coordination procedure for combating financial crimes ([84]) is reported by the authorities as fully operational but the number of cases and values reported from the tax administration to judicial authorities has decreased since March 2018. In view of improving the coordination among audit and accountability institutions for corruption

([78]) Action number 1.3 NACAP.
([79]) Action number 9.3 NACAP.
([80]) Following a court judgement in 2019 the provisions of Law 4571/ 2018 are in line with the Constitution and the international obligations of Greece.
([81]) Gasparinatou, M. (2019), “Political Corruption and funding of political parties” in S. Vidali, N. Koulouris, Ch. Papacharalampous (eds.). *Crimes of the Powerful: Corruption, Financial and Organised Crime*, Athens: Hellenic Open University (under publication), See also https://vouliwatch.gr/actions/article/442e2bd7-40e4
([82]) Follow-up audit on arrears.
([83]) Action 13.2.1 NACAP.
([84]) Law 4512/2018, article 388.

cases and although this does not cover the criminal aspect of cases, the NTA hosts the National Coordinating Body of Audit and Accountability with an expanded mandate.

The NTA plans to take important steps in the field of detecting and tackling fraud. It will be responsible for the fight against fraud in both the national and the European Union budget. The NTA plans to undertake four work streams, including a project on enhancing the functioning of the European Anti-Fraud Coordination Office in Greece in accordance with EU regulations. For this project, the NTA is receiving technical support since November 2019. Before progress in this field can be assessed, the NTA would need to capitalise on the support provided and establish a holistic action plan on the Anti-Fraud Coordination Office. As regard protection of whistle-blowers, the authorities plan to adopt the national law transposing the EU Directive ([85]) by end-March 2020.

The Ministry of Interior has announced plans to develop a coherent national framework for integrity in public institutions jointly with the National Authority for Transparency. As part of establishing this framework, various existing tools will be reviewed (e.g. Code of Ethics) and introduction of new tools (e.g. establish a network of certified integrity advisors across the public administration, registry for lobbyists). In this context the Executive / State Law (Articles 68-76) includes provisions relating to conflict of interest and other integrity issues for the posts held by political appointees, senior officials at independent authorities and other legal entities as well as for non-permanent officials. The same law also establishes units responsible for internal control (Article 39). The unit is divided into two offices, namely (i) Programming office and carrying out internal controls; and (ii) internal investigation office.

Finally, the Group of States against Corruption (GRECO) and the OECD Working Group on Bribery expressed their great concern on a law amending the Criminal and Criminal Procedure Codes. Following the amendments passed in June 2019, the main active bribery offence was converted from felony to a misdemeanour, which is a less serious offence. This downgrading has a consequence a shorter limitation period for bribery offences and a direct impact on ongoing cases and on international cooperation procedures. The June amendments also abolished the law 1608/1950, which stipulated aggravating circumstances in certain conditions. Finally, another amendment restricts the concept of the civil servant to exclude employees of legal entities which do not have the civil servant status but are assimilated in their functions. The NTA has been encouraging the Ministry of Justice to reform the provisions of both the Penal Code and the Code of Penal Procedures in view of addressing all issues raised. The authorities confirmed that the Criminal and Criminal Procedures Codes will be promptly amended to align the necessary provisions with the OECD’S Anti-Bribery Convention, but it should be noted that the propositions that should be adopted in November do not seem to sufficiently address these concerns. A joint mission by GRECO and the OECD is planned to take place before end-2019. Its findings would provide useful guidance to the authorities on appropriate further actions, including legal amendments.

The Commission has continued to monitor developments in relation to the legal proceedings against the members of the Committee of Experts of TAIPED and the

([85]) Adopted on 16 April 2019.

former President and senior staff of the Hellenic Statistical Authority (ELSTAT). The case against former ELSTAT President A. Georgiou related to charges filed in connection with fiscal statistics has been irrevocably dismissed. Regarding other pending cases, an appeal introduced by Mr Georgiou in a civil defamation lawsuit is scheduled to be heard in January 2020, following an adjournment of the hearing of May 2019. In the case against the Committee of Experts, there has been a further positive development since the last enhanced surveillance report; namely, the ruling by the chamber formation of the Athens Court of Appeal that dismissed the charges against the Committee of Experts was not appealed by the Prosecutor of the Supreme Court, and therefore stands irrevocably in force.

