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DIRECTORATE GENERAL
ECONOMIC AND FINANCIAL AFFAIRS

The Economic Adjustment Programme for Greece

Fifth Review – October 2011

DRAFT

*This report has been prepared by the Commission services in liaison with the ECB.
The box on the debt sustainability assessment will be finalised shortly and included in the final version for
publication.*

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EXECUTIVE SUMMARY

A joint Commission / ECB / IMF mission met with the Greek authorities in Athens on 21 August-2 September and 29 September-11 October 2011. The mission assessed compliance with the terms and conditions of the Fifth Review under the Economic Adjustment Programme.

The contraction in economic activity is substantially deeper than previously projected. In spite of encouraging positive quarterly growth rates recorded in the first quarter of 2011, economic activity has contracted substantially in the meantime. For the first semester as a whole, economic activity was 6 percent below its level a year ago. Demand contracted on account of fiscal consolidation, the deterioration in the labour market, uncertainties regarding political and financial prospects, social unrest and industrial action, as well as a deceleration in activity both within Europe and worldwide. Slower than programmed progress in several areas of structural reform over the last year has also contributed to economic developments well below expectations. These reforms have not yet reached the critical mass that is necessary to boost productivity and transform the investment climate in Greece. While the reshuffle of the government in June, and the euro-area decisions of 21 July, have been helpful in reducing the uncertainties economic agents are confronted with, the recovery will be delayed. The contraction in economic activity in 2011, now estimated at 5½ percent, will be deeper than in 2010. The projections for 2012 are also revised downwards to a contraction of 2¾ percent, and modest positive growth rates are delayed to 2013. Competitiveness is slowly improving: the constant-tax inflation rate is below the euro-area average, while the overall inflation has come down as the impact of the several waves of indirect tax increases in 2010 are now fading out.

There are positive indications from the export sector. Exports are rebounding in both goods and services, with the tourism sector in particular recording dynamic growth rates. In the three months to July, the value of merchandise exports increased by 20 percent compared to the same period a year before. However, shipping has been performing below expectations. The relatively good results from the external sector partly stem from gains in cost competitiveness, with labour costs declining, as well as from the pressure on Greek firms to shift their focus from the domestic market to exports. However, given the low export base of Greece – exports of goods and services in 2010 made up only 21 percent of GDP –, several years of very dynamic growth rates are necessary to bring external imbalances back to a sustainable level.

The medium-term growth prospects may need to be revised downwards. In previous assessments, the medium-term growth rate of the Greek economy – from 2015 through 2020 – was estimated at close to 3 percent per annum. Several aspects need to be considered when discussing the Greek medium-term prospects. On the one hand, the deep contraction in economic activity – economic activity is contracting by 15 percent during the four years 2009-12 – widens the output gap, which paves the way for a strong recovery with several years of growth above potential. On the other hand, the ongoing contraction in economic activity is only partially of a cyclical nature: for a sizable part, it reflects a reduction in production potential in the context of a structural reallocation of resources from non-tradables to tradables. Overall, the previous assumption on the medium-term economic outlook is viable only in case of a pronounced acceleration of structural reform efforts, including privatisation. In the absence of such acceleration, the medium-term real GDP growth rate could be well below projections.

While there have been deficiencies in the implementation of fiscal measures, the Government made important progress in consolidation efforts. In June, Greece adopted the medium-term fiscal strategy (MTFS), specifying a set of consolidation and fiscal structural reform measures through 2015. For 2011, the MTFS provided for fiscal consolidation measures quantified, at that time, at 3 percent of GDP, and above 10 percent for the period through 2014. Most measures provided for in the MTFS for 2011 have been duly legislated and are being implemented. However, in a number of cases, the quantification of the measures had to be revised downwards, because they were implemented with delay, or with changes to their design reducing their impact; in a few instances, the agreed measures were not implemented. Moreover, the recruitment rule, which in 2011 allowed for one entry into the general government sector per ten exits, has not been fully respected. In spite of these deficiencies in the implementation of austerity measures, the effective consolidation efforts of the Greek government are very large, well above other EU countries experiences. Since the previous review, the deeper-than-expected contraction in economic activity, the taxpayers' liquidity constraints, as well as other fiscal slippages (*e.g.* in the fight against tax evasion) have also contributed to the reopening of a gap vis-à-vis the previously agreed annual fiscal targets. The performance criterion for end-July for the fiscal primary deficit was respected, but the criterion for end-September appears to have been failed by a small margin.

The Government has prepared an additional package of expenditure and revenue measures. On the expenditure side, the main measures concern a frontloaded and reinforced implementation of the new wage grid for public employment that was already included in the MTFS and will substantially reduce the wage bill and ensure a more transparent remuneration system for the civil servants, cuts in the highest pensions and adjustment in supplementary pensions and lump-sums paid on retirement. With the aim of reducing overstaffing, the government has established a labour reserve for excess staff, and decided to move staff close to retirement into a pre-retirement scheme. Though the labour reserve and pre-retirement scheme are expected to absorb around 30 000 staff, the effectiveness of these mechanisms in reducing costs depends on the ability of identifying the public sector units or entities that should be closed, merged, downsized or otherwise free workforce. On the revenue side, a special levy on real estate has been established and the personal income tax base has been widened through the abolition of a number of tax expenditures and a reduction of the income tax-free threshold.

These measures bring the 2012 deficit projection in line with the agreed ceiling, but the 2011 fiscal gap will not be fully closed. Most of the new fiscal consolidation measures already apply in the last quarter of 2011; therefore, they do contribute to improving this year's fiscal accounts. However their full-year effect will only be reflected in the 2012 accounts. Since most expenditure budgeted for 2011 has already been spent or committed, the margin for additional cuts in operational spending and investment is very limited, if any. Moreover, further tax increase measures in 2011 would not have been viable either: the several tax and expenditure measures that are implemented in the last quarter of 2011 and first quarter of 2012 substantially compress the households' disposable income and significantly tighten their liquidity constraints. This also implies that the uncertainty around the 2011 fiscal projection is larger than one could expect at this time of the year.

The privatisation fund has been established, but the programme targets for privatisation proceeds will be missed. The government has identified several assets slated for privatisation. A first batch of these assets has been transferred to the privatisation fund, and the transfer of most of the assets that will be offered for sale over the next year is imminent. However, given lengthy administrative and legal procedures, the targets established for the next quarters are now

beyond reach. On top of this, the market conditions have significantly deteriorated over the last quarter, with the Athens stock exchange index losing more than 38 percent from June through September. A delay of at least a quarter compared to previous plans is, thus, likely. However, since the Greek government is one of the EU countries with the richest portfolio of assets, the objective of collecting EUR 35 billion by end-2014 and EUR 50 billion by end-2015 remains viable. All the more as the Government stands ready to reduce its stakes in the companies by more than currently considered in the privatisation plan. In a medium-term perspective, the privatisation plan will have to be adjusted and effectively scaled up to take into account the reprivatisation of banks that might require recapitalisation by the Greek state or the Hellenic Financial Stability Fund.

The financial sector situation remains fragile. The liquidity of Greek banks has tightened further, as the level of deposits continues to contract, despite some relatively large inflows in August. In part, this results from households' and businesses' liquidity constraints, with the former reducing their deposits to finance and smooth consumption, but also the uneasiness caused by the ongoing discussion about debt restructuring as well as the overall market uncertainty. Concomitantly, the reliance of Greek banks on borrowing from the central bank has remained very high.

Several banks posted losses due to the PSI-related impairments of Greek government bonds and the continuation in asset quality deterioration amid a weak economic environment. This is in spite of relatively strong pre-provisioning income and comparatively low provisioning levels. Several banks are under restructuring, but the process has been slow so far. Some banks, however, have pursued domestic consolidation strategies to shield against the crisis. The Bank of Greece will require additional capital buffers against potential further deterioration of the operational environment, based on each bank's specific risk profile. Ongoing mergers will also result in stronger capitalisation. The outlook for the Greek financial sector is not independent from choices concerning private sector involvement. The new bank resolution framework provides new tools to deal with ailing banks while the Hellenic Financial Stability Fund is being strengthened and stands ready to support the banking system.

The implementation of the growth-enhancing structural agenda continues, but the pace of reform has so far been insufficient. The adjustment programme contains a very wide-ranging programme of reforms covering practically all spheres of the economy. In addition to measures that directly contribute to fiscal consolidation, including public administration reform, the fight against tax evasion, healthcare and pension reforms, there has been some progress in increasing labour market flexibility, the liberalisation and deregulation of professions and services, including utilities, the simplification of investment licencing and the deregulation of the business environment. However, the pace at which these reforms have been legislated and implemented has by far not been commensurate to the needs of the Greek economy. A decisive implementation of structural reforms and confrontation of vested interests requires committed action not only by the whole Greek government, but also via a consensus of the main political forces.

Government debt dynamics remain extremely worrying. At the end of last year, the gross debt ratio exceeded 140 percent of GDP. If fiscal consolidation and privatisation targets are respected, and growth responds to structural reforms, the debt ratio may start declining from 2013 onwards. The peak level depends on the technical features of the private sector involvement (PSI), as well as on some accounting issues that are still under discussion. However, the debt ratio will remain at very high levels, levels for many years, and would be

vulnerable to adverse shocks. When compared with the outlook of a few months ago, the debt sustainability has effectively deteriorated, given delays in the recovery, in fiscal consolidation and in the privatisation plan, as well as the perspective of bank recapitalisations. The 21 July decisions, by increasing official financing available to Greece and reducing interest rates, and the involvement of the private sector, have reduced the financing costs of Greece, and more fundamentally, have lowered substantially the financing needs of the Greek government for a decade. However, in a scenario in which policy implementation going forward is weak, this could not suffice for the debt dynamics to be described as sustainable. The likelihood of such a situation depends on policy choices: on the extent and persistence of fiscal restraint, determining the medium-term primary balance path, and structural reform implementation, influencing the country's growth prospects. To steer policy choices towards a sustainable path, Greece has to face strict institutional and political obligations to follow a durable and ambitious reform agenda.

The international assistance loan already disbursed to Greece amount to EUR 65 billion. Of this amount, EUR 47.1 billion have been paid by the euro-area Member States, and EUR 17.9 billion by the IMF. The sixth disbursement would increase the overall amount of official loans to EUR 73 billion.

The Commission services recommend the sixth disbursement to Greece to take place as soon as possible: as soon as the agreed prior actions on fiscal consolidation, privatisation and labour market reform, which were announced by the government, have been legislated. This disbursement of an amount of EUR 5.8 billion will take place under the bilateral loans pooled by the Commission, as agreed under the Greek loan facility agreement of May 2010. The IMF is also expected to contribute an additional EUR 2.2 billion to this disbursement.

It is crucial to overcome administrative capacity constraints in implementing the adjustment programme. The scale of the reforms that need to be prepared, implemented and followed up is continuously testing the capacity limits of the Greek administration. Technical assistance to be provided by the European Commission, the IMF, the EU Member States or other organisations may, therefore, effectively give a contribution towards the adjustment programmes' objectives.

The conditions of success of the economic adjustment programme remain the same: the quick reduction in the fiscal deficit, the implementation of the privatisation plan and unleashing the potential growth of the Greek economy through structural reforms. The deterioration in economic activity will make policy-making more challenging. Given the scale of the required reforms, political coordination inside the government and consensus in the whole Greek society remain as essential and decisive as ever. A full implementation of the fiscal, financial and growth-enhancing measures is indispensable: any measures that are announced and not promptly implemented and followed up would simply deplete political capital and add to uncertainty. A swift decision concerning a second programme could reduce uncertainty and help in restoring economic confidence.

1. INTRODUCTION

- 1. This report assesses compliance with the conditions of the fifth review of the Greek economic adjustment programme.** While the fifth review was initially expected to assess compliance until end-July, the report assesses developments until end-September, because of delays. The assessment is based on the findings of the joint Commission/ECB/IMF mission to Athens (21 August-2 September, and 29 September-11 October 2011). The mission assessed compliance with conditionality associated to the sixth disbursement and progress towards the key programme objectives of securing fiscal sustainability, safeguarding the stability of the financial system, and boosting competitiveness, potential growth and jobs. It also revised the specific policy conditionality while keeping unchanged its main objectives.*
- 2. After five disbursements, the euro-area Member States and the IMF have already paid EUR 65 billion to Greece:** EUR 43.1 billion by the euro-area Member States and EUR 17.9 billion by the IMF. Total disbursements so far have been used to repay EUR 37.1 billion of medium- and long-term bonds and loans that matured between May 2010 and September 2011, while the rest covered the Greek government deficit or other financing needs, including setting aside resources for the Hellenic Financial Stability Fund. Once the sixth disbursement has taken place, the total disbursement will have increased to EUR 73 billion.

