Memorandum of Financial and Economic Policies [Draft]

1. **Economic developments and outlook:** Following a period of modest growth in 2014, the economy fell back in recession in 2015. This was the result of an acute loss of confidence, which culminated in the need to impose payment restrictions and capital controls last June to safeguard financial stability. This year, with payment restrictions still in place and ongoing fiscal consolidation, we expect output to decline further by around [0.6] percent, although, on a quarterly basis, growth is likely to resume in the second half of the year. Looking forward, the recovery hinges crucially on the restoration of confidence, which in turn depends on consistent implementation of our adjustment program and on debt relief from European partners. With these two elements in place, we expect output to rebound strongly over the medium term, averaging close to 3 percent during 2017-19. We project long run growth to reach around [1¼] percent, predicated on implementation of structural reforms to increase our economy's productivity from one of the lowest to the average in the eurozone.

2. **Recent reforms**: Following a hiatus in reform implementation, as well as rollbacks in some reforms since mid-2014, we have legislated a number of reforms in the context of the ESM supported program agreed last summer, as follows:

- *In the fiscal area*, we legislated a package of measures yielding total fiscal savings of 1½ percent of GDP over the medium term. This included a VAT reform that simplifies the system and broadens the tax base, measures to streamline subsidies, and first steps to address the sustainability of our pension system by curtailing early retirement options and raising health contributions of pensioners. At the same time, we legislated a framework for improved budget preparation and controls as well as provisions to improve revenue collection by better prioritizing audit activities and strengthening the tools for debt-collection enforcement.

- *In the financial sector*, we legislated a new Code of Civil Procedures (CCP) with streamlined dispute resolution procedures and improved auction rules and ranking of claims. We also amended our corporate and household insolvency laws, while protecting vulnerable households, and adopted a framework law to facilitate the servicing and transfer of NPLs. At the same time, we bolstered the capital of the four systemic Greek banks through a combination of public funds and private capital.

- *In the area of structural reforms*, we passed legislation in line with the OECD Toolkit recommendations on sales periods, pharmacies, etc., as well as on more than 70 recommendations on beverages and petroleum products. We have also adopted legislation to open the restricted professions of notaries, actuaries, and bailiffs and liberalize the market for tourist rentals. And we have signed privatization agreements for the Piraeus port and the regional airports.

3. **Debt sustainability:** Notwithstanding our recent reform efforts, given a deteriorated macroeconomic and fiscal situation, our general government debt remains high, reaching [176] percent at end-2015. Despite generous concessional official financing and further reform plans as detailed in this document, debt dynamics are projected to remain highly unsustainable. Thus, to restore debt sustainability, in addition to our reform efforts, decisive action by our European partners to grant further official debt relief will be essential. Debt relief will be based on a sustainable long-run primary balance of [1½] percent of GDP [to be completed].

4. **Program objectives**: Our new adjustment program aims to achieve long-term fiscal viability, financial sector stability, and sustained and inclusive growth, while protecting vulnerable groups. Specifically, our fiscal policies aim to achieve credible and realistic medium-term primary balance targets through a balanced and gradually-paced consolidation. Given these targets, to ensure debt sustainability, we expect European partners to provide substantial debt relief as noted above. Our fiscal adjustment efforts will be complemented by fiscal structural reforms aiming to strengthen revenue collection, budget processes, and the public administration, while putting in place a modern welfare system. Financial sector policies will aim to reduce substantially the high level of non-performing loans and normalize payment conditions to support credit and growth. We will also revitalize our growth-enhancing structural reform agenda, which is key to ensuring better standards of living for our future generations.

I. FISCAL POLICY

5. **Strategy**: Our fiscal policies aim to strengthen the credibility and improve the sustainability of our public finances. Despite a large adjustment over the last five years, which has helped to reduce our primary fiscal deficit from 10 percent of GDP to [close to balance] last year, Greece has not been able to attain the very ambitious primary surpluses on which its previous adjustment programs had been based on. These slippages have eroded the credibility of fiscal policies and, as noted above, along with other factors, contributed to our debt dynamics becoming highly unsustainable. To rebuild credibility in our fiscal policies, our strategy is based on revised fiscal targets that are still ambitious, yet realistic, to be underpinned by parametric measures legislated upfront but implemented gradually to minimize the negative effect of the consolidation on economic activity. Any over-performance relative to fiscal targets will be largely used to reduce our exceptionally high debt, although consideration will be given to using part of the over-performance, if proven permanent, to increase resources for our new welfare system to protect vulnerable groups.