9. SOVEREIGN FINANCING AND CAPACITY TO REPAY

9.1. SOVEREIGN FINANCING

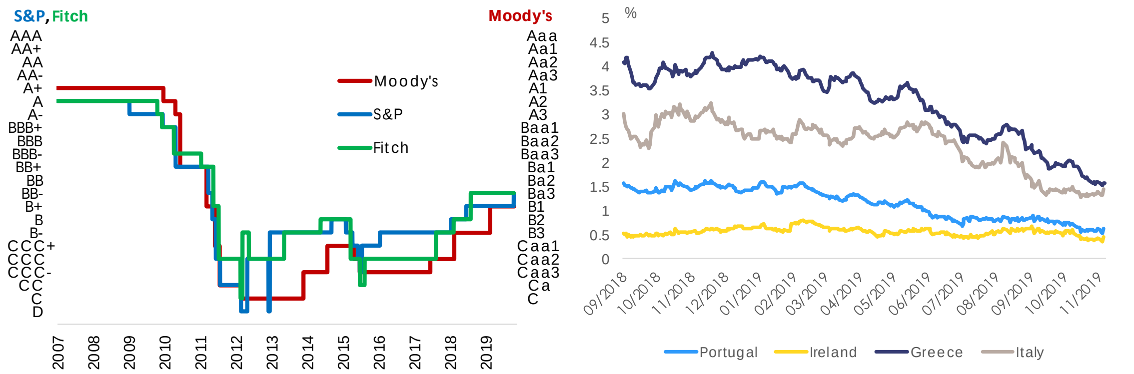
Greece maintained its presence on the government bond market by issuing bonds in July and re-opening the books of an earlier issuance in October. The Public Debt Management Agency (PDMA) tapped the market for the third time this year in July by issuing a 7-year bond. The bond reached a 1.9% reoffered yield with a coupon of 1.875%. This was the lowest yield ever achieved by the Greek government for a euro-denominated benchmark syndication up to that day. By this issuance, the PDMA completed its funding plan for 2019 by issuing bonds worth of €7.5 bn in total. However, after the further moderation of the yields, the PDMA decided to re-open its books for the 10-year bonds issued in March 2019 and accepted further offers by issuing another €1.5 bn in bonds. The re-offered yield dropped to 1.5%, registering yet another record low yield.

Greece's bond yields decreased markedly since the last report. The government bond yield spreads started to slowly moderate after the successful conclusion of the ESM programme in 2018. After some volatility in May and the announcement of the snap elections, the difference in bond yields compared to Germany decreased further and reached 2.5 percentage points on the 10-year tenure in July 2019, down from 3.5 percentage points. a year earlier. A further decrease took place in September, and Greek bond yield spreads reached levels as low as 1.9 percentage points. The reduction in yield spreads was accompanied by a credit rating upgrade by Standard and Poor's by one notch from BB- to B+ with a positive outlook.

The partial early repayment of the IMF loans is expected to take place by end-November. With the recent decline in market interest rates on bond issuances, Greece requested a partial early repayment of its IMF loans. After the completion of national procedures, ESM and EFSF governing bodies have waived their right for a proportional repayment on 28 October. In particular, the amount in excess of SDR 4.6 bn, which bears a higher interest rate would be pre-paid. The transaction will be financed through funds raised earlier in the year. This early repayment has limited impact on debt sustainability, as most of that amount would have been due by the end of 2020 anyway. The transaction is nevertheless welcome, as it will reduce the foreign exchange rate risk that the sovereign faces, and will generate savings of approximately €70 m in 2020.

Greece maintains a substantial cash buffer. State cash reserves remained high at around €20.3 bn as of end-September 2019, of which €15.7 bn remain intact in the cash buffer account. The available reserves are sufficient to cover financing needs of more than two years ahead, even after the IMF early repayment.

Graph 9.1: **Credit ratings (left) and 10-year government bond spreads to the Bund (right)**



Source: European Commission

9.2. DEBT SUSTAINABILITY

An update (86) of the debt sustainability analysis has been carried out. As the draft budget submitted by the government ensures compliance with the primary balance target in 2020, the current DSA assumes full compliance with the primary balance targets in the outer years too, reflecting the government's commitment. This update furthermore assumes the full implementation of all medium-term measures agreed in June 2018 to ensure debt sustainability. The income equivalents from the SMP-ANFA profits are, on a technical basis, assumed to be disbursed and used for debt service purposes only. The DSA also assumes that the partial early repayment of the IMF loan will take place as planned, as the ESM and EFSF governing bodies have waived their right for a proportional repayment.