Table 1. Disbursements under the economic adjustment programme (EUR billion)

Past disbursements					
	Euro-area Member States		IMF		Total
1st tranche	18 May 2010	14.5	12 May 2010	5.5	20.0
2nd tranche	13 September 2010	6.5	14 September 2010	2.5	9.0
3rd tranche	19 January 2011	6.5	21 December 2010	2.5	9.0
4th tranche	16 March 2011	10.9	16 March 2011	4.1	15.0
5th tranche	15 July 2011	8.7	13 July 2011	3.3	12.0
Total past disbursements		47.1		17.9	65.0
Planned disbursements					
	Euro-area Member States		IMF		Total
6th tranche	November 2011	5.8	November 2011	2.2	8.0
Remaining		27.1 *		9.9	37.0
Total programme					110.0

* Original amount to be provided by the euro-area Member States, as agreed in May 2010. The total amount available under the loan facility agreement (LFA) may be lower. This is because Slovakia decided not to participate in the LFA while Ireland and Portugal have stepped down from the facility as these two countries requested financial assistance themselves. This situation of these three countries reduced the facility by EUR 2.7 billion.

Source: Commission services and IMF.

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During the review mission in Athens, the Commission / ECB / IMF staff teams met with the minister of Finance and governor of the Bank of Greece; as well as with the ministers for Regional Development and Competitiveness and Shipping; Labour and Social Security; Health and Social Solidarity; Administrative Reform and e-Governance; Education, Lifelong Learning and Religious Affairs; Environment, Energy and Climate Change, and Infrastructure, Transport and Networks. Moreover the teams met with staff of these ministries and the central bank, as well as of the ministries of Culture and Tourism; the Hellenic Parliament Budget Office, Public Debt Management Agency, Hellenic Statistical Authority (ELSTAT), Hellenic Financial Stability Fund, and Hellenic Asset Development Fund (privatisation fund). Meetings also took place with the main opposition party leadership, some social partners, think-tanks and several banks.

3. **The adjustment programme will be facilitated by the lengthening of loans to Greece.** On 21 July, the euro-area Member States decided that loans to be granted in future to Greece will have maturities between 15 and 30 years. This compares with average maturities of 7½ years that are currently in force, and the initial average maturities of 4 years. The amounts already disbursed under the Greek loan facility agreement will also have their maturity substantially extended. This means that the bilateral loans extended to Greece by the euro-area Member States will only start being repaid in 2020. This will provide a major improvement in the liquidity conditions of the Greek state and of the Greek economy at large for several years. The IMF loans granted under a stand-by arrangement have average maturities of 4 years and their reimbursement is expected to start already in the third quarter of 2013.

Table 2. Contributions by the euro-area Member States to disbursements to Greece so far (EUR million)

	BE	DE	IE	ES	FR	IT	CY	LU
May 2010	0.0	4,427.9	0.0	1,941.6	3,325.2	2,921.9	32.0	40.8
September 2010	758.8	1,495.9	347.4	656.0	1,123.4	987.2	10.8	13.8
January 2011	238.8	1,864.4	--	817.5	1,400.1	1,230.3	13.5	17.2
March 2011	530.0	611.8	--	1,814.4	3,107.4	2,730.5	29.9	38.2
July 2011	195.3	5,050.5	--	668.5	1,144.8	1,006.0	11.0	14.1
	MT	NL	AT	PT	SI	SK	FI	Total
May 2010	14.8	932.5	454.0	409.3	0.0	--	0.0	14,500.0
September 2010	5.0	315.0	153.4	138.3	102.9	--	392.2	6,500.0
January 2011	6.2	392.6	191.2	172.3	32.4	--	123.4	6,500.0
March 2011	13.8	871.4	424.3	382.5	71.8	--	274.0	10,900.0
July 2011	5.1	321.1	156.3	--	26.5	--	100.9	8,700.0

Source: Commission services.

4. **A reduction in interest rates will contribute to fiscal adjustment and debt sustainability.** Future loans to Greece to be provided by the European Financial Stability Facility (EFSF) will be charged at low lending rates.
5. **A PSI programme of debt exchange, roll-overs and buy-backs is expected to substantially reduce the financing needs over the next decade.** However, the precise contribution of the private sector to the financing programme depends on technical adjustments to be agreed, as well as on the way bond holders will choose among available options.

Box 1: The 21 July 2011 statement by the heads of state or government of the euro area and EU

“We reaffirm our commitment to the euro and to do whatever is needed to ensure the financial stability of the euro area as a whole and its Member States. We also reaffirm our determination to reinforce convergence, competitiveness and governance in the euro area. Since the beginning of the sovereign debt crisis, important measures have been taken to stabilize the euro area, reform the rules and develop new stabilization tools. The recovery in the euro area is well on track and the euro is based on sound economic fundamentals. But the challenges at hand have shown the need for more far reaching measures.

Today, we agreed on the following measures:

Greece:

1. We welcome the measures undertaken by the Greek government to stabilize public finances and reform the economy as well as the new package of measures including privatisation recently adopted by the Greek Parliament. These are unprecedented, but necessary, efforts to bring the Greek economy back on a sustainable growth path. We are conscious of the efforts that the adjustment measures entail for the Greek citizens, and are convinced that these sacrifices are indispensable for economic recovery and will contribute to the future stability and welfare of the country.

2. We agree to support a new programme for Greece and, together with the IMF and the voluntary contribution of the private sector, to fully cover the financing gap. The total official financing will amount to an estimated 109 billion euro. This programme will be designed, notably through lower interest rates and extended maturities, to decisively improve the debt sustainability and refinancing profile of Greece. We call on the IMF to continue to contribute to the financing of the new Greek programme. We intend to use the EFSF as the financing vehicle for the next disbursement. We will monitor very closely the strict implementation of the programme based on the regular assessment by the Commission in liaison with the ECB and the IMF.

3. We have decided to lengthen the maturity of future EFSF loans to Greece to the maximum extent possible from the current 7.5 years to a minimum of 15 years and up to 30 years with a grace period of 10 years. In this context, we will ensure adequate post programme monitoring. We will provide EFSF loans at lending rates equivalent to those of the Balance of Payments facility (currently approx. 3.5 percent), close to, without going below, the EFSF funding cost. We also decided to extend substantially the maturities of the existing Greek facility. This will be accompanied by a mechanism which ensures appropriate incentives to implement the programme.

4. We call for a comprehensive strategy for growth and investment in Greece. We welcome the Commission's decision to create a Task Force which will work with the Greek authorities to target the structural funds on competitiveness and growth, job creation and training. We will mobilise EU funds and institutions such as the EIB towards this goal and relaunch the Greek economy. Member States and the Commission will immediately mobilize all resources necessary in order to provide exceptional technical assistance to help Greece implement its reforms. The Commission will report on progress in this respect in October.

5. The financial sector has indicated its willingness to support Greece on a voluntary basis through a menu of options further strengthening overall sustainability. The net contribution of the private sector is estimated at 37 billion euro. (*) Credit enhancement will be provided to underpin the quality of collateral so as to allow its continued use for access to Eurosystem liquidity operations by Greek banks. We will provide adequate resources to recapitalise Greek banks if needed.

Private sector involvement:

6. As far as our general approach to private sector involvement in the euro area is concerned, we would like to make it clear that Greece requires an exceptional and unique solution.

7. All other euro countries solemnly reaffirm their inflexible determination to honour fully their own individual sovereign signature and all their commitments to sustainable fiscal conditions and structural reforms. The euro area Heads of State or Government fully support this determination as the credibility of all their sovereign signatures is a decisive element for ensuring financial stability in the euro area as a whole.

Stabilization tools:

8. To improve the effectiveness of the EFSF and of the ESM and address contagion, we agree to increase their flexibility linked to appropriate conditionality, allowing them to:

- act on the basis of a precautionary programme;

- finance recapitalisation of financial institutions through loans to governments including in non-programme countries;

- intervene in the secondary markets on the basis of an ECB analysis recognizing the existence of exceptional financial market circumstances and risks to financial stability and on the basis of a decision by mutual agreement of the EFSF/ESM Member States, to avoid contagion.

We will initiate the necessary procedures for the implementation of these decisions as soon as possible.

9. Where appropriate, a collateral arrangement will be put in place so as to cover the risk arising to euro area Member States from their guarantees to the EFSF.

Fiscal consolidation and growth in the euro area:

10. We are determined to continue to provide support to countries under programmes until they have regained market access, provided they successfully implement those programmes. We welcome Ireland and Portugal's resolve to strictly implement their programmes and reiterate our strong commitment to the success of these programmes. The EFSF lending rates and maturities we agreed upon for Greece will be applied also for Portugal and Ireland. In this context, we note Ireland's willingness to participate constructively in the discussions on the Common Consolidated Corporate Tax Base draft directive (CCCTB) and in the structured discussions on tax policy issues in the framework of the Euro+ Pact framework.

11. All euro area Member States will adhere strictly to the agreed fiscal targets, improve competitiveness and address macro-economic imbalances. Public deficits in all countries except those under a programme will be brought below 3 percent by 2013 at the latest. In this context, we welcome the budgetary package recently presented by the Italian government which will enable it to bring the deficit below 3% in 2012 and to achieve balance budget in 2014. We also welcome the ambitious reforms undertaken by Spain in the fiscal, financial and structural area. As a follow up to the results of bank stress tests, Member States will provide backstops to banks as appropriate.

12. We will implement the recommendations adopted in June for reforms that will enhance our growth. We invite the Commission and the EIB to enhance the synergies between loan programmes and EU funds in all countries under EU/IMF assistance. We support all efforts to improve their capacity to absorb EU funds in order to stimulate growth and employment, including through a temporary increase in co-financing rates.

Economic governance:

13. We call for the rapid finalization of the legislative package on the strengthening of the Stability and Growth Pact and the new macro economic surveillance. Euro area members will fully support the Polish Presidency in order to reach agreement with the European Parliament on voting rules in the preventive arm of the Pact.

14. We commit to introduce by the end of 2012 national fiscal frameworks as foreseen in the fiscal frameworks directive.

15. We agree that reliance on external credit ratings in the EU regulatory framework should be reduced, taking into account the Commission's recent proposals in that direction, and we look forward to the Commission proposals on credit ratings agencies.

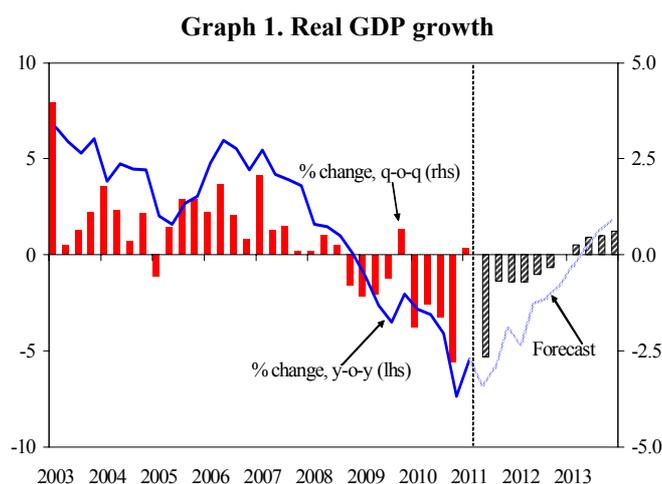
16. We invite the President of the European Council, in close consultation with the President of the Commission and the President of the Eurogroup, to make concrete proposals by October on how to improve working methods and enhance crisis management in the euro area.”

(*) Taking into account the cost of credit enhancement for the period 2011-14. In addition, a debt buy back programme will contribute to EUR 12.6 billion, bringing the total to EUR 50 billion. For the period 2011-2019, the total net contribution of the private sector involvement is estimated at EUR 106 billion.

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2. MACROECONOMIC DEVELOPMENTS

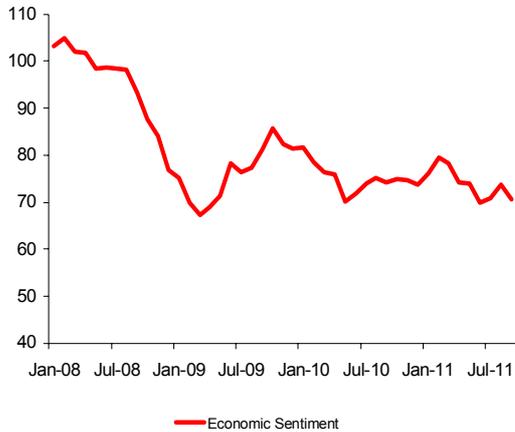
- 6. Growth forecasts have been revised downwards significantly since the fourth review.** The encouraging developments in the first quarter of 2011 when, according to the revised statistics, GDP increased by 0.2 percent, compared with the last quarter of 2010, were short-lived. Economic activity in the second quarter was very disappointing, with an annual rate of contraction of around 7 percent. Although quality issues with the available macroeconomic statistics do not allow a detailed assessment of these developments, there is no doubt that Greece is undergoing a recession that is deeper and longer than expected in the previous quarterly report. The deterioration in the labour market, with employment falling much faster than expected, uncertainties of political and financial nature, and social unrest and industrial action have weighed on supply and on domestic demand. Net exports have been the only GDP component adding to economic activity in recent quarters, but it too has suffered from the deceleration in activity at the EU and global level. While a number of political decisions – domestically, the June government reshuffle following a parliamentary vote of confidence, and the euro-area decisions of 21 July – have contributed to reducing the uncertainties economic agents are confronted with, credit tightening by banks and the slow pace of structural reforms are hampering a speedier recovery. Additional austerity measures also contribute to delaying the return to growth.