6. **Credible targets**: We are committed to achieving a medium-term primary surplus target of [1½] percent of GDP by 2018. This is substantially lower than the target of 4½ percent of GDP in our previous adjustment program, reflecting our social constraints related to reform fatigue after five years of adjustment and social pressures associated with an unacceptably high unemployment rate, especially for the young. To smooth the burden of the

adjustment as the economy recovers, our fiscal targets will be phased in, with a primary deficit of [½] percent of GDP expected in 2016, and surpluses of [¼] percent and [1½] percent in 2017 and 2018, respectively. Our commitment and full adherence to our fiscal targets, combined with substantial debt relief from our European partners, will be essential to ensure that our public debt can be put on a sustained downward path.

7. **Reform package**. To secure our medium-term primary balance target of [1½] percent of GDP by 2018, as a **prior action**, we will legislate—in the context of a 2016 supplementary budget and our 2017–20 medium-term fiscal strategy—a comprehensive and balanced reform package aiming to achieve permanent net savings of [2½ percent of GDP] by 2018, as well as to compensate for the costs of the Constitutional Court ruling on the 2012 pension reform (2 percent of GDP). The key pillars of our fiscal package that are part of the prior action (except for follow-up actions identified separately below) are as follows:

- **Pension reform** (1 percent of GDP): With overall pension spending having reached [17½] percent of GDP, of which [11] percent reflects budgetary transfers to the system (compared to the euro-area average of 2½ percent), our pension system is unaffordable and requires urgent reform to improve its medium and long-run viability. Moreover, the Constitutional Court ruling on the 2012 pension cuts will further increase spending. Our reform will overhaul the system by applying unified rules for all, with the aim to reduce dependence on the budget and address the costs of the court ruling (2 percent), while enhancing incentives to work and contribute (TMU X):

    - ***Eliminating grants and harmonizing contribution rules*** (½ percent of GDP): We will phase out the solidarity grant EKAS by end-2019, which is a costly non-contributory component that discourages formal labor market participation. We will also fully harmonize public health and pension contribution rules for all pension funds to eliminate distortions and inequitable state subsidies across different professions and categories of insured. In addition, to further promote fairness, we will change the contribution base from notional to actual incomes for the self-employed. Finally, we will tighten rules on survivor pensions, eliminate all guaranteed contributory pension limits, and abolish child and any other bonuses [savings to be used support the guaranteed minimum income scheme].

    - ***Addressing the deficit in auxiliary and dividend funds*** (½ percent of GDP): We also commit to implement the zero-deficit rule in auxiliary funds in line with the existing law by adjusting benefits of existing and future retirees so as to achieve balance in these funds in 2016 and the medium term. We will adjust spending to automatically eliminate any annual deficit in the dividend funds.

    - ***Recalibrating pension benefits:*** The recalibration of pension benefits based on a uniform rule for all pensioners aims to achieve intra- and inter-generational equity, address the costs of the constitutional court ruling (2 percent of GDP), improve actuarial fairness, and strengthen incentives to work. The new rule for main funds will be based on a fixed national pension ([€345] per month after 15 years of contributions, increasing to €384 per month after 20 years of contributions), which will fully replace the existing system of basic and minimum-guaranteed pensions. We will combine the national pension with a progressive marginal scale of accrual rates (ranging from 0.77 to 2) that will help strengthen incentives to work and contribute, aiming to maintain replacement rates below those deriving from the current law (reformed in 2010). For new retirees, the new rules will be applied immediately, without pro-rating of previous benefit rules. For current retires, the recalibration of pensions in accordance to the new rules is expected to fully offset the fiscal effects of the ruling. To address legal risks, we will accompany the pension reform with detailed explanatory notes and a specific economic study detailing the compliance of the reform with constitutional court principles. We will legislate upon receiving a positive *ex ante* opinions from the Court of Auditors and the Scientific Council of the Parliament.