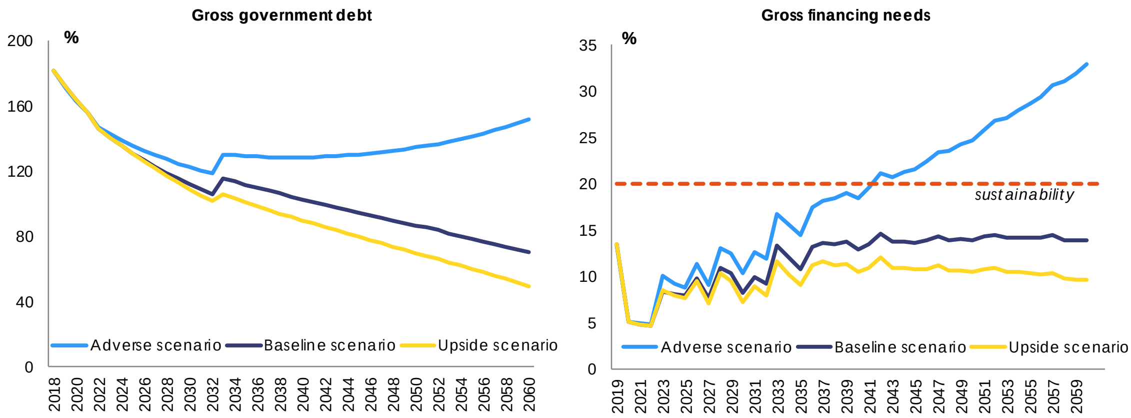
Since the last update, market interest rates and spreads have declined substantially. There is however considerable uncertainty around the persistence of the current low-interest rate environment and how this could be reflected in the analysis in a consistent way. To simulate the impact of a protracted period of low risk-free rates and compressed spreads, the current DSA includes an upside scenario, which builds on the macro and fiscal assumptions of the baseline scenario, but its assumptions on the risk free rate and the Greek interest rate are aligned with market expectations (forward rates) over the medium term. Over the long term, steady state interest rate assumptions have remained unchanged. As the macro assumptions underlying the DSA do not build on market expectations in the medium term, this scenario should be interpreted only as a partial impact assessment of lower interest rates. The assumptions underlying the adverse scenario remain unchanged, capturing only risks to the macro and fiscal developments.

The baseline scenario shows that debt would remain on a downward trend (except for a level-shift due to the capitalisation of the deferred interest in 2033), but would remain above 100% of GDP until 2041. In the upside scenario, debt reduces fast and

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

reaches 60% of GDP in 2055. An update of the adverse scenario shows that debt starts rising again after the early-2040s.

Graph 9.2: **Main results of the debt sustainability analysis**



Source: European Commission

Under the baseline scenario, gross financing needs remain moderate, around 10% of GDP until 2032. Thereafter, the gross financing needs start to increase slowly, but are projected to remain around 14% of GDP at the end of the forecast horizon. In the upside scenario, debt remains highly sustainable throughout the horizon of the simulation, as gross financing needs remain around 10% of GDP in 2060. In the adverse scenario, the gross financing needs reach 20% of GDP in 2042 and increase further thereafter.

ANNEX 1: IMPLEMENTATION OF COMMITMENTS

Progress with the implementation of mid-2019 and continuous specific commitments (Annex to the Eurogroup statement, 22 June 2018) and follow-up issues (*)