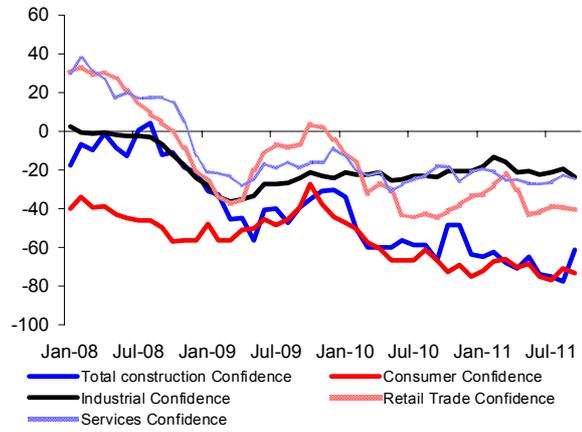
Source: EL.STAT and Commission services.

- 7. Domestic demand is contracting strongly, as private agents adjust their patterns of consumption, savings and investment.** In 2011, private consumption is expected to decline by 6 percent, as the fall in employment, wage cuts in the public and private sectors, and the increase in the tax burden compress households' disposable income and stretch their liquidity limits. In particular, the fiscal austerity measures on the revenue and expenditure side of the budget will lead to a sharp reduction of disposable income in the last quarter of 2011 and first quarter of 2012. The contraction in private consumption will continue in 2012 and positive annual growth rates may only be expected, in connection with a recovery in employment, in the second half of 2013. Excessive productive capacity, weak credit demand and the banks' tightening of credit standards act as a drag on investment which is estimated to fall by 16 percent in 2011. In 2012, gross fixed capital formation, in real terms, will be 45 percent below the level recorded in 2007. Progress in structural reforms and efforts to accelerate the absorption of EU structural funds to finance productive activity could, however, if implemented in a timely and determined manner contribute to halting the plunge of investment.

Graph 2. Business and Consumer Surveys

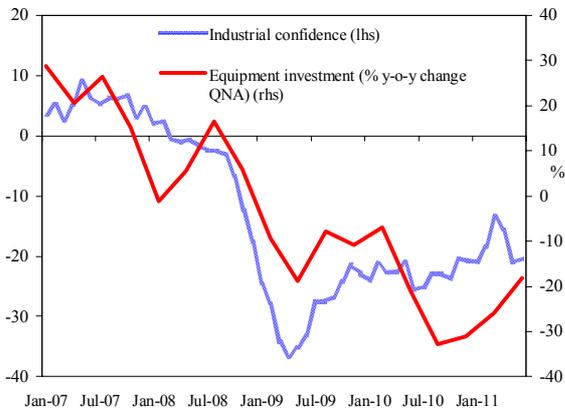


Sources : European Commission



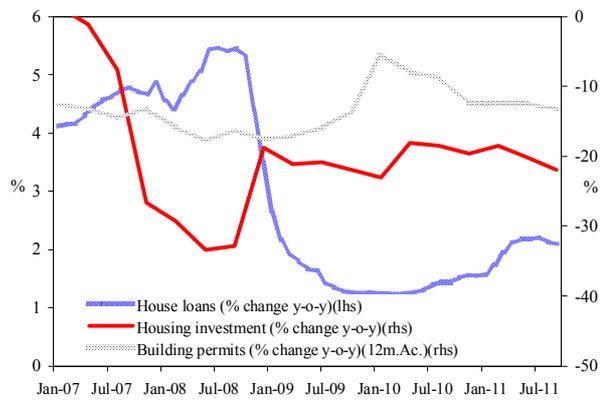
Sources : European Commission

Graph 3. Equipment



Sources : EL.STAT and European Commission

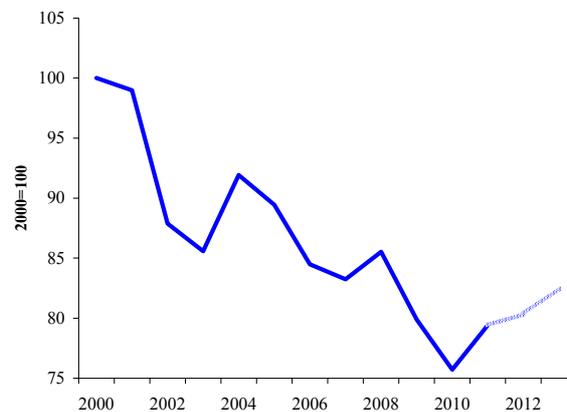
Graph 4. Housing investment



Sources : Bank of Greece and Eurostat.

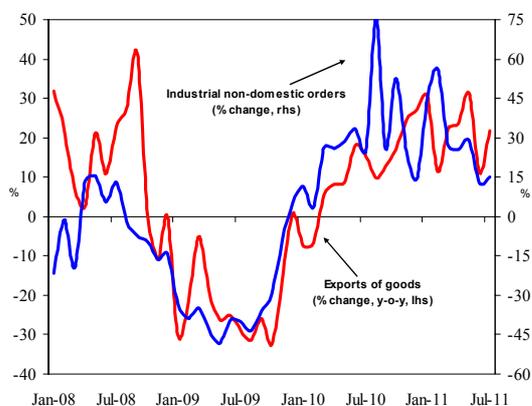
8. Competitiveness in the tradable sector is improving, but remains fragile. Strong growth rates in exports together with soaring industrial orders from abroad for several months in a row suggest that the process of rebalancing towards the tradable sector is of a more permanent nature. The main driving forces behind this development are the strong rise in the volume of goods exports, which are expected to increase by 7 percent in 2011, and in tourism from abroad. However, these gains are partly offset by a decline in the exports of transport services, in particular maritime transport, which seems to be affected by global trade patterns and increased competition from Asia. It remains to be seen, however, whether export growth will retain its dynamism in the coming quarters in the face of a deceleration in economic activity in trading partners.

**Graph 5. Market shares:
Performance of Greek exports of goods and services
relative to the imports of 35 industrial countries**



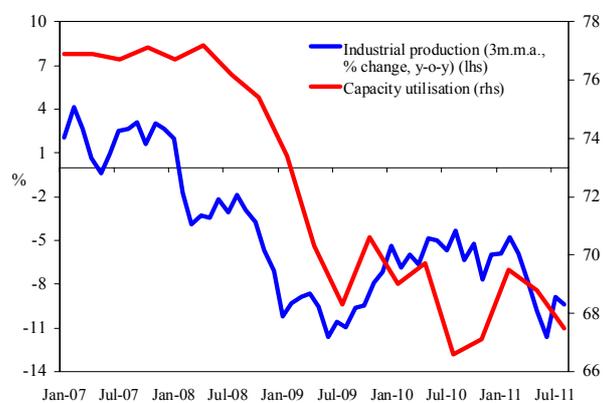
Source: European Commission.

Graph 6. Exports and non-domestic industrial orders



Sources: EL.STAT and Bank of Greece.

Graph 7. Industrial production and capacity utilisation

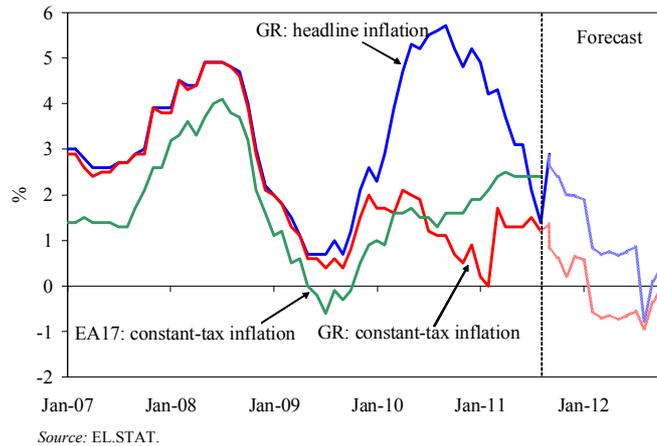


Sources: EL.STAT and European Commission

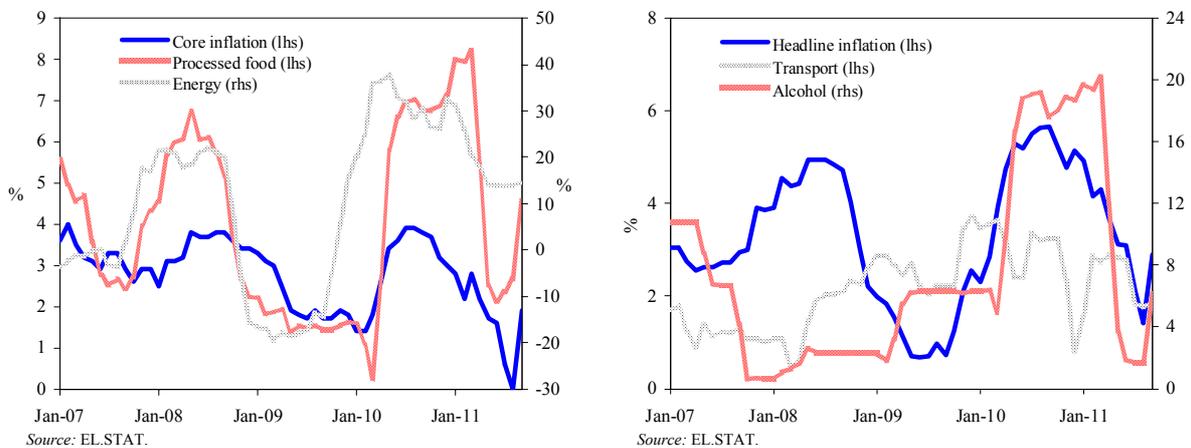
9. Inflation is declining in line with projections. The decline in headline inflation (HICP) in recent quarters (1.4 percent in August 2011 from a peak of 5.7 percent in September 2010) was interrupted in September (2.9 percent) reflecting the shift of some goods from the reduced to the standard VAT rate and an increase in excises. Constant-tax inflation was much more moderate (1.2 percent for August 2011) but remains arguably excessive for an economy that is undergoing a strong recession and in which private and public wages are falling. Although rising import prices have contributed to this development, the stickiness of inflation is an indication of a lack of competition in the Greek economy. Nevertheless, constant-tax inflation, which is a better proxy of competitiveness developments than the overall price index, has been below the euro-area inflation for several months in a row. The overall inflation rate for 2011 is now estimated at close to 3 percent, while constant-tax inflation should be half of this figure. Overall inflation is projected to be below 1 percent in 2012, as higher energy and commodity prices are expected to be counterbalanced by the deflationary impact of

the further contraction in economic activity. In a medium-term perspective, inflation in Greece is likely to be below the euro-area average for several years to come.

Graph 8. HICP inflation developments and projections
(% change, y-o-y)



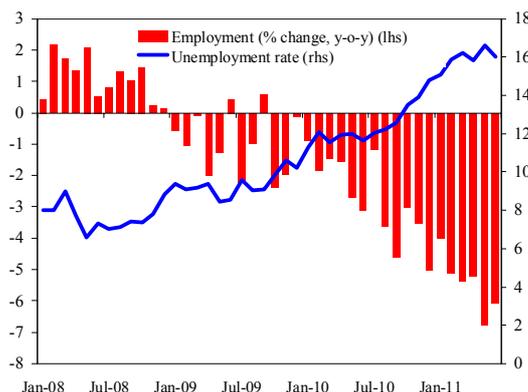
Graph 9. HICP inflation: main drivers
(% change, y-o-y)



10. Labour market adjustment continues. Total employment is projected to fall by almost 6 percent in 2011, and a further contraction is projected in 2012. Only in 2013, is employment expected to recover and to start increasing again. The unemployment rate in 2011 is hovering at 16 percent and will increase further to 17 percent, in 2012, an historical peak for Greece. Labour costs are falling, primarily as a result of the deterioration in the labour market but wage-setting reforms may also have contributed to this development. According to Eurostat data, total labour costs in the business sector fell by 4½ percent year-on-year in the second quarter of 2011. For the entire year, unit labour costs in the economy as a whole may contract by 3 percent. Further declines in unit labour costs are likely to continue in coming years. In this context, the increase in the minimum wage by 1.6 percent in July 2011 within the framework of the national collective agreement does not appear in line with the

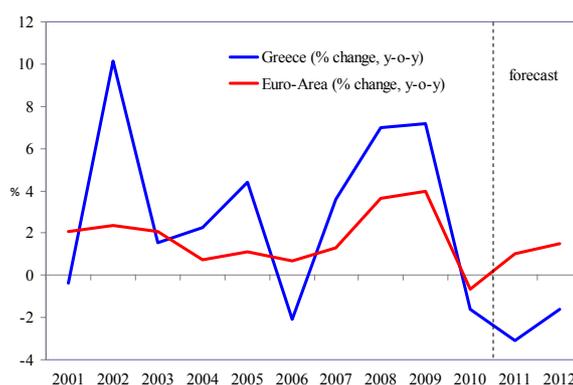
economic conditions of the country and risks to further aggravate and entrench unemployment of the low-skilled.