- ***Follow-up implementation steps***: [Given high social pressures, main pensions of existing retirees will remain at current levels and be frozen by law in nominal terms until such time when the level of pensions equals that produced by the recalibration.] For pension funds where data is insufficient, temporary pensions will be computed based on imputation. We will convert such pensions to final recalibrated pensions by [end-December 2017]. Prior to this date, to achieve the full unification of funds and generate administrative efficiency gains, we will first operationalize a single register of pensioners and benefit values by end-September 2016 and then include and transfer all insured individuals under a single entity and unify disability and contributory welfare benefit rules by **end-December 2016 (structural benchmark, TMU X)**.

- **Income tax reform**: (1 percent of GDP): Despite earlier reforms aiming at eliminating income tax exemptions and simplifying the income tax code, the system remains inefficient and complex, providing incentives to under-report and shift income sources, placing a large tax burden on a narrow part of the population, and exempting more than half of wage earners from income tax through a generous tax credit. Our reform aims to broaden the income tax base, ensure progressivity, and simplify the system while permanently integrating the temporary solidarity surcharge in the tax code (TMU X):

  - ***Reducing and simplifying the income tax credit*** (about ½ percent of GDP): The current tax credit—amounting to €2,100, and implying a tax free threshold of €9,545—exempts about 55 percent of wage-earners from income tax. To broaden the taxpayer base (by about 5 percentage points), we will reduce the tax credit on employment income to €1,800 (and the tax-free threshold to €8,182). This will continue to protect all those with lowest incomes, while ensuring a more fair distribution of the tax burden and improving progressivity. At the same time, we will smooth out the tapering of the tax credit as incomes increase, to avoid disruptions in marginal tax rates; this will cost close to 0.2 percent of GDP, to be compensated as noted below.

- ***Pooling of income and harmonizing rates on investment income***: The current income tax system, which taxes wage, business, and farming income at different rates, provides incentives to under-declare and shift incomes, which results in revenue losses for the state. To address this problem, we will adjust and unify the rates for wage, business and farming income taxes and include EU farming subsidies in taxable farming income, while providing a standard tax credit to farmers, employees and pensioners. Moreover, to minimize investment arbitrage opportunities, we will unify the rates on dividends and interest income at 15 percent, with rental income taxed at 15 and 33 percent respectively. These measures are expected to yield savings of close to 0.2 percent of GDP.

- ***Integrating the solidarity surcharge in the income tax code*** (½ percent of GDP): The existing solidarity surcharge is complex and burdensome, leading a total of 10 effective tax brackets. We will replace the solidarity surcharge with a schedular rate ranging from [0 to 9] percent, closely linked with the brackets of those for wage earners. These measures are expected to compensate for the revenue loss related to the expiry of the surcharge in 2017 and to further strengthen progressivity and simplify collection.

- **Other tax reforms:**

  - ***VAT reform*** (¼ percent of GDP): We aim to complete the VAT reform legislated in mid-2015, [including by raising the rate on electricity and other utilities to the statutory rate, as is common practice in the euro area, harmonizing VAT treatment of non-alcoholic beverages, and moving some items (books, periodicals, and entertainment services) to the middle rate, authorities to specify].

  - ***ENFIA***: Recent constitutional court rulings required adjustment of zone prices in line with market prices of real estate. We have thus lowered the zone prices to reflect more accurately property market valuations. We will fully offset the revenue loss (both ENFIA and other taxes, e.g. inheritance, transactions, etc.) resulting from the lower property values by adjusting the main ENFIA tax rates. Looking forward, we will align property assessment values with market prices by **end-June 2017 (structural benchmark).**

- **Public sector wage bill** (¼ percent of GDP): To help keep our wage bill in check by [2018], we will: (i) maintain an attrition rule of 1:5 until [2018]; (ii) freeze bonuses and promotions for civil servants in special wage regimes, such as judges, doctors, and uniform personnel; (iii) streamline allowances in the public sector, [authorities to specify].