	Commitment	State of play and next steps
1	**Fiscal.** Ensure that the annual budget achieves a primary surplus of 3.5% of GDP.	Draft Budgetary Plan for 2020 was submitted on 15 October compliant with primary surplus targets in 2019 and 2020.
2	**Health care – Clawbacks.** Complete the offsetting and collection of the clawback for 2018.	The collection has been delayed due to changes in the repayment schedule. The Ministerial Decree implementing the collection of the 2018 clawback was signed and will enter into force shortly.
3	**Taxation – ENFIA.** Undertake nationwide valuation exercises of property tax value based on market values.	The valuation exercise was rescheduled in favour of a major reform of the objective property tax values system by mid-2020, set out with a detailed timetable.
4	**Public financial management.** Reduction of arrears to zero. Avoid the accumulation of new ones and complete the implementation of reforms identified by the Hellenic Court of Auditors (HCA).	At end-August 2019, the stock of arrears stood at €1.3 bn. The new administration adopted mid-October a broad clearance and non-accumulation plan according to which the stock of arrears is foreseen to reach approximately €140 m by December 2020. Progress was made on most reforms identified by the HCA but more time is required to design and fully implement them. The *ex ante* audits performed by the HCA were phased out as envisaged.
*	**Tax administration.** Progress with IAPR recruitment.	Good progress was reached on equivalent measures to the end-2018 commitment on the hiring target: *Completion of the HR reform*: Budget has been allocated. Primary legislation

	Commitment	State of play and next steps
		on grading scale will be adopted by end-2019. Primary legislation on the wage grid will be adopted in time for the new system to become effective as of 1 July 2020. *IT systems*: Preparation of an agreed road map will be finalised by end-2019. The road map will clarify competency areas relating to IT between the IAPR and the GSIS (incl. updating of the SLA) to be completed by mid-2020. *Housing*: Appropriate building for the IAPR's headquarter services was identified. A detailed timeline will be adopted by end-2019 and services relocated by end-2020.
5	**Social safety nets.** Apply to all disability benefits the new approach for disability determination based on both medical and functional assessment.	The reform is advancing but with significant technically-related delays outside the control of the authorities. A revised timeline will be agreed once the evaluation by an external consultant is received.
*	**Labour market.** Monitor impact of minimum wage increase and collective bargaining.	A technical support project is being launched with the World Bank to conduct an ex-post assessment of the 2019 minimum wage increase.
6	**Financial.** Continue to implement reforms aimed at restoring the health of the banking system, including NPL resolution efforts.	*E-auctions*: The final working group report is expected by December 2019 *Elimination of Household Insolvency backlogs*: An action plan is expected by end-December 2019 *Implementation of primary residence protection*: Draft amendments to law 4605/2019 will be adopted shortly. *Harmonisation of insolvency legislation*: A concept paper was submitted and will be finalised by December 2019; the relevant legislation should be

	Commitment	State of play and next steps
		adopted by April 2020. *Evaluation of the implementation record of the reformed Code of Civil Procedure:* proposal for amendments due by end-December 2019 *Provision of financial training to judges*: Two draft PD due for submission to the Council of State. *Legal safeguards for bank officials dealing with debt restructuring cases:* Proposed amendments to the Penal Code tabled in Parliament on 31 Oct 2019 and due for imminent adoption. *State guarantees*: Clearance and payment plans were presented on 31 October 2019, envisaging the payment of called guarantees within seven years. The authorities are seeking scope for a more timely payment profile with adequate measures to ensure its credibility.
7	**Financial.** Continue the relaxation of capital controls in line with the published roadmap.	Capital controls were fully phased out as of September 2019, ahead of schedule.
8	**Justice.** Complete the tendering procedure for the launching of phase II of the Unified System for the Management of Court cases (OSDDY-PP).	The tender is due to be launched by end-December 2019.
*	**Investment licensing.** Adopt all enabling licensing legislation.	A Joint Ministerial Decree (FEK/B/436 - 14.02.2019) for the installation and operation of activities in the sector of environmental infrastructures was adopted. Other important measures consistent with the objectives of the reform were adopted in the Development Law on 24 Oct 2019. A review of

	Commitment	State of play and next steps
		environmental licensing rules is in progress.
9	**Cadastre.** Complete the drawing of the remaining forest maps.	Materially completed (94.6%). The remaining part was delayed for reasons outside of control of the authorities and will be completed by Feb 2020.
10	**Energy.** Launch the Target Model for the electricity market.	The timeline for the rollout of the Target Model was agreed to be revised in view of delays from the first half of the year, with a new deadline of June 2020. The recently submitted draft energy bill puts in place a binding timetable and allows RAE to impose penalties for breaches in this respect.
*	**Energy.** Completion of lignite divestiture.	The extended lignite divestiture failed and resulted in a breach of the anti-trust commitment. The authorities announced an early decommissioning of lignite, reflected in its energy market plan. Regarding an alternative remedy for the anti-trust commitment, the authorities formally communicated their intention to submit revised remedies in January 2020.
11	**Privatisation.** Complete the transactions on HELPE (including transfer of remaining shares to HCAP) and Marina of Alimos.	*HELPE*: No binding offers submitted. The financial closure is thus inevitably subject to significant delays. The approach is expected to be clarified and a timeline finalised, by end-2019. *Marina of Alimos*: The preferred investor was selected on 16 April 2019. The Court of Audit approved the tender procedure on 26 June 2019. The next steps are procedural.
12	**Privatisation.** Implement the Asset Development Plan of TAIPED on a continuous basis.	The Asset Development Plan was updated and endorsed by the Governmental Council for Economic Policy. *Egnatia*: The following actions are needed to be completed before the submission of binding offers, which is currently scheduled for 21 February