Graph 10. Employment and unemployment rate



Source : EL.STAT (labour force survey).

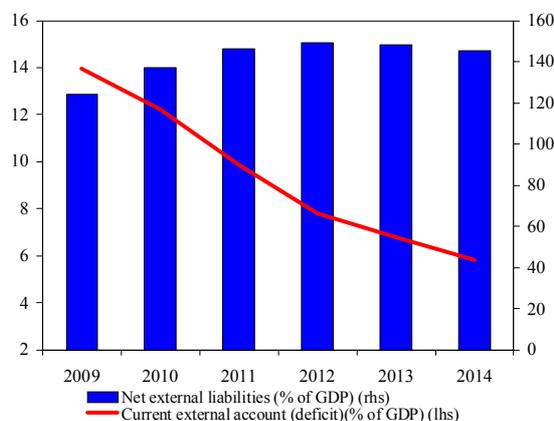
Graph 11. Nominal unit labour cost (annual growth rate)



Source : Commission services.

11. The external imbalance is being slowly absorbed but remains at a high level. Despite falling by around 2 percentage points in 2011, the current account deficit remains at an unsustainably high level at close to 10 percent of GDP. Over the next two years, the current account is projected to fall to 8 and 6½ percent of GDP, mainly driven by the continued expansion of exports and a further contraction in imports, partly offset by an increase in the outflow of income: mainly interest on public and private debts owed to the rest of the World. Transfers are expected to improve somewhat on account of an expected acceleration in the absorption of structural funds from the EU. Net external liabilities are estimated to stabilise at around 125 percent of GDP over the medium term. However, the continued strong reliance of the external deficit in a context of a deep recession is worrying, illustrating the magnitude of the competitiveness problem in Greece and calls for decisive steps to reduce production costs and boost the economy’s supply potential.

Graph 12. Current account and net external liabilities (percent of GDP)



Source: Eurostat and Commission services.

Table 3. Macroeconomic scenario: main features

	2009	2010	2011	2012	2013	2014	2015
Real GDP (growth rate)	-3.2	-5.5	-2.8	0.7	2.4	2.9	0.0
Final domestic demand contribution*	-3.6	-9.0	-5.3	-0.8	1.2	1.8	0.0
Net trade contribution	3.1	2.9	2.5	1.5	1.2	1.1	0.0
Employment (growth rate)	-0.7	-5.7	-2.8	0.4	1.0	1.2	0.0
Unemployment rate (percent of labour force)	8.9	11.7	15.7	17.5	17.5	16.9	16.3
Unit labour cost (growth rate)	4.3	-3.1	-2.9	-1.5	-1.0	-0.6	0.0
HICP inflation	1.3	3.0	0.7	0.8	1.0	1.1	0.0
HICP inflation at constant taxes	1.1	1.0	-0.3	0.4	1.0	1.1	0.0
Current account balance (percent of GDP)	-14.6	-9.9	-7.8	-6.8	-5.8	-4.5	0.0
Net borrowing vis-à-vis RoW (percent of GDP)	-13.6	-7.8	-5.4	-4.4	-3.4	-2.0	0.0
Net external liabilities (percent of GDP)	111.3	137.2	146.2	149.1	148.4	145.3	0.0

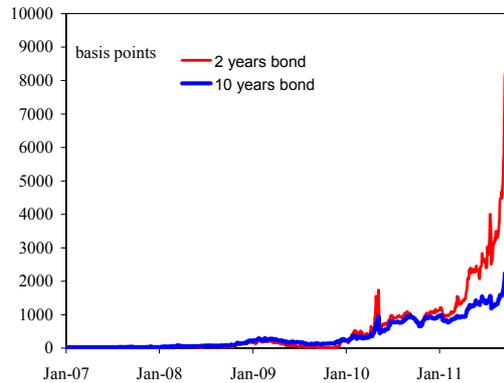
* Excluding change in inventories and net acquisition of valuables

Source : Eurostat and Commission services.

3. FINANCIAL MARKETS AND FINANCIAL SECTOR DEVELOPMENTS

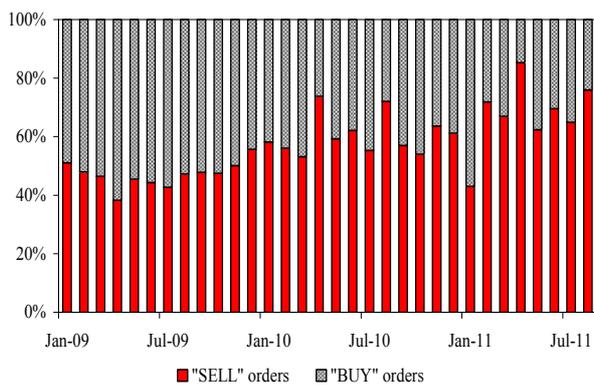
12. Yields in the secondary Greek government bond market are well above the pre-programme peaks. In spite of progress in several areas of the adjustment programme, and of the euro-area Member States commitment to keep supporting Greece, the market remains sceptical of the future of the economic adjustment programme, the sustainability of Greek government debt and the soundness of domestic financial institutions. This scepticism is not only illustrated by the high market yields, but also the sovereign CDS spreads, accompanied by a very low level of transactions. Moreover, the sovereign ratings were further downgraded in June and July.

Graph 13. Yield spreads



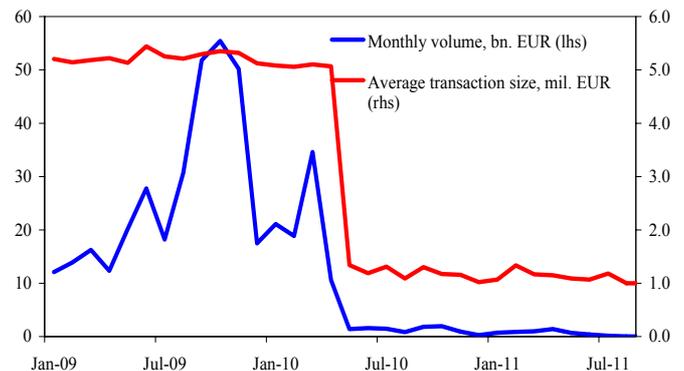
Note: Greek government bond spreads (2-year and 10-year bonds) vis-à-vis German Bund.
Source : Reuters

Graph 14. Buy/sell orders of Greek Bonds Secondary Market

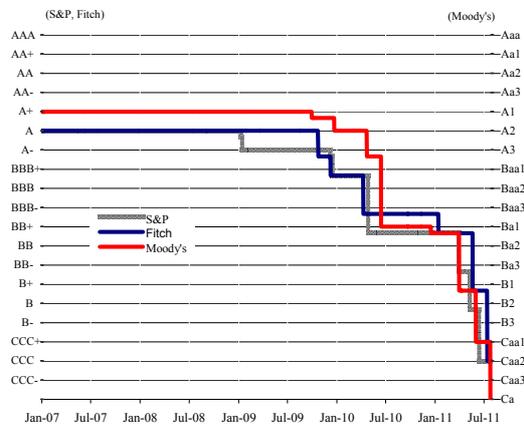


Source: HDAT - secondary market for securities managed by the Bank of Greece

Graph 15. Monthly volume of trading



Graph 16. Sovereign credit ratings



Source: Bloomberg

Table 4. Ratings

	Moody's		Fitch		Standard & Poor's	
	Rating	Effective	Rating	Effective	Rating	Effective
Sovereign	Ca	25-Jul-11	CCC	13-Jul-11	CC	27-Jul-11
ATE	Caa2	23-Sep-11	B-	14-Jul-11	---	---
NBG	Caa2	23-Sep-11	B-	14-Jul-11	CCC	15-Jun-11
Eurobank	Caa2	23-Sep-11	B-	14-Jul-11	CCC	15-Jun-11
Alpha bank	Caa2	23-Sep-11	B-	14-Jul-11	CCC	15-Jun-11
Piraeus	Caa2	23-Sep-11	B-	14-Jul-11	CCC	15-Jun-11

Source: Bloomberg

13. The quality of the loan portfolio of Greek banks continues to deteriorate. Non-performing loans (NPLs) increased to 13.3 percent on a solo basis in the second quarter of 2011 from 10.8 percent at the end of last year, and 9 percent in the first half of 2010. An additional indicator of deteriorating loan portfolio quality is the significant share of restructured loans, which are increasing at a higher pace than NPLs, accounting for about additional 4 percent of total loans in Q2-2011. The coverage ratio of NPLs with accounting provisions increased to 45.4 percent on average in the same quarter, stable compared to Q1.

14. Despite the worsening macroeconomic environment, banks were able to maintain the level of pre-provisioning profits. Significant cuts in staff and administrative costs have led to a total reduction in operating expenses over the last twelve months by 14 percent. Consolidated pre-provisioning income of the banking groups in the first half of 2011 amounted to EUR 3 billion, eight percent higher compared to the previous year results. On a solo basis, commercial banks recorded EUR 2 billion pre-provision profit, a 41 percent increase compared to the same period in 2010. Nevertheless, high provisions on bond and loan portfolios resulted in large losses recorded in the first semester: provisions tripled, year-on-year, leading to losses before tax of EUR 5.9 billion on a consolidated basis and EUR 6 billion on a solo basis.

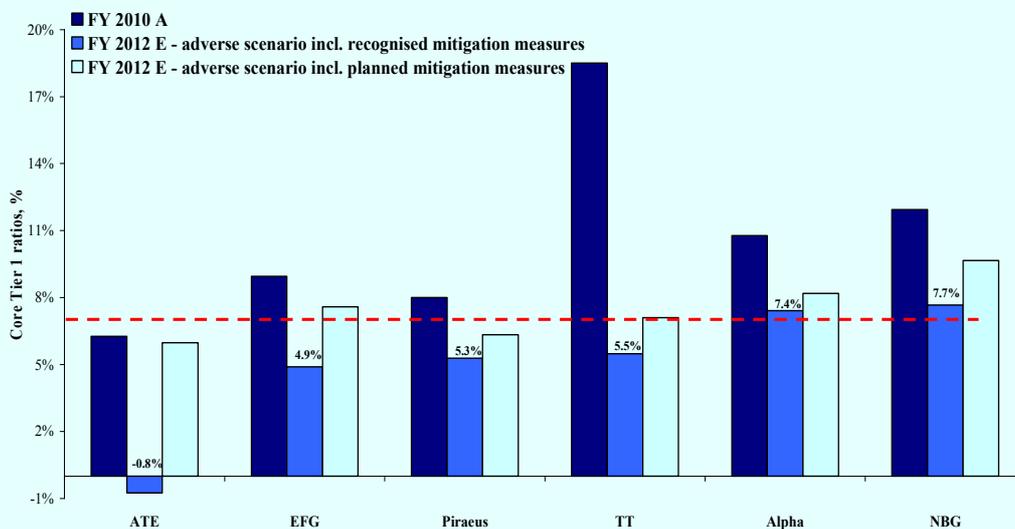
15. Banks announced their intentions to participate in PSI. The six largest Greek banks have thus far indicated their intentions to participate in PSI with EUR 32.4 billion of eligible bonds. This accounts for approximately 21 percent of the EUR 154 billion government bonds maturing up to 2020. The weighted average impairment rate on PSI-eligible bonds held by these banks on their balance sheets,

as reported by the banks, currently stands at about 17 percent. This implies, on average, a pre-tax adverse impact on the banks' profit and loss account amounting to approximately EUR 5.5 billion, leading to a substantial drain on banks' capital. As a result, the average capital adequacy ratio of the banking sector stood at 10.6 percent on a consolidated basis at the end of the second quarter, while the average core tier 1 ratio was at 8.6 percent, compared to 12.5 percent and 10.5 excluding PSI-related write-downs, respectively.

Box 2 : Greek banks in the EBA stress tests

Six Greek banks participated in the 2011 EBA stress test exercise with four banks passing the test. The six largest Greek banks tested (National Bank of Greece (NBG), Eurobank EFG, Alpha Bank, Piraeus Bank, ATE Bank and Hellenic PostBank (TT)) represent over 90% of the Greek banking system's total assets. The stress test used an assumption of a 14.4 percent loss rate for exposures to the Greek sovereign and financial institutions in the banking book. Due to their high exposures to the Greek sovereign, Greek banks were expected to perform less well in the stress test than most of their European peers. However, NBG and Alpha Bank passed the test with relatively high core tier 1 (CT1) ratios after the shock (7.7 and 7.4 percent respectively), while TT and Piraeus Bank passed the test, albeit with low mark of 5.5 and 5.3 percent, respectively. Two banks, namely ATE Bank and Eurobank, fell under the 5.0 percent CT1 threshold in the adverse scenario. All banks, however, have disclosed mitigating measures that take them above the 6.0 percent stressed CT1 ratio threshold, which has been deemed by regulators as desirable.