II. FISCAL STRUCTURAL REFORMS

8. **Objectives:** Our reform agenda aims at improving our fiscal institutions and processes to help ensure that our fiscal adjustment efforts can be sustained over the long run through improved revenue collection and efficient management of public finances. We also aim to achieve key social objectives, including a fairer distribution of the tax burden by strengthening tax debt collections and fighting evasion, and protection of vulnerable groups through a revamped welfare system.

9. **Revenue administration reforms**: An ineffective revenue administration remains the Achilles heel of our fiscal consolidation efforts. Previous efforts to boost revenue collection and fight tax evasion have floundered under pressure from political interference and vested interests. As a result, revenue collection rates have remained on a steady downward trend, undermining our adjustment process, and resulting in an unfair distribution of the tax burden on our society. We are therefore committed to address these problems through a deep reorganization of the revenue administration, combined with strengthening of the operational tools to fight evasion and address tax compliance:

- **Independent revenue agency:** As a **prior action**, we will legislate the establishment of an independent revenue agency with its own budget and human resource management powers (TMU). By [end-June 2016], we will select and appoint the agency's Board through a transparent and independent process and adopt secondary legislation on key human resource, budget, and operational issues. We will fully implement the independent revenue agency as an **end-December structural benchmark**, including by: (i) adopting the agency's budget in line with its legal status as independent administrative authority; (ii) putting in place all key managers through a transparent selection and evaluation process; (iii) transferring all other staff to the agency; (iv) ensuring that the agency's human resource policy and strategic and operational plans are approved by the Board; and (iv) signing the performance contract between the agency's head and the Ministry of Finance. Looking forward, in conjunction with the reform integrating all social security (SSC) funds into a single agency managing SSC benefits, the revenue agency will start managing SSC contribution payments by [end-2017].

- **Tax and social security debt management:** Tax debt amounts to over €86 billion, or [50] percent of GDP, the highest in the euro-zone. This reflects, in part, the effect of the recession on the economy, but also a deteriorating payment culture, with the result that nearly half of taxpayers have unsettled debt to the state. To address this problem, we will take action on three fronts:

- ***Legal and administrative framework:*** Our strategy to deal with debt to the state has so far been ineffective due to the exclusive reliance on installment schemes that provide uniform solutions independent of borrowers' capacity to pay. This implies that those who could pay more do not do so, while those who cannot afford to pay even the fixed installment schemes eventually drop out. To address this, by [end-May 2016], we will issue guidance in accordance with best practice defining the method to differentiate tax debtors based on their economic situation and capacity to pay, consistent with the relevant insolvency and debt restructuring regimes as noted below. By end-September 2016 we will also amend legislation establishing clear criteria of non-collectability to write-off public claims.

- ***Large debtor unit (LDU)***: Given that taxpayers with debt above €1 million account for than 80 percent of total tax debt to the state and that about half are under the scope of the large debtors unit (LDU), our efforts will focus on strengthening the tools and capacity of the tax administration to more effectively tackle this segment. By [end-September 2016], we will require the LDU to finalize a report classifying large debtors according to their economic and financial situation on the basis of the guidelines noted above and proposing corresponding debt collection targets and solutions (such as liquidation, other enforcement measures, debt restructuring). On this basis, we will monitor the progress of the LDU against quarterly KPIs—to be developed by end June—with the first report to be published by **[end-October, 2016] (structural benchmark).**

- ***Audit and collection enforcement***: To reduce the administrative burden of pending audit and collection cases, [by end-May 2016] we will issue an internal circular within the tax administration to prioritize cases referred to the tax administration by the prosecutors. We will fully complete the transfer of audit cases, staff, equipment, and budget staff from the Corps for the Prosecution of Financial Crime (SDOE) to the tax administration by [end-December 2016]. We commit to take immediate enforcement action regarding debtors who fail to pay their installments or current tax obligations and will not introduce new installment or other amnesty schemes nor amend existing schemes by extending deadlines. We will continue to improve collection efforts as measured by key performance indicators (KPI Table, TMU).