	Commitment	State of play and next steps
		2020: (i) Implementation of the new toll pricing policy approved by the Commission; (ii) Completion of the construction of all remaining frontal and lateral toll stations; (iii) Licensing of all tunnels by the Tunnel Licensing Authority; (iv) Clarification of the remaining measures (and cost) to ensure that bridges are classified as safe; (v) Commencement of operation of already constructed and ready to operate frontal toll stations; (vi) Resolution of open issues related to contracts for the motor service stations (regarding Eleftherochori, Oraiokastro, Ardanio and Sostis) by Egnatia; (vii) Egnatia to proceed to necessary actions (tender for advisor appointment) for all the preparatory work necessary for the remaining expropriations. *DEPA:* Draft law expected to be enacted shortly. Following the enactment, the transactions for the sale of the whole stake of the Hellenic Republic in both the commercial and infrastructure business will be launched. Given that the two tender processes are expected to be running in parallel, it is important to ensure that the unbundling provisions envisaged in the draft law are enforced. *Regional ports of Alexandroupolis and Kavala:* The next steps are: (i)Adoption of an amendment providing TAIPED the flexibility of choice (i.e. master concession, sub-concession, sale of equity) so as to allow the best privatisation transaction structure for each port; (ii) Completion of a study by the advisors of TAIPED on the best proposed privatisation structure for each port; (iii) Launching of the transactions on the regional ports of Alexandroupolis and Kavala. *Sale of 30% of the Athens International Airport (AIA) shares:* On 29 October, ten investment schemes expressed interest (Phase A) to acquire a 30% stake in AIA owned by TAIPED. The next steps is for TAIPED with its

	Commitment	State of play and next steps
		advisors to evaluate the Expressions of Interest and submit to the Fund's Board of Directors their recommendation regarding the candidates that qualify for the next phase of the tender. *EYDAP water company:* The 20-year concession agreement between EYDAP and the Hellenic Republic, which was due to expire on 25 October 2019, was extended for a six months period. This is intended to provide sufficient time to the parties to finalise the negotiations.
*	**Privatisation.** The transaction on Hellinikon should have been completed by end-2018.	Significant progress was made and the financial closing is feasible in the coming months. Next steps: Completion of: (i) tender process for the award of the casino licence; (ii) relocation of the remaining user; and (iii) the partition of the Hellinikon site between the Hellenic Republic and Lamda Development.
13	**HCAP.** Implement the Strategic Plan of HCAP on a continuous basis. Complete the review/replacement of all SOE boards.	Implementation of the strategic plan of HCAP continues. The business plan for 2019-2021, implementing the strategic plan and setting key performance indicators (KPIs) for its direct subsidiaries and the non-listed other subsidiaries was prepared in December 2018. HCAP has also elaborated the framework for monitoring the KPIs and is monitoring the KPIs set for each non-listed SOE, in which it has majority participation, on a regular basis. Review / replacement of the Boards of Directors was completed in: ELTA (Hellenic Post), GAIAOSE (SOE active in the fields of railway real estate property and rolling stock exploitation, management and development), OASA (Athens Urban Transport Organisation), AEDIK (Corinth Canal), KATH (Central Market of Thessaloniki), PPC (Public Power Corporation), the water companies EYDAP (Athens) and EYATH (Thessaloniki), and ETVA VIPE (SOE whose main activity is the sale of plots of land for