Graph 1. EBA stress test results for GR banks



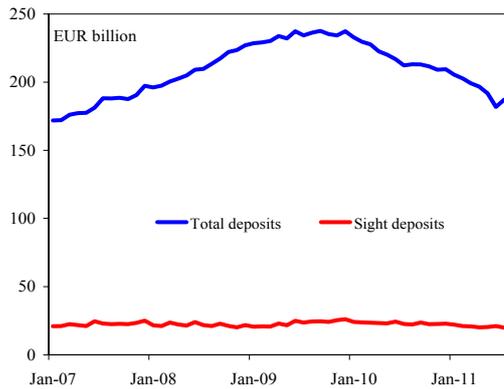
16. The deleveraging continues, while the liquidity position of banks tightens further. The balance sheet of the Greek banking sector contracted by 7.6 percent in the twelve months to June 2011. Credit to the domestic economy shrank by 2.9 percent driven by loans to corporations (-4.6 percent) and households (-1.3 percent). To date, deleveraging in Greece does not seem to be excessive compared to the contraction in nominal GDP. However, the risk of a potential credit crunch needs to be carefully and continuously monitored. Deposits decreased at the higher pace than loans (-14 percent year on year by June 2011), leading to increases in loan-to-deposit ratios in most banks. Retail deposits have dropped by 4.9 percent from August to mid-October. This contraction followed a period of relative stability during the summer and is comparable to the previous episode of deposit attrition in April-June 2011. The reduction of the Greek State's bank deposits since mid-August has further aggravated

banks' funding stress. Finally, banks continue to not have access to wholesale funding markets. As banks struggle to reduce their assets, the loss of retail and wholesale funding sources has kept the recourse to central bank borrowing at very high levels, including emergency liquidity assistance.

- 17. The Bank of Greece continues to monitor liquidity in the banking sector.** The supervisor has asked banks to submit updated medium-term funding plans (MTFPs) by December 2011 in order to monitor the banking sector's structural liquidity position and their possibility to gradually reduce their reliance on Eurosystem refinancing. In doing so, the Bank of Greece also ensures that the MTFPs are consistent with the overall economic adjustment programme's macroeconomic and fiscal framework.
- 18. Changes in the legal framework provide new tools to deal with ailing banks.** A new bank resolution framework was adopted in September and concerns the banking law, the deposit guarantee law and the HFSF. Available intervention techniques have been expanded to include transfer of assets and liabilities and creation of an interim credit institution ('good bank'). Shareholders and subordinated bond holders will always remain with the transferring entity ('bad bank'). The Hellenic Deposit and Investments Guarantee Fund (HDIGF) will maintain and manage two funds: the existing depositor protection fund and a new resolution fund. It will also have creditor preference in resolution to better ensure recovery of guarantee funds. Also, the new framework conferred upon the HFSF new roles as the HFSF will provide capital into interim credit institutions to bring them in line with the capital adequacy requirements. Proton Bank was the first bank that was resolved under the new framework. On 10 October 2011, the Greek Ministry of Finance announced its decision to establish an interim credit institution, called New Proton Bank, and to transfer the Proton Bank's good assets and deposits to it. The HDGF covered New Proton's funding gap and the HFSF provided the new bank with capital.
- 19. A detailed diagnostic of loan portfolios of all Greek banks is ongoing.** The exercise, commissioned to an internationally recognized capital advisory firm will estimate the expected credit losses over a three year-period as well as over lifetime. It is expected to be completed by end-2011. The estimated loan losses will feed in an assessment of capital needs for each bank to be carried out by the Bank of Greece and published by end-February 2012. Subsequently, banks may be granted up to six months to raise the required Tier 1 capital from the market. In case they fail, the HFSF will be available as a capital backstop for viable banks.
- 20. Restructuring of banks which received state aid continues.** The capital increase of ATEbank has been closed on 7 July 2011. However, following the write downs in September due to the anticipated participation in PSI, the bank's capital ratio fell under the minimum capital regulatory requirement, thus, the bank needs further capital injection. To this end, its restructuring plan will be updated with the aim of minimizing the cost for the State. Preliminary restructuring and/or viability plans submitted for nine other banks will have to be aligned with the liquidity and solvency requirements of the programme.
- 21. The domestic banks pursue consolidation strategies to shield themselves against the crisis.** On 23 June 2011, TT Postbank and T-Bank announced that they would merge with the latter being absorbed by the former. The merger is expected to be completed by end-October 2011 and will be considered under state aid rules before TT is privatised. On 28 August 2011, Alpha Bank and Eurobank announced an all-share merger to be followed by an issuance of EUR 500 million mandatory convertible bonds subscribed by a Qatari investor and raising €1.25bn in fresh capital. The merger is expected to be completed by end-year, following the approval by the supervisor. Both banks are under the obligations to submit a viability plan to the Commission as a consequence of the injection of preference shares by the State in 2009.
- 22. Supervision of the insurance sector has been intensified.** During the first half of 2011, the Bank of Greece conducted on-site examinations and established a new supervisory review process.

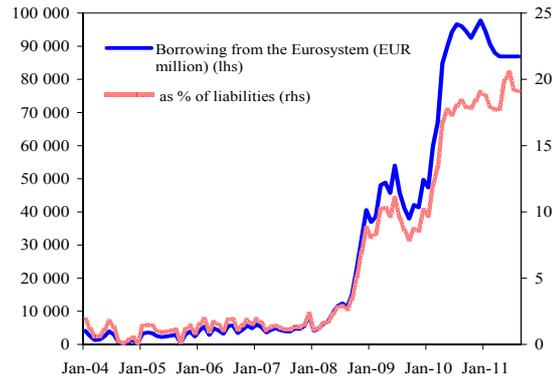
Meanwhile, the insurance companies have been shrinking their portfolios, implementing stricter underwriting rules and increasing profits. The Bank of Greece will require insurance companies which did not pass the recent EIOPA stress test exercise to accelerate their restructuring plans. In addition, insurance companies not meeting minimum Solvency II requirements will be required to submit to the Bank of Greece a business plan comprising actions to be taken by mid-2013.

Graph 17. Bank deposits



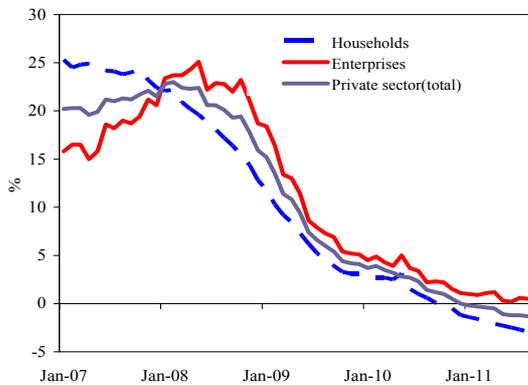
Source: Bank of Greece

Graph 18. Greek banks' borrowing from the Eurosystem via monetary policy operations



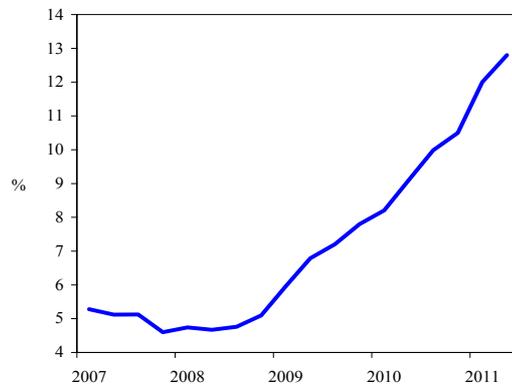
Source: IMF-IFS

Graph 19. Credit to private sector (percent change, y-o-y)



Source: Bank of Greece

Graph 20. Non-performing loans ratio



Source: Bank of Greece

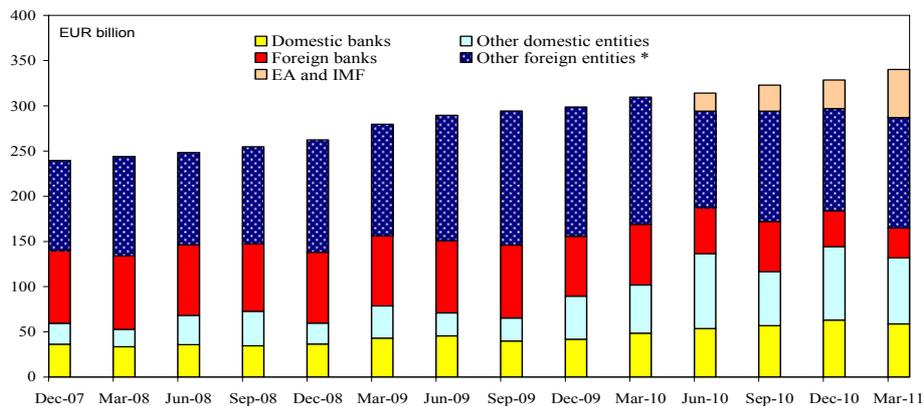
Table 5. Banking sector soundness indicators

basis		2007	2008	2009	2010	2011 H1 (4)
Capital adequacy ratio	consolidated	11.3	9.5	11.9	12.3	10.6
	<i>solo (1)</i>	12.7	10.7	13.3	13.9	<i>n.a.</i>
Tier I ratio	consolidated	9.3	8.1	10.9	11.2	<i>n.a.</i>
	<i>solo</i>	9.4	8.8	12.3	12.5	<i>n.a.</i>
Return on assets (after tax)	consolidated	1.4	0.7	0.1	-0.3	-2.2
	<i>solo</i>	1.0	0.2	-0.1	-0.6	-2.5
Return on equity (after tax)	consolidated	17.8	10.0	2.3	-4.2	-30.6
	<i>solo</i>	14.6	3.1	-1.7	-8.6	-36.6
Loan to deposit ratio	consolidated	106.0	114.0	113.8	121.9	137.6
Non performing loan ratio (2)	<i>solo</i>	4.7	5.1	8.1	10.8	13.3
Coverage ratio (3)	<i>solo</i>	53.9	49.5	42.1	46.3	45.4

Notes: (1) at the level of the individual entity. (2) Non-performing loans as percentage of total gross loans. (3) Provisions as percentage of non-performing loans. (4) Provisional and incomplete data; including impact of the PSI.

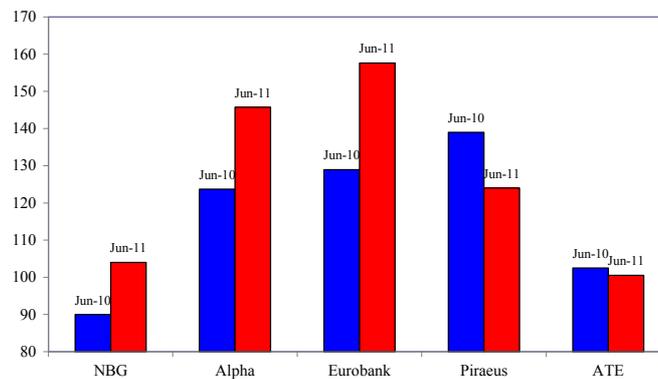
Source: Bank of Greece

Graph 21. Holding of Greek government debt



Note: "Other foreign entities" includes ECB.
Source: Commission services.

Graph 22. Loan to deposit ratio by bank



Source: Bank of Greece

4. PROGRAMME IMPLEMENTATION AND POLICY DISCUSSIONS

23. There has been progress in the implementation of the programme. This applies to each of the key policy areas: fiscal consolidation, fiscal institutional reforms and growth-enhancing reforms. However, in several areas, as described below, progress has been slower than planned. In part this was because of the deterioration in economic activity, which made policy-making more challenging. To ensure that Greek government's track record in implementing the necessary reforms will be in line with the targets, the political consensus and administrative capacity need to be strengthened.

Table 6. Summary of compliance with policy conditionality

	Overall assessment	Comments
Fiscal policy	Partially observed	<p>For July, the performance criteria on primary balance, state's primary spending, net guarantees granted by central government, and central government debt have been respected. The criterion on non-accumulation of external payment arrears has been missed by a small amount – which was settled in the meantime. The indicative criterion on non-accumulation of arrears to suppliers has been missed.</p> <p>For September, complete data are not yet available; however, There are indications that the performance criterion for the primary balance has been missed by a small margin. The criteria for state's primary spending, net guarantees granted by central government, and central government debt have most likely been respected.</p> <p>While most austerity measures agreed during the fourth review were adopted, several measures had to be re-quantified of account of implementation issues. The ceiling for the ESA-defined general government deficit for 2011 will most likely be missed, in spite of additional measures.</p>
Structural fiscal reforms	Partially observed	<p>The quantitative cumulative criteria on privatisation receipts for end-July have been respected, but not the one for end-September, as no additional privatisation receipts were collected.</p> <p>Several measures have been adopted in relation to the fight against tax evasion and public finance management, and restructuring of public enterprises. Moreover there has been progress in healthcare reform. Several preparatory steps have been taken in advance of the second phase of pension reform</p> <p>The Parliament budget office initiated its activities, but its board has collectively resigned in the meantime.</p>
Financial sector policy	Largely observed	<p>Payments into the Hellenic Stability Fund and an intermediate account have continued according to plans. The Bank of Greece continues to monitor liquidity in the banking sector, and it has asked banks to submit updated medium-term funding plans.</p> <p>Changes in the legal framework have been adopted to provide new tools to deal with ailing banks. A detailed diagnostic of loan portfolios of banks is ongoing, and the supervision of the insurance sector has been intensified.</p>
Growth-enhancing structural reforms	Partially observed	<p>There has been progress in several areas such as some business environment related measures (namely concerning business start-ups and business licensing). The government decided to accelerate the liberalisation of road haulage compared to previous commitments. Progress in liberalising regulated professions has been relatively disappointing so far.</p>

Source: European Commission.