10. **Social welfare:** Greece lacks a functional welfare system that can effectively protect those most vulnerable during what has proven to be an extended and very painful economic downturn. We thus urgently need an improved safety net that is well targeted and efficient, and which can be financed in a fiscally neutral way. To this end, we have initiated a welfare reform in line with best practice, which will replace the fragmented existing system with a Guaranteed Minimum Income (GMI) scheme. By [end-May 2016], we will initiate the rollout of the GMI to [30] municipalities, on the basis of legislation that implements the first set of social welfare review measures identified by the World Bank and establishes the

eligibility and benefit rules for the GMI based on income from all sources. By end-September 2016, we will [extend the rollout of the GMI to an additional [X] municipalities or alternative metric to be defined]. We will legislate further measures (½ percent of GDP), including by streamlining social benefits (e.g. family, disability, in-kind) in line with the World Bank findings and on this basis modify as needed to eligibility and benefit criteria for the national rollout, to be completed by **end-December 2016 (structural benchmark**, TMU)

11. **Public financial management:** We will continue to reform our public financial management institutions and tools to ensure a more efficient use of public money. First, to prevent unnecessary treasury management costs and fragmentation, we will close all central administration accounts and transfer the balance to the TSA by [end-June 2016]. Second, we will complete a thorough audit of state arrears to the private sector—amounting to €[11] billion at end-January 2016, including unprocessed tax refund and pension claims—by **[end-June] 2016 (structural benchmark)** and aim to clear them fully by end-program. Finally, by end-December 2016, we will design a new general government chart of accounts and fully implement key reforms of the amended organic budget law. Efforts will be monitored through key performance indicators (KPI Table, TMU).

12. **Public administration:** Our public administration has lacked performance incentives and managerial know-how, and has been subject to political interference. To address these issues, as a **prior action**, we will amend legislation to: (i) allow for performance-related scale bonuses after two instead of three years of excellent performance, (ii) automatically freeze progression after two years of non-satisfactory evaluation, (iii) discontinue the automatic progression based on education and seniority for upper scales, (iv) tighten the criteria for provision of allowances, (v) allow for the option of recruitment of external candidates for managerial positions at the first stage of the selection process, and (vi) ensure the position of the secretary general is fully insulated from political interference.

III. Financial Sector Policies

13. **Strategy**: Our financial sector has been weakened by the prolonged economic downturn and the deteriorating payment culture, which have resulted in non-performing loans (NPLs) reaching 44 percent of total loans at end-December 2015, the second highest level in the euro zone. Despite recent legislative initiatives to strengthen our legal framework, cumbersome judicial processes, low capacity, and lack of incentives, continue to hinder debt restructuring. At the same time, although banks have been recently recapitalized, the quality of capital is weak and governance concerns persist. Finally, the payment system and bank liquidity have been constrained by the capital controls that are still in place. Our multi-pronged strategy aims to remedy these concerns and boost confidence.

14. **Resolving NPLs.** Poor asset quality is a major obstacle to the provision of credit that is needed to support the recovery. Therefore, reducing NPLs rapidly and resolutely is a key

policy priority. To this end, we will work on multiple fronts with the objective to significantly reduce banks' NPL ratio by the end of our program:

- ***Supervisory framework:*** Debt restructurings have been few and largely ineffective. To remedy this situation and strengthen incentives, as a first step, by [end-April 2016], Bank of Greece (BoG) will establish a comprehensive monitoring framework of banks' NPL restructuring activities. On this basis, in close consultation and cooperation with the SSM, BoG will by end-June agree on concrete targets for key operational and financial indicators, consistent with a reduction of the stock of NPLs through restructuring, write-offs, or sales [further specification of process on targets *to be defined*]. [Moreover, to facilitate the achievement of these targets and strengthen banks' balance sheets, as a **prior action**, regulatory policy on prudential filters and treatment of denounced loans to be specified] . BoG will publish quarterly KPIs for banks relative to agreed operational targets for the first time by **end-October 2016 (structural benchmark,** also see TMU X).