	Commitment	State of play and next steps
		industrial use). Work is underway for Central Market of Athens, Helexpo (Hellenic Exhibition Organisation) and the Greek Saltworks. Work is about to commence, in cooperation with OASA’s management, for OSY and STASY, the Athens bus and metro companies respectively.
*	**HCAP.** The transfer of OAKA to HCAP should have been completed by end-2018.	Given the complexities and involvement of third parties, an adjusted timetable, with technical studies through 2020, appears reasonable. The timing for transfer would then be determined. The process needs to be pursued as diligently as possible.
14	**Public administration.** Independent assessment of the appointment process for senior management, including follow up measures.	The assessment was completed by June 2019. Law 4622/2019 cancelled Administrative Secretary posts, thus making the commitment for adoption of follow-up measures redundant.
15	**Public administration.** Complete the 3rd cycle of mobility and performance assessments.	*3rd mobility cycle*: Good progress was made in completing transfers. Provisions to facilitate that transfers are completed on time and strengthen link with the annual hiring plan will be adopted by end-2019. *Performance assessment*: The 2018 round was completed on time and with overall good participation.
*	**Public administration.** Progress with appointment of Administrative Secretaries and issues relating to the unified wage grid.	*Appointments of senior management posts*: Law 4622/2019 abolished the Administrative Secretary posts (69 in total), while partially replacing it with the Permanent Secretary post (13 in total). The job announcement for the Permanent Secretary posts is expected to be launched by ASEP shortly and be completed by Jan 2020. An open selection process for legal entities of public/private law will be reintroduced and the relevant legislation will be adopted by May 2020. The authorities are expected to also adopt measures to strengthen the institutional continuation of the Presidency. A circular was

	Commitment	State of play and next steps
		published by the Ministry of Interior in Nov 2019 that sets out the process of delegating the signature powers of individual acts as per Law 4622/2019 to administrative level. *Unified wage grid and the Single Payment Authority*: The authorities have committed to adopt the following measures to consolidate the existing exemptions from the wage grid and to make the introduction of new exemptions more difficult: (i) legal amendment of the Presidential Decree (142/2017, Art 50) by end-2019 to allow for the launch of a flagship IT project for the Single Payment Authority by Jan 2020; (ii) an inter-ministerial working group with mandate to present specific measures that will be in place by Jan 2020; and (iii) secondary legislation relating to the allowance for hazardous professions by Sept 2020.

Progress with the implementation of end-2019 specific commitments to the Eurogroup (Annex to the Eurogroup statement, **22 June 2018)**

	Commitment	State of play and next steps
1	**Public financial management.** Complete the cash monitoring and forecasting for the General Government Treasury account system by end-2019.	Progress was made on most of the key actions in spite of minor delays. Additional steps will be needed to ensure the full completion of the reform. Monitoring all general government entities' liquidity by the GAO will require an ad-hoc IT system.

	Commitment	State of play and next steps
2	**Tax administration.** Reach the agreed permanent staffing positions at the Independent Authority of Public Revenue (IAPR) of 12 500 by end-2019.	Similar to the end-2018 hiring target that was not met (11 487 instead of 12 000), it seems unlikely that the end-2019 hiring target will be met (current staff level is 11 751 with the target set at 12 500). Overall good progress on the complementary measures agreed to facilitate achievement of future hiring targets.
3	**Social safety nets.** Complete the rollout of all three pillars of the Social Solidarity Income (SSI) scheme by end-2019. Review the system of subsidies for local public transport by end-2019.	The authorities have completed the second pillar – social inclusion – of the Social Solidarity Income and work is underway on the third pillar, which relies on the provision of active labour market services to help the recipients of the scheme (re-)enter the labour market. To achieve this, the authorities are developing a more systematic approach to the design and management of the active labour market services, which has been tested and should be gradually expanded following its evaluation. The authorities have confirmed their commitment to assess the appropriateness of the current system of subsidised fares for local public transport by the end of 2019, and to follow up on eventual recommendations to improve the system.
4	**Labour market.** Implement action plan on undeclared work by end-2019.	The current action plan to fight undeclared work for 2017-2019 promotes an integrated approach to undeclared work, including measures to reinforce the cooperation among different institutions and improve the capacity to detect undeclared work. The authorities are designing a follow-up to the action plan, with continued technical support by the International Labour Office. These measures have been accompanied by a number of additional recent steps to encourage work in the formal economy and to limit the abusive use of part-time work, which often masks undeclared full-time work. These notably include an increase in the overtime remuneration for part-time workers and the expansion of the ERGANI employment registration system