4.1. FISCAL POLICY

24. Most performance criteria for end-July have been met, but not for end-September. Given the delays in the previous review, the criteria for end-June were replaced with criteria for end-July, and updated taking into account fiscal developments and measures. The criteria on the general government primary balance, on the State's primary deficit, central government debt and guarantees granted by central government for end-June have all been met. Complete data for end-September are not yet available. However, most likely the primary balance criterion has been failed, while the other above mentioned criteria appear to have been met.

25. The indicative criterion on non-accumulation of arrears to suppliers was missed. According to available data, arrears to suppliers continue accumulating and have reached EUR 6.5 billion (or almost 3 percent of GDP) by end-July 2011. The accumulation of arrears is partially related to the delays in the fifth and sixth disbursements. However, they are also related to lingering deficiencies in expenditure control in the several government entities, and administrative delays in payments by social security to hospitals which in turn lead to delays in hospitals' payments to suppliers.

**Table 7. Fiscal quantitative performance criteria
(EUR million)**

Performance criteria	end-July 2011		end-Sept 2011	
	Data	Criterion	Data	Criterion
General government primary cash balance	-4.9	-5.1	...	-5.0
State primary spending	33.5	34.7	42.0	44.5
Central government debt	366	394	...	394
New guarantees granted by central government	0.3	1.0	...	1.0

Source: Commission services.

26. There were deficiencies in the implementation of the measures agreed in the previous review. In June, the Hellenic Parliament adopted the medium-term fiscal strategy through 2015 (MTFS). For 2011 and 2012, the MTFS provided for deficit-reducing measures quantified in June at 3 percent of GDP for 2011 and a cumulative 6 percent of GDP for 2012. Most measures were legislated and implemented. However, because of delays and other issues in the implementation of these measures, their deficit-reducing effect has been revised downwards. This together with similar issues in measures adopted in the context of the budget for 2011 and slippages in expenditure control, tax collection and recruitment implied that, without additional measures, the 2011 and 2012 deficit ceilings would be missed by a large margin.

Table 8. Medium-term deficit ceilings and projections

	2011	2012	2013	2014
Deficit ceilings (EUR million)	17065	14916	11399	6385
Indicative as percentage of GDP	7.8	6.8	5.2	2.9
Projection (percentage of GDP)	8.5 - 9	6.8	5.2 (*)	2.9 (*)

(*) Including measures that require further specification.

Source: Commission services.

Table 9. Implementation monitoring: Estimated yield of measures agreed in June 2011

	4th review (July 2011)		5th review (Oct. 2011)		Difference (*)	
	2011	2012	2011	2012	2011	2012
Total measures	6744	13641	5834	11279	910	2362
% of GDP	3.0	6.0	2.7	5.3	0.4	1.1
Wage bill	770	1370	642	960	128	410
% of GDP	0.3	0.6	0.3	0.5	0.1	0.2
Operational expenses	190	282	180	262	10	20
% of GDP	0.1	0.1	0.1	0.1	0.0	0.0
Extra-budgetary funds	540	690	304	396	236	294
% of GDP	0.2	0.3	0.1	0.2	0.1	0.1
State-owned enterprises	0	414	0	414	0	0
% of GDP	0.0	0.2	0.0	0.2	0.0	0.0
Health care	60	264	53	267	7	-3
% of GDP	0.0	0.1	0.0	0.1	0.0	0.0
Pharmaceutical spending	250	743	372	601	-122	142
% of GDP	0.1	0.3	0.2	0.3	-0.1	0.1
Social benefits	1188	2286	748	1664	440	622
% of GDP	0.5	1.0	0.3	0.8	0.2	0.3
Investment spending	950	504	800	804	150	-300
% of GDP	0.4	0.2	0.4	0.4	0.1	-0.1
Other expenditure	150	505	150	250	0	255
% of GDP	0.1	0.2	0.1	0.1	0.0	0.1
Tax policy	2646	6583	2584	5661	62	922
% of GDP	1.2	2.9	1.2	2.7	0.0	0.4

(*) Ratios to GDP in this column calculated on the basis of the latest GDP figures.

Source: Commission services.

27. In response, the Government has announced a fiscal austerity package to ensure that the 2012 deficit is on target. To the extent that most, though not all, measures frontload action planned for later years, they reduce or close fiscal gaps in 2011, but are not, in a medium-term perspective, additional to the MTFs. The main measures include:

- The implementation of a new uniform wage grid for public employment, which will, already in the short term, substantially reduce the wage bill and aims at a more transparent remuneration system for the civil servants of several government departments. This measure was already planned in the June 2011 MTFs, but its implementation was expected to be spread over several years. It is now frontloaded. The average wage is expected to be reduced by 17 percent, though there is substantial variation between the government departments. Bonuses will be provided to officials involved in tax collection and expenditure control. For the time being the wage reform does not affect the so-called special regimes (military and police, judges and political personnel, doctors and university staff).
- Cuts in the highest pensions and adjustment in supplementary pensions and lump sums paid on retirement. The adjustments in the supplementary pension and in lump sums paid on retirement were also provided for in the MTFs, but were expected to be implemented later on.

- With the aim of reducing overstaffing, the government established, already in July, a labour reserve for excess staff. It has now decided to move an estimated 15 000 staff very close to retirement age into a pre-retirement scheme, and the same number of staff into a labour reserve.
- A new property tax has been established; this will be collected through electricity invoices (though the tax base is the surface of the property, modulated by additional parameters like age and location of the property)
- The personal income tax base has been widened through the abolition of a number of tax expenditures and reducing the income tax-free thresholds. In particular, the tax-free income threshold, which used to be EUR 12 000 per person per year was reduced to EUR 8 000 in June, is further reduced to EUR 5 000.
- The acceleration in the reduction (quasi-abolition) in the subsidy to heating oil, which was planned for the next year.

28. It is no longer viable to close the fiscal gap for 2011. The 2011 government deficit will most likely be between 8.5 and 9 percent of GDP, i.e. well above the ceiling of $7\frac{3}{4}$ percent of GDP (or EUR 17 065 million). Given the late stage of the year in which this residual fiscal gap has been identified, the margin for cuts in operational spending and investment is very limited, as most expenditure budgeted for 2011 has already been spent or committed. Moreover, further tax measures in 2011 would be unbearable for the economic agents and would not bring much in revenue. The mission stressed that, given the implementation of many measures in a short period of time – the new measures and many of the measures agreed in June are implemented in the last quarter of 2011 and first quarter of 2012 –, the impact on the deficit may be smaller than the sum of the quantifications of each one of them. In particular, the several tax measures will be testing many households' liquidity constraints.

Table 10. Deficit and measures accounting: from the deficit in one year to the next

	EUR million		% of GDP	
		cumulative measures 2010-2014		cumulative measures 2010-2014
2009 deficit	36150		15.4	
primary deficit drift in 2010	6149		2.7	
change in interest expenditure	266		0.1	
measures in 2010 1/	18372	18372	8.1	8.1
impact on ratio of nominal GDP growth	--		0.5	
2010 deficit	24193		10.6	
primary deficit drift in 2011	12724		5.8	
change in interest expenditure	1997		0.9	
measures in 2011 1/	19514	37886	9.0	16.8
impact on ratio of nominal GDP growth	--		0.5	
2011 deficit	19400		8.9	
primary deficit drift in 2012	6808		3.2	
change in interest expenditure	509		0.2	
measures in 2012 1/	11801	49687	5.6	21.8
impact on ratio of nominal GDP growth	--		0.2	
2012 deficit	14916		7.0	
primary deficit drift in 2013	1045		0.5	
change in interest expenditure	509		0.2	
measures in 2013 1/ 2/	5071	54758	2.4	23.3
impact on ratio of nominal GDP growth	--		-0.1	
2013 deficit	11399		5.3	
primary deficit drift in 2014	1307		0.6	
change in interest expenditure	800		0.4	
measures in 2014 1/ 2/	7121	61879	3.2	25.5
impact on ratio of nominal GDP growth	--		-0.1	
2014 deficit	6385		2.9	

Note: Deficit in year t = deficit in year t-1 *plus* primary deficit drift *plus* change in interest expenditure *minus* measures (and for the GDP ratios: *plus* impact on debt ratio of nominal GDP growth).

1/ Including carry-overs.

2/ Including measures which still require further specifications.

Source: Commission services.

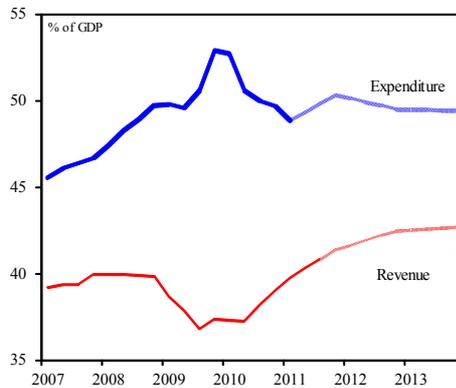
Table 11. Arrears (EUR million)

	31 Dec 2010	31 March 2011	30 June 2011	31 July 2011	31 Aug 2011
Total State	866.2	1087.9	980.0	949.9	938.7
Local Government	591.2	834.3	903.5	878.8	943.2
Hospitals (*)	1514.2	1687.1	1846.6	1747.4	1733.2
Social Security Funds	2131.5	2433.2	2662.6	2757.2	2649.8
Other government entities	197.5	215.5	245.1	201.3	234.4
Total General Government	5300.6	6258.0	6637.8	6534.6	6499.3

All debts 90-days overdue are considered arrears
(*) Of which EUR 113 million incurred by end 2009.

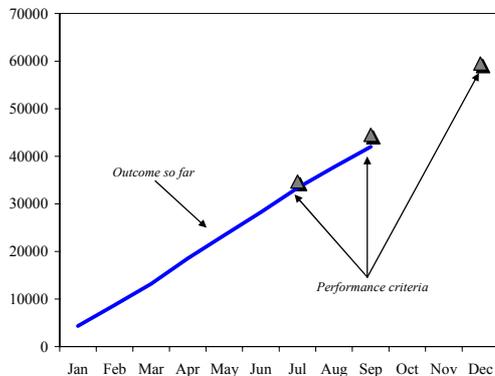
Source: General Accounting Office.

Graph 23. Government revenue and expenditure (% of GDP)



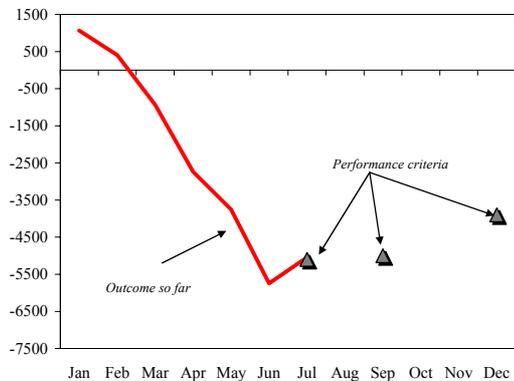
Data in this chart refer to four consecutive quarters for revenue, expenditure and GDP, and end-quarter data for debt.
Source : Eurostat

Graph 24. State primary payments - 2011 (cumulative, EUR million) Outcomes and quarterly criteria



Source: GAO and Commission services.

Graph 25. Government primary balance – 2011 (cash basis, cumulative balance, EUR million) Outcomes and quarterly criteria



Source : GAO and Commission services..

Table 12. Staffing plans

	Projections					
	2010	2011	2012	2013	2014	2015
Total	775994	708780	669632	625548	614810	602472
Permanent Employment	682258	646480	612104	572315	565443	556584
of which: tenure	600497	577927	553686	524191	519173	512747
Exit		48273	43830	47041	14765	11812
Normal retirement		47273	36256	24922	14765	11812
Through retirement schemes		1000	7574	7574	0	0
Through labour reserve		0	0	14545	0	0
Other		0	0	0	0	0
Hiring		12495	9455	7251	7893	2953
Professional Schools		4146	4146	4146	4146	4146
Transfer from SOEs		2883	0	0	0	0
From the labour reserve		0	0	1045	0	0
Other		5466	5309	2060	3747	-1193
Political appointees	25526	14576	14576	14576	14576	14576
Temporary contracts	68210	47724	42952	38657	34791	31312
Memorandum items:						
Total employment reduction since 2010		67214	106362	150447	161184	173522

Source: Greek Ministry of Finance

29. The fiscal consolidation effort of Greece has been very large, but more measures will be necessary. In spite of the implementation issues that this report and previous reports have documented, the fiscal consolidation of Greece has been well above the fiscal efforts in other European countries. According to available estimates, in 2010 and 2011, Greece has implemented more than 16 percent of GDP of consolidation measures to reduce the deficit from 15½ percent of GDP in 2009 to 8.5-9 percent in 2011. Without these measures, the government deficit would have kept on increasing. Given the deepening recession, which has been weighing in revenue performance, the increase in interest expenditure and the underlying increase in expenditure (e.g. related to the population ageing or the public sector wage drift) large measures are necessary simply to avoid that the deficit increases. The same is expected to happen until the debt declines and economic growth resumes. For 2012, to reduce the deficit ratio to the agreed ceiling, the government implements 5½ percent of GDP in measures, as described in previous paragraphs.