- ***Liberalization of the loan market***: Banks also face substantial obstacles to offloading NPLs from their balance sheets. Being able to do so by selling loans to third parties is one important way to reduce NPLs and free up bank resources. To this end, as a **prior action,** we will amend legislation to allow the acquisition of non-performing and performing bank loans by non-banks freely and immediately, [with the exception of household loans secured by primary residences belonging to vulnerable groups, for which the liberalization will enter into effect at end-December 2016]. Also as part of the prior action, we will amend legislation to ensure an appropriate licensing regime for loan servicers and align the tax treatment of loan acquirers and servicers with international best practice (also see TMU X).

- ***Legal and institutional framework.*** Effective and fully operational legal tools are essential for banks to be able to meet the NPL targets noted above. We will concentrate or efforts in ensuring implementation of legislation in three key areas:

  - *Out-of-Court Workout Law*: The temporary out-of-court workout framework introduced in 2014 is not effective in promoting restructurings (as shown by the very low number of cases), including because it does not deal adequately with borrowers that have debts to both banks and the state. To enhance its effectiveness, as an **end-June structural benchmark** (TMU X), we will amend the law to: (i) allow for both large and small debtors into the mechanism, including debtors with state and bank debt; (ii) strengthen information requirements for applications; (iii) introduce basic elements for viability assessments and formulation of debt restructuring proposals; (iv) establish coordination and decision-making mechanisms among creditors, with specific reference to the role of public creditors; (iv) allow for the possibility of using rapid court confirmation; and (v) establish a link with the insolvency legislation in case of lack of compliance with the restructuring plans.

- *Implementation of existing insolvency laws and CCP*: The implementation of these newly amended frameworks is hampered by scarcity of resources and of specialized restructuring professionals, as well as by lack of the implementation of valuation rules and electronic auction mechanisms. To make the insolvency framework and CCP fully operational, as an **end-September 2016 structural benchmark** (TMU X), we will: (i) prioritize the establishment of specialized chambers for corporate insolvency matters in the districts of Athens, Thessaloniki and Piraeus; (ii) adopt and implement all secondary legislation required to establish the institutional framework for insolvency administrators; (iii) issue secondary legislation to facilitate the valuation of assets according to commercial standards for the purpose of enforcement actions under the CCP; (iv) put in place the regulatory and technological infrastructure for electronic on-line auctions.

- *Tax and personal liability provisions*: Two key deterrents to debt restructuring are that debt reductions resulting from restructuring agreements are subject to income tax, and that public officials and bank officers engaged in NPL and public debt restructuring activities can face criminal prosecution and personal liability for taking decisions involving debt restructuring decisions and write-offs. To address these problems, [as part of the prior action on the fiscal package,] we will amend our income tax law to ensure that debt write-offs as result of restructuring agreements are not considered as taxable income of the borrower. Moreover, by [end-May 2016] we will introduce *safe harbor provisions* in the laws dealing with debt restructuring stating that actions taken in good faith by both private and public creditors, and following the procedures to be established in the law, will not give rise to civil or criminal liability.

- ***Improving transparency:*** To facilitate decisions on debt restructuring and credit provision, we will establish by law publicly accessible information repositories in line with best international practice, including a new real-estate transaction register and a central database to consolidate information on arrears on public liabilities that is accessible to credit registers by end-September (**structural benchmark,** TMU X). This information will be used to develop credit scores.

15. **Capital adequacy**. We are committed to ensuring that banks maintain sufficient capital to facilitate NPL restructuring, and support a return of confidence, which is key to the timely removal of capital controls. Following last year's recapitalization of systemic banks, their capital adequacy ratio is now one of the highest in the euro-area (around 16.6 percent). However, banks still face high NPLs and contingent liabilities from Deferred Tax Assets (DTAs), largely convertible into tax credits. In this context, we will: (i) request a confirmation that the remaining resources allocated for the banking sector in the ESM

program will be kept as a buffer for the duration of the program; (ii). BoG will finalize [by end-June 2016] an assessment of the sources used for the 2015 recapitalization of select non-systemic banks and take prompt supervisory action as needed in case further capitalization needs emerge; and (iii) BoG will require completion of the recapitalization process for less systemic banks on the basis of the existing capital assessments; if private funds are not available, by [end-July 2016], BoG will ensure restructuring of these institutions.