	Commitment	State of play and next steps
		allowing it to cover also non-standard forms of employment. In 2020, the government is also planning to introduce a digitalised system for the recording of working time.
5	**Justice**. In the context of implementing the Three-Year Action Plan on Justice, implement the electronic filing of legal documents throughout the Courts, having completed the tendering procedure by end-2019.	The tendering procedure will be launched by end-December 2019.
6	**Investment licensing.** Complete the investment licensing reform, and to this end fully deploy the relevant ICT (end-2019).	The tender process for the design and implementation of the relevant IT system (ILIMS) is expected to be completed and the contract awarded by end-2019.
7	**Energy.** With a view to completing reforms in the energy sector, implement the measures agreed as part of the joint assessment on the NOME auction system.	As noted in table above, item 10, additional structural measures are being discussed, though in the context of an alternative remedy for the anti-trust commitment. There are also plans to speed up delivery of the forward market as an alternative to NOME.
8	**Privatisation.** With a view to swiftly attracting investment to support a sustained economic recovery, complete by end-2019 the transactions on Egnatia, DEPA commercial, regional ports of Alexandroupoli and Kavala, AIA shares, EYDAP and EYATH.	See table above, item 12 (implementation of Asset Development Plan on a continuous basis).
9	**Public administration.** Complete the integrated HR Management System (digital organigram for all public entities and link with single payment authority) by end-2019.	Overall good progress in completion of the digital organigrams (around 50% of all general government entities) and job descriptions (140 788 out of 192 878), which constitute key elements of the Human Resources Management Strategy (HRMS). A circular has been issued setting out that each jobholder will be linked with a specific job description/position by end-2019. Non-complying general government entities will not be able to

	Commitment	State of play and next steps
		participate in the mobility scheme or secure hiring of new permanent staff. The overall HRMS project will be delivered through the implementation of a number of EU-funded sub-projects and is expected to be operational as of 2023. The authorities have committed to a detailed road map in order to track the progress of implementing this important project.

ANNEX 2: MIP SPECIFIC MONITORING

In February 2019, Greece was identified as experiencing excessive macroeconomic imbalances in the context of the Macroeconomic Imbalance Procedure (MIP). The imbalances identified related, in particular, to the high public debt, the negative net international investment position, the high non-performing loans on banks' balance sheets and the still high unemployment rate.

The 2019 Country-specific Recommendations (CSRs) under the European Semester provided guidance for the policy follow-up. The first CSR covers a wide range of policy areas and is based on the commitments made by Greece upon exiting the European Stability Mechanism programme in August 2018. These commitments aim to ensure continuity and deepening of all key reforms launched under the programme (CSR1) (see also below). Combined with CSR2 that identifies priority areas for public and private sector investment, these recommendations are considered relevant to address Greece's identified imbalances.

This section reviews the latest developments and policy initiatives undertaken by the Greek authorities relevant for the correction of the excessive imbalances.

OUTLOOK AND RECENT DEVELOPMENTS OF IMBALANCES

The stock of external liabilities remains large. At -140.7% of GDP in 2018, the net international investment position (NIIP) of Greece remains strongly negative. Despite a high share of liabilities consisting of public debt to official creditors, their large stock exposes Greece to shifts in market sentiment and adverse economic shocks. The recent change in trend from growing to narrowing of the NIIP is a positive development but the speed of the consolidation remains very slow. Moderate nominal GDP growth and a negative current account balance are not conducive to a fast consolidation of external liabilities, and hence the NIIP is expected to improve only slowly.

The current account balance has improved significantly since the start of the crisis but remains negative. In 2018 the current account balance declined again to -2.9% of GDP after narrowing to -1.8% in 2017. In order to stabilise the NIIP above the threshold of -35% of GDP considered sustainable under the macroeconomic imbalance procedure within 20 years, the current account balance would need to adjust to a surplus of close to 1% of GDP. High export growth and export market share gains have helped improve the balance in 2017 and 2018, but the contribution of net exports to growth has been dampened by the high import content of exports, investment and consumption. Unit labour costs have been increasing in 2017 and 2018 but their increase remained below the growth of unit labour costs in other EU countries, thus limiting the negative effects for price competitiveness. The recent increase in nominal unit labour costs is mainly driven by wage growth and inflation. This underlines the importance of wage growth for cost competiveness.