Box 3: Debt sustainability assessment

[...]

4.2. STRUCTURAL FISCAL REFORMS

4.2.1. Privatisation

30. The privatisation fund has now become operational. After the identification in June of the assets that will be privatised, a professionally-managed privatisation fund (HRADF, Hellenic Republic

Assets Development Fund) was legally established and is now fully operational. The ultimate objective of the privatisation plan is to reduce government financing needs, to improve economic efficiency, and to bring in foreign capital. The first transactions by an overall amount of EUR 1.2 billion (though most receipts have not yet been cashed in) have already taken place. They affect a stake in a telecommunication company and two gaming-related concessions. However, given the delays in establishing the fund itself, and other administrative and legal procedures, the value of transactions agreed by end-September was well below the performance criterion for the third quarter of the year. The substantial deterioration in the financial markets between June and September, when the Athens stock exchange lost almost 40 percent, may have also weighed on the proceeds.

31. The near-term privatisation target needs to be readjusted, though the longer-term objective remains viable. Given the above-described delays, the amount previously planned to be collected by end-September is now expected by end-year, while the cumulative targets for 2012 have also been delayed by a quarter. Despite these delays, the aim of collecting EUR 35 billion by end-2014, and EUR 50 billion as the ultimate objective stay unchanged. If one takes into account the reprivatisation of shares of banks recapitalised directly by the State or by the HFSF, privatisation receipts may exceed those values. Given the crucial nature of the privatisation plan in the overall strategy of the adjustment programme, the mission has judged appropriate the Government's commitment of reaching the privatisation targets, if necessary by offering for sale larger stakes than initially planned in state-owned enterprises.

32. The implementation of the privatisation plan requires determination by the Government and the Fund. To allow the privatisation fund to play its role, the Government will have to continuously transfer assets to the fund and prepare assets for privatisation. A first batch of assets has already been transferred and a second one is expected shortly: the latter will cover most of the transactions taking place by end-2012. Moreover, preparing assets for sale often requires time-consuming procedures including the unbundling of utilities, the creation of portfolios of real estate assets, and more fundamentally, resolving issues related to land ownership and, in several cases, allocating the respective land use rights.

Table 13: Privatisation plan: transactions so far

Assets	Date of deal	Sold stake	Remaining stakes owned by the Greek government	Collected (EUR million)	To be collected (EUR million)
OTE	July 2011	10%	4%	392	--
OPAP 1 (license extension 2020-30)	October 2011	-	-	0	375 (by end-November) + 5 percent on gross gaming revenue during the extension period (present value estimated at EUR 86 million).
OPAP 2 (sale of new license for VLTs)	October 2011	-	-	0	474 (by end-November) + 86 (by Q4-2013)

Table 14: Planned privatisation receipts

By end of:	Privatisation receipts (EUR million)
2011 Q4	1 700
2012 Q1	5 000
Q2	7 000
Q3	9 000
Q4	11 000
2013 Q1	15 000
Q2	17 000
Q3	18 000
Q4	20 000
2014	35 000
2015	50 000

Note: Reprivatisation of banks' shares that the state or the HFSF may acquire in the context of recapitalisations are not included in the planned privatisation receipts.

4.2.2. Tax reform and fight against tax evasion

33. An overhaul of the tax system will have to be properly prepared. As discussed in previous review missions, the Government is committed to overhaul its tax system with the aim of simplifying and making it more growth-friendly. The widening of tax bases, abolition of exemptions and preferential regimes under the corporate income tax and VAT, as well as a more uniform treatment of individual capital income, would allow a reduction in tax rates, in particular on labour – such as social contributions – and corporate income. The mission stressed that cuts in tax rates should only take place once it is clear that the reform will be revenue-neutral. For the time being, a reduction in rates, in particular in indirect taxes, does not appear to be appropriate. Furthermore, international experience shows that a major reform of the tax system requires careful preparation, and that an incomplete reform or a reformed prepared in a rush would not be advisable. However, the mission agreed that a simplification in the Code of Books and Records could contribute to reducing the businesses' compliance costs.

34. The success of the fight against tax evasion is critical for the programme. This is not only because of additional receipts, but also because of the social acceptability of adjustment programme as a whole. Results so far are not satisfactory, though a number of actions are ongoing. In particular the government is reassessing the performance targets of tax agency's managers, and strengthening the tax dispute system. With delays compared to previous plans, a large taxpayers' unit and a directorate to debt collection have been established. Also, the tax audit department has scaled-up risk-based audits and have initiated audits of high-wealth individuals and self-employed. There has been much less progress in consolidating and merging the tax offices spread over the country, which can only be completed once a new, modern, IT system interconnecting all tax offices is in place.

4.2.3. Public administration and social programmes

35. Public administration reforms need determination and political will. The ongoing functional reviews should be a basis for an ambitious administrative reform. A first report on the functional

review of the central administration, drafted by the OECD secretariat, touches fundamental areas that need to be prioritised in the reform of public administration, including a better coordination between ministries, an improvement in monitoring and implementation of coherent policies, setting strategic directions and priorities, reducing the excessive formalism that limits mobility between ministries, reducing the number of hierarchical levels and management positions, a more complete human resources strategy and a better control over budget formulation. The mission was of the view that an effective public administration reform required the identification of policy priorities. The government committed to identify in the course of 2012, with the help of external technical assistance, entities that are overstaffed or have overlapping mandates with a view to downsizing, merging or closing them.

- 36. It is possible to increase efficiency and save money in social programmes.** A second OECD report on the functional review on social programmes is also being prepared. It includes policy recommendations on a better use of the existing social programmes (mainly from the ministries of health, finance and labour). Preliminary conclusions of the report refer to high levels of fragmentation in the distribution and use of social programmes.

4.2.4. Healthcare

- 37. There has been progress in relation to health sector reforms.** Given the high share of public expenditure that is spent on healthcare, healthcare reform is a crucial component of Greece's fiscal consolidation efforts. These efforts will depend a lot on an efficient pricing of medicines, the proper accounting and monitoring of expenditure, modern procurement, invoicing and administration, the introduction of the positive list linked to the reference price system; the full implementation of the e-prescription system and the concentration and specialisation of NHS hospitals and departments while ensuring mobility of staff.

- 38. Despite progress, the mission stressed that more effort needs to be made in several areas.** These areas include: equalising contribution rates for EOPYY, i.e. increasing contribution rates for OGA; reducing the number of administrative staff and the number of physicians contracted with EOPYY; increasing substantially the use of generics in hospitals and the outpatient services; applying binding clinical and prescription guidelines, eventually linked to the e-prescription system; speeding up the implementation of e-prescription; and minimising delays in invoicing and eliminating arrears. This last point is particularly important as some social security funds have not been able to collect the rebate from pharmacies when there are delays in payment. Finally, the current practice of NHS hospitals invoicing Social Security Funds with constantly slow internal auditing procedures appears cumbersome, time and resource consuming, potentially leading to delays in the payment of suppliers. This requires a substantial revision in the month to come.

4.2.5. Pension reform

- 39. Pension reform is a major achievement of the programme.** Though a number of adjustments to the Greek pension system are still necessary, the available data indicate that the reforms implemented since the beginning of the adjustment programme have substantially improved the dynamics of pension expenditure. Other than the parametric reform of July 2010, and the reduction in highest pensions, attention has now shifted to fight fraud in disability pensions and to the pension regimes of specific professions. A single centre for certification of disability has started operating, replacing a large number of regional disability committees, while a more restrictive definition of disabilities has been adopted. Authorities aim at reducing the share of disability pensions in total pensions from 14 percent to 10 percent, in line with the European average. These measures, together with a pensioner's census may decisively contribute to fight fraud and reduce waste.

40. The reform of supplementary pensions will also contribute to the actuarial fairness of the pension system as a whole. Following the completion of ongoing actuarial studies, a draft bill to reform supplementary pensions is in preparation. Authorities aim at further reducing the number of funds, eliminate imbalances and guarantee the budgetary neutrality of supplementary pension schemes through a strict link between contributions and benefits. After delays, the list of arduous and hazardous professions, which allow earlier retirement ages, is being revised following the work of a committee of experts and social partners. The new list will cover no more than 10 percent of employment, and should enter into force immediately.

4.2.6. Public procurement

41. A new central body (SPPA) is established for the coordination of public procurement policy. The Single Public Procurement Authority is expected to become instrumental in monitoring, planning and the implementation of procurement procedures. This implies a significant change in the currently decentralized system, whereby various bodies (mainly ministries) conduct their own public procurement policy, implement it and supervise it. This system has, among other, led to different practises for the same type of tendering procedure, and/or to different selection criteria and technical specifications for the provision of similar goods and services, resulting at the same time in numerous infringements of EU law and in costly delays.

4.3. GROWTH-ENHANCING STRUCTURAL REFORMS

4.3.1. Labour market

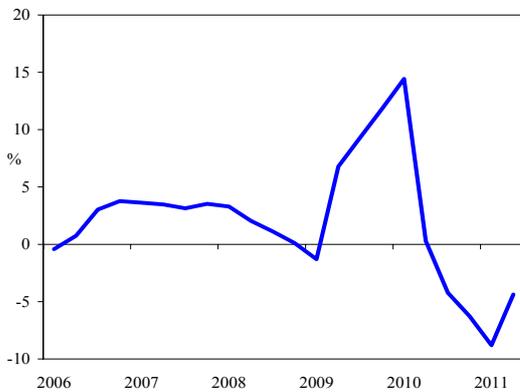
42. Despite recent reforms aimed at enhancing the dynamism of the labour market, serious shortcomings in the wage bargaining system remain. The economy is contracting more than envisaged at the onset of the Programme in May 2010. Despite a considerable reduction in per capita income, downward rigidities in wage-setting systems have prevented the necessary adjustment of private sector wages, thus contributing to a sharp increase in unemployment.

43. The government is adopting a number of measures in relation to collective bargaining so as to reduce the downward rigidity on wages. These measures aim to lessen the increase in unemployment, including among the low-skilled:

- **The suspension of the extension of occupational and sectoral collective agreements until at least end-2014.** The aim of this measure is to give flexibility to firms and their staff in order to agree wage setting at the firm-level, if they wish so. Indeed, there is evidence that wages agreed at a sectoral level are becoming increasingly binding for small firms and contributing substantially to job losses.
- **The elimination of the favourability clause.** The aim is to decentralise collective bargaining by enlarging the scope of firm-level collective agreements, in conjunction with extending workers' representation in the bargaining process. The elimination of the favourability principle should imply that, as in some other EU countries, firm-level agreements prevail over sectoral agreements.
- **Firm-level wage bargaining is being further facilitated by allowing for workers' representatives to negotiate firm-level collective agreements.** The government will extend the right to negotiate firm-level collective agreements to staff representatives other than trade unions, applying to firms of all sizes. Indeed, in some cases, and notably for small firms, the main obstacle to firm-level agreements is the absence of a counterpart for the negotiations.

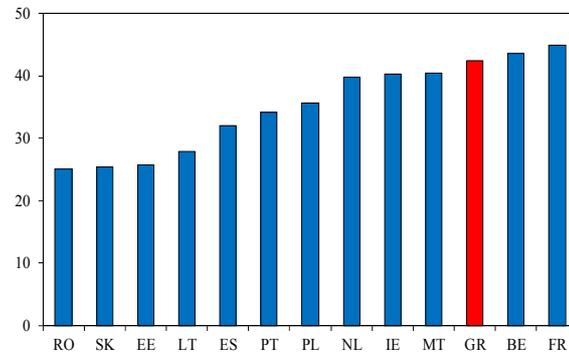
44. The Government will promote discussions with the social partners in order to examine labour market parameters that affect the firms' competitiveness and the economy as a whole. The goal is to conclude a national tripartite agreement addressing the macroeconomic challenges to the economy and to support stronger competitiveness, growth and employment in Greece. All parameters that have an impact on labour costs should be open for discussion, including wages, minimum wages and the national collective agreement, and the several non-wage labour costs, including social contributions.