16. **Bank governance**: Weak bank governance has been reflected in close relationships between bank board members and large private borrowers and in political interference in banks' operations. [To mitigate this problem, by end-June 2016, BoG will revise the policy on bank lending to related parties in line with best international practice.] Also by then, the HFSF will finalize an independent review of the core banks' governance practices against international best practices. On the basis of this review and related findings of the SSM, [by end-September 2016] we will assess that banks boards' and management have been aligned with the recommendations of the reviews and, if needed, take further action, including amendments to the regulatory bank governance framework .

17. **Payment system and liquidity conditions:** Capital controls and payment restrictions that remain in place are impeding the normal functioning of the payment system and constrain economic activity. Our objective is to normalize payment conditions as soon as possible, in line with available liquidity and taking into account deposit trends. The BoG is committed to preserving sufficient banking system liquidity in line with Eurosystem rules. Moreover, we will prepare and publish a milestone-based roadmap for the liberalization of capital controls by **end-[June], 2016 (structural benchmark,** TMU X). The roadmap will outline the broad sequencing of the steps toward full relaxation of restrictions, with the steps linked to measurable signs of improving market confidence and liquidity conditions, as well as to the implementation of key policies in our financial sector strategy.

A. Structural Reforms

18. **Increasing productivity and growth**: After six years of recession, reigniting growth in a sustainable manner is a key policy priority. Previous programs have introduced a number of legislative initiatives, but have been unsuccessful in generating a sufficient critical mass of change on the ground to reignite growth. Our efforts will aim to complement existing reforms and scale up implementation:

- ***Labor markets***: Labor market reforms introduced in previous programs, including on collective bargaining and the minimum wage, have been key to reduce unit labor costs and improve competitiveness. We will preserve these achievements and complement them by legislating, as a **prior action**, further reforms to bring collective dismissals and industrial action, in line with best practice in the EU. By end-December 2016, we will introduce a simplified and rationalized Labor Code to address inconsistencies within the domestic legislation and bring labor law in line with international best practice.

- ***Product markets***: Drawing on technical expertise of the OECD and World Bank, we will continue to implement product and service market reforms to reduce barriers to entry, cut red tape, and increase competition. To this end, by end-June 2016, we will further liberalize the market for over-the-counter drugs allowing their sale without requiring a license or the presence of pharmacists. We will complete the implementation of OECD competition assessment focusing on wholesale trade, e-commerce, media, construction and some sub-sectors of manufacturing by end-December 2016.

- ***Closed professions***: To ensure that reforms are yielding the desired results on the ground, we will remove identified restrictions in macro-critical professions. We will adopt legislation to remove geographical, licensing, registration, and operational restrictions related to lawyers, public works engineers, and stevedores, in line with the recommendations of an external advisor by **end-June 2016 (structural benchmark)**.

- ***Investment licensing***: With the support of the World Bank, we have launched a second phase of implementation of the investment licensing law in selected sectors (including food, beverages, and tourism) accounting for about a quarter of licensing activities covered by the law. We will conclude this phase with the adoption of all necessary primary and secondary legislation in line with the World Bank's recommendations, by **end-June 2016 (structural benchmark).** Also as part of this benchmark, we will submit legislation to operationalize the registry for environmental impact assessment. Looking forward, we will implement a digital registry for project approvals by end-September 2016 and work with the World Bank to launch follow-up phases of the investment licensing reform covering remaining sectors, to be implemented by March 2017 and June 2018, respectively.

- ***Privatization.*** Privatization of state-owned assets held by TAIPED is key to stimulate private investment, increase efficiency, and provide financing to the state. The key assets we will privatize during the program period include, inter alia, the ports of Piraeus and Thessaloniki, the regional airports, the train operator TRAINOSE, Hellenikon, and Athens International Airport (extension of concession and sale of shares).