The high level of public debt remains a burden on the economy and makes Greece vulnerable to changes in financial or economic conditions and increasing financing costs in the long run. General government debt amounted to 181.2% of GDP in 2018 but is expected to decline and reach 163.1% in 2021 on the back of the ongoing economic recovery and sound public finance policies. Standard debt sustainability analysis indicates that without further fiscal consolidation measures, debt will still be above 125% in 2027.

The large stock of non-performing loans (NPLs) remains a burden on the banking sector. Despite active deleveraging by both non-financial corporations and households, 43.6% of loans were considered non-performing in June 2019. Average bank capitalisation is overall comfortably above current capital requirements but the quality of capital remains weak. Moreover, going forward, the banks will have the challenge to absorb the International Financial Reporting Standards 9 impact and the phasing-in of Basel III capital buffers, and new calendar provisioning rules, while implementing ambitious Non Performing Liabilities' reduction strategies.

Productivity growth has turned positive in 2018 after a prolonged period of declining productivity during the crisis. The depletion of human and physical capital due to emigration of skilled workers and lack of investment in the capital stock during the crisis has left Greece with lower productivity levels after the crisis. The expected increase in investment and positive GDP growth have the potential to help to restore capital stock, and better labour market conditions will in turn attract skilled workers. Potential growth is set to be around 1% in the long term, contingent on sustained implementation of sound policies.

Despite positive employment growth, unemployment and youth unemployment rates remain the highest in the EU. Unemployment is declining at a robust rate and is expected to reach 14% in 2021. Coming from high levels the rates remain high, especially for youth and long-term unemployed, and the activity rate was comparatively low at 68.2% in 2018. High unemployment and low wage growth restrict domestic consumption, hinder deleveraging and limit room for human capital investment.

Overall, Greece has substantially improved its domestic and external flow imbalances. The stock imbalances remain high as a legacy of the protracted economic crisis but their correction has continued over the current reporting period.

PROGRESS WITH POLICY IMPLEMENTATION

Greece should continue pursuing policies to foster productivity, competitiveness and the rebalancing of the economy, which are key objectives of the ongoing MIP specific monitoring. During the programmes, the authorities adopted a wide range of measures to put public finances on a sound footing, restore the financial sector, and improve the functioning of product and labour markets, while strengthening the social welfare system. These deep institutional and structural reforms require many years of sustained implementation for their impact to unfold fully.

In this context, Greece committed to the Eurogroup in June 2018 to continue and complete all key reforms launched under the European Stability Mechanism programme and continuous implementation is key. Commitments concern the areas of (i) fiscal and fiscal structural reforms; (ii) social welfare reforms; (iii) financial stability; (iv) labour and product market reforms; (v) State asset management and privatisation; and (vi) reforms of the public administration and justice. The Commission is monitoring compliance with these commitments under its post-programme enhanced surveillance framework and is assessing progress in its quarterly reports. Moreover, implementation of these commitments is the subject of the CSR1 in the context of the European Semester for economic policy coordination that Greece participates in since August 2018. Combined with CSR2 that identifies priority areas for public and private sector investment, these commitments can help underpin longer-term growth and reduce regional disparities, thereby allowing for a sustainable economic recovery and a correction of Greece's excessive macroeconomic imbalances. Against this background, continuous implementation is particularly important.

The current 4th enhanced surveillance report provides an overview of policy developments in each of the aforementioned five areas and assesses progress with meeting related commitments. Section 3 reviews fiscal and fiscal structural reforms, including steps to make public finances more growth friendly and sustainable through tax policy adjustments, better revenue administration and improved public financial management. Section 4 touches upon policy developments in social welfare, focusing notably on the areas of pensions, healthcare and social safety nets. Section 5 describes policies to restore financial sector stability and tracks progress with implementing agreed actions to strengthen the NPL resolution framework. Section 6 lists labour and product market reforms and assesses performance in key areas of the business environment, including investment licencing, cadastre and land use, and the functioning of network industries. Section 7 tackles issues related to state asset management, with a focus on SOE governance, and monitors progress with privatisation of major investment projects. Finally, Section 8 reviews reforms in public administration that aim to improve human source management, strengthen the legislative process and control the size and cost of the public sector. This last section of the report also provides an overview of policy efforts to improve the justice system, including through agreed measures to promote electronic justice and fight corruption.