IV. FINANCING

19. [paragraph on financing to be completed after agreement on debt relief is reached]

20. **In the context of the program, the Bank of Greece will undergo an updated safeguards assessment in accordance with the IMF safeguards policy.** Given that Fund disbursements will be deposited into the government's single treasury account at the BoG, the existing Memorandum of Understanding between the Ministry of Finance and the BoG will be updated.

V. Monitoring

21. **Progress in the implementation of the policies under this program will be monitored through quarterly reviews and consultations, as well as via quarterly (and continuous) quantitative performance criteria (PCs) and indicative targets, and structural benchmarks.** These are detailed in Tables 1 and 2. The attached Technical Memorandum of Understanding (TMU) defines the quantitative performance criteria, indicative targets, and various benchmarks under the program. Quantitative targets up to end-[June 2017] are PCs. Targets until end-2017 are indicative and will be converted into PCs at the time of the second review. It is expected that the first and second reviews under the Extended Arrangement take place by end-September and end-December- 2016. A Memorandum of Understanding (MoU) on specific policy conditionality agreed with the European Commission, on behalf of the euro-area Member States, specifies additional structural policies, and sets a precise time frame for their implementation.

Table 1: Prior Actions
1. Adopt a supplementary 2016 budget and 2017-20 MTFS consistent with the program targets and underpinned by legislation on a package of reforms with permanent savings of 2½ percent of GDP, including: (i) a pension reform; (ii) an income tax reform ; (iii) completion of VAT reforms; wage bill and other parametric measures to close the fiscal gap..
2. Adopt legislation to establish a fully independent revenue agency.
3. Amend legislation on the wage grid and evaluation to strengthen the link between pay and performance, strengthen recruitment, and depoliticize the position of secretary general.
4. [PA on regulatory policy on prudential filters and treatment of denounced loans.]
5. Adopt legislation to open the market for loan sales fully and immediately.
6. Adopt legislation to align the framework on collective dismissals and industrial actions with best practice.

Table 2: Structural Benchmarks

Structural Benchmarks	Deadline
Fiscal Sustainability	
1. Complete a comprehensive audit to verify existing arrears as of end-January 2016 and consolidate the state accounts into a single treasury account.	End-June 2016
2. Fully implement the new revenue agency. 3. Complete the transfer of all insured individuals into a single social security entity. 4. Complete the full roll-out of the GMI, financed by measures of ½ percent of GDP.	End-December 2016
5. Align property assessment values with market prices.	End-June 2017
Financial Stability	
6. Adopt and publish a milestone-based roadmap for the liberalization of capital controls. 7. Amend the legislation to improve the effectiveness of the out-of-court workout mechanism	End-June 2016
8. Adopt secondary legislation to facilitate valuation of assets and online auctions in line with the amended CCP and to develop the institutional framework for insolvency administrators. 9. Adopt legislation to establish asset, credit, and real-estate transaction registers.	End-September 2016
10. Publish KPIs of banks and LDU relative to agreed operational targets on addressing bank and state debt, respectively.	End-October 2016
Competitiveness and Employment	
11. Adopt legislation to remove licensing restrictions in key sectors (including, food and beverages, tourism) and submit legislation to operationalize the registry for environmental impact assessment . 12. Adopt legislation to further liberalize closed professions (lawyers, public works engineers, stevedores).	End-June 2016

Personal Income Tax

	PIT marginal rate	PIT Tax credit taper	Solidarity Surcharge	Total effective marginal tax rate
0-12,000	22%*	0%	0%	22%
12-20,000	22%	0%	1.5%	23.5%
20-30,000	29%	1%	3.0%	33%
30-40,000	35%	1%	5.0%	41%
40-65,000	41%	1%	5.0%	47%
65-200,000	41%	1%	8.0%	50%
>200,000	41%	0%	9.0%	50%

* Tax credit of €1800 with effective tax free threshold of €8,182

Pension accrual rates

Years of contribution	Accrual rates
15	0.77%
18	0.82%
21	0.87%
24	0.92%
27	1.00%
30	1.18%
33	1.35%
36	1.50%
39	1.75%
42	2.00%