Graph 26. Total labour costs (business economy) (percent change, y-o-y)



Source: Eurostat

Graph 27. Minimum wages (gross, annual, as percentage of GDP per capita)



Source: European Industrial Relations Observatory (EIRO)

45. The Government will promote discussions with the social partners to examine labour market parameters that affect the firms' competitiveness and the economy as a whole. The goal is to conclude a national tripartite agreement addressing the macroeconomic challenges to support stronger competitiveness, growth and employment in Greece. All parameters that have an impact on labour costs should be open for discussion, from wages, including minimum wages and the national collective agreement, and the several non-wage labour costs, including social contributions.

4.3.2. Regulated professions

46. The new law on regulated professions is in place; yet more time is needed for the law to be fully effective. The logic of the new law is to lift restrictions on practicing the regulated professions, unless such restrictions are reintroduced for public interest reasons during a transitory period which expired in July 2011. This means that, in principle, all professions and economic activities – other than the main regulated professions, like lawyers, doctors, engineers, notaries, etc. – are no longer subject to restrictions.

47. Requests for reinstating restrictions have been put forward after the transitory period. In reality, the four-month transitory period was not used effectively to introduce required modifications in an orderly and timely fashion, and there have been pressures from interest groups to reintroduce restrictions and specificities to the licensing system of several professions. It could be that, in some cases, restrictions and derogations to the principle of professional freedom are warranted. To ensure

an orderly procedure, such derogations should be made within a clear and should be limited time frame, and be limited to what is strictly necessary taking into account the public interest.

- 48. The scope of the law should be clarified.** A comprehensive list of regulated professions or economic activities affected by this law is needed to give certainty to service providers and competent authorities. The regulations governing these professions and activities should be screened and modified in the interest of legal certainty to make them fully compatible with the liberalizing provisions of the new law on regulated professions. Moreover, implementing regulations and ministerial circulars need to be updated expeditiously to ensure that the reform can take full effect.
- 49. In addition, there is a need for further changes to the regulatory framework of the main regulated professions.** The impact of this recent reform on the *modus operandi* of the main regulated professions does not yet go far enough. For example, the mission noted that, the recent legal provisions have been ineffective in reducing *notary* fees in Greece, which remain well above the fees charged in other EU countries with the same notary system. In this sense, the mission welcomes the Government's commitment to substantially reduce notaries' fees and increase competition among notaries. With regard to *lawyers*, whilst the recent reform has eliminated geographical restrictions for individual lawyers, it has failed to abolish minimum fees, which will outlive the reform under the guise of legal fees and reference amounts (see appendix). In addition, the reform appears to infringe the EU law, as it unnecessarily curbs the freedom of individuals to incorporate law firms in Greece and of law firms to open branches in Greece. Moreover, the recent reform has also done little to change the price formation mechanism of engineers/architects. As in the legal profession, legal fees will *de facto* behave as minimum prices, as the system of paying the social contributions and fees to the Technical Chamber of Greece penalizes *engineers* that would otherwise agree on lower prices with their clients. In addition, current regulations significantly reduce the possibility for engineers and clients to agree on prices below the legal fee, since cases of 'unusual low fees' agreed between the engineers and his/her client, can be investigated and sanctioned by the Technical Chamber of Greece.

4.3.3. Energy and transport

- 50. The transport sector has experienced a number of reforms since last summer 2010.** Several laws have been approved in relation to road freight, railways and urban transport, while a new provision on occasional passenger transport was approved in August and secondary legislation establishing the costs and the time required for issuing new licences will be adopted by end-October this year. Moreover, the Government has announced the intention of accelerating the liberalisation of road haulage, by reducing a three-year transitional period to one-and-a-half year earlier, as well as by reducing costs for the issuance of new road transport operator licences. A number of entry barriers to the taxis market are also expected to be lifted soon.
- 51. Energy is one of the policy areas that has accumulated most delays in relation to policy conditionality.** By October 2011, Greece has accumulated a ten-month delay in the identification of measures to grant competitors of PPC (the incumbent energy producer) access to 40 percent of lignite-fired capacity. Whilst several options have been put forward by the authorities, these have not been suitable to meet the objectives and policy requirements. Such measures should be identified and implemented swiftly, before privatisation of PPC takes place in 2012. Otherwise, the competition problem in the generation side will be transferred to the newly privatized undertaking. On the management of hydro reserves, policy conditionality requires that this is assigned to an independent body. This follows the same logic of giving access to this comparatively cheap source of energy to generators other than PPC. However, as of October 2011, the authorities have failed to propose a mechanism that complies with this requirement. Moreover, the memorandum of understanding calls on the Greek government to transpose the common rules of the third energy package on the generation, transmission, distribution and supply of electricity as well as on the strengthening of the

role of the energy regulator (RAE). This has been done by the law of 2 August 2011, on the regulatory framework for the operation of electricity and gas energy markets. Given the upcoming privatisation plans of the electricity and gas undertakings, the main challenges now are to effectively unbundle the electricity and gas transmission and distribution systems, by ensuring a timely transfer of assets and staff, as well as to enhance the role of RAE.

4.3.4. Business environment

52. The government should not delay the presentation of the Business Friendly Greece action plan any further. This plan aims at tackling restrictions to business activities and innovation that have not been addressed so far. By mid-October, the action plan has not been made public yet. Instead, the government has decided to wait for the presentation of a draft law covering a number of measures of the plan. The draft action plan includes around 70 actions ranging from the creation of company to its liquidation. The expected benefits of the plan derive from measures clarifying spatial planning rules, rationalizing environmental permits and simplifying tax rules.

53. A new environmental licensing law is expected to significantly ease procedures. The time required for environmental licensing is expected to decrease by an average of 50 percent. For this, the law aims at reducing significantly the number of environmental impact assessments (EIA) required for new projects. Furthermore, it provides for the creation of an electronic environmental register (most likely operational after 1.5 years after its entry into force) to carry out licensing procedures for all types of environmental projects in a faster and more transparent way. Also, it sets up an environmental licensing department in the Ministry of Environment, thus addressing the concerns over the lack of administrative staff to process applications at the Ministry level, as well as strengthens the mechanisms for ensuring compliance with the environmental terms, namely via environmental inspectors. The mission insisted that appropriate coordination mechanisms between the central government and the regional administration as well as the sufficient qualification of staff for the processing of applications at lower level of governments are needed to ensure a successful application of the new law. Equally important is the speedy issuance of implementing regulations.

4.3.5. Absorption of structural funds

54. Implementation of the structural fund conditionality is on track, though absorption of funds has been slower than expected. Whilst the semi-annual target for the absorption of structural funds was missed, the annual target (EUR 3.35 billion) is still within reach. This is due to a large number of projects maturing towards the end of the year and to the increase in the EU co-financing rate – from an average of 78 percent to 85 percent; this is expected to increase further to 95 percent of the eligible expenditures. The government is also likely to meet the annual target for the submission of 15 large projects. In addition, in July 2011, the overall absorption rate of the National Strategic Reference Framework (NSRF) was 28.2 percent, up from 11.1 percent in July 2010 and only slightly below the EU27 average. This reflects progress in the management NSRF projects since the beginning of the adjustment programme.

55. The government is strengthening the administrative capacity for the design and implementation of NSRF projects. This takes place through (i) the ongoing work on a monitoring tool for the approval and implementation of public project proposals, (ii) the elimination of inactive projects, (iii) the increase in flexibility of the managing authorities to transfer resources between codes within the same priority axes – so that funds can go from underutilized projects to projects that are absorbing more funds, as well as the (iv) reinforcement of public services involved in the implementation of the NSRF.

4.3.6. Judicial reform

- 56. Greece has undertaken a number of important commitments to reform the Greek judicial system.** These include, inter alia, the clearance of the existing case backlog in courts, improving judicial case processing, designing a performance and accountability framework for courts and reviewing the Greek Code of Civil Procedure to bring it in line with international best practices. As far as the case backlog is concerned, although the revamped managerial and organisational measures to facilitate the clearance of tax cases and non-tax cases have not yet been put in place, the Government expects to meet the 15 percent reduction target for tax cases by end-year. There is not yet enough evidence that the Government has made progress with the improvement of judicial case processing, although the Government is implementing ambitious e-justice applications as well as other changes to court processes.
- 57. The Government is also committed to changing the existing culture of dispute resolution.** This can take place, for example, by taking cases out of the formal court system and encouraging private individuals and businesses to use alternative modes of dispute resolution, such as mediation. There is therefore a need to speed up the adoption of implementing rules for the new Mediation Law and specific measures to promote and improve alternative dispute resolution.

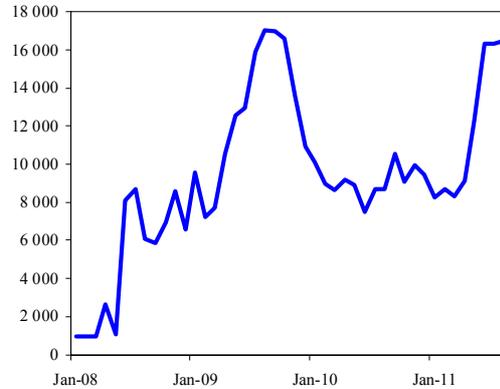
4.3.7. Education

- 58. A new framework law on higher education was approved by Parliament in late August.** The law, which gathered a wide political consensus, provides for a radical overhaul of the tertiary education sector, including higher autonomy, but also of higher performance-related funding, of universities. The reform has incorporated the recommendations of a report prepared by the OECD-led task force on 'Education Policy Advice for Greece.' The full implementation of the framework law is expected to take two years. The reform of the primary and secondary education sector is under preparation and will also consider the recommendations of the report. Despite ongoing reforms, major challenges remain in the primary and secondary education sector, which include: (i) excessive centralisation, including regional distribution; (ii) inefficient allocation of human resources, with an excessive number of teachers when compared with other EU countries; (iii) excessive constraints on private schools.

4.4. FISCAL FINANCING AND TREASURY MANAGEMENT

- 59. The stock of Treasury bills have increased substantially in the summer.** Greece continued issuing short-term debt in the form of 3-months and 6-months paper at high frequency. Previous expectations to start auctioning 12-months T-bills were abandoned. The increase in issuance amounts was partially caused by this short maturity, which naturally required a frequent refinancing. Higher financing needs also played a significant role in the increase in the T-bill stock.

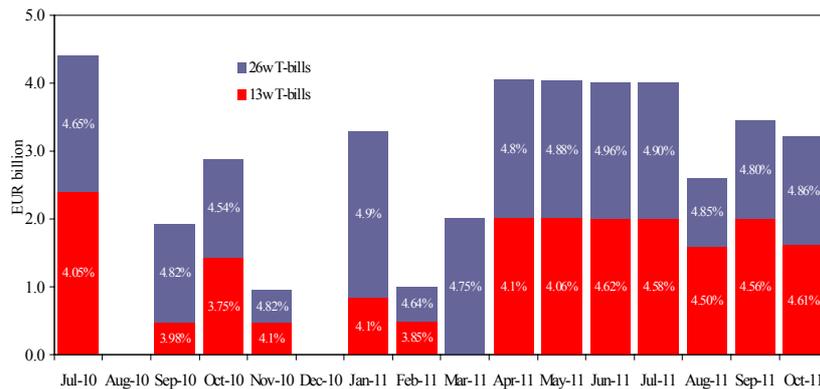
Graph 28. T-bills stocks (EUR million)



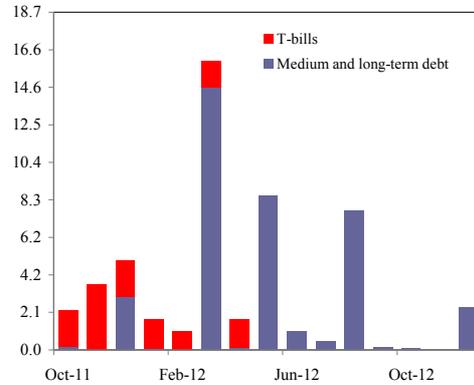
Source: GAO.

60. Yields on short-term securities in the primary market increased modestly compared to sharp increases in bond yields, amid prevalence of Greek buyers. Yields on 6-months securities rose marginally to 4.9 percent in both July and August auctions (up from an average yield of 4.7 percent recorded during the first year of the programme). A more visible, albeit still limited, cost increase was recorded in 3-months maturities, where yields rose to 4.5 percent in July and to 4.6 percent in August, compared to an average of 4 percent. Such a contained raise in yields was driven by heavy participation of the Greek banks in the auctions. Foreign participation, despite exemption of T-bills from the PSI operation, became almost non-existent.

Graph 29. T-bill auctions since July 2010 (amounts and yields)



Source : PDMA

Graph 30. Maturing debt (EUR billion)

Source : GAO

Box 4: Interest rates on euro area assistance loans

The original interest rate charged to Greece by the euro-area Member States under the Loan Facility Agreement was variable. According to the Loan Facility Agreement, the interest rate is based on the three-month Euribor rate plus a margin. The margin was initially set to 300 basis points for the period up to and including the third anniversary from the disbursement date of each euro area loan tranche. A margin of 400 basis points was set to be applied for subsequent interest periods. In March 2011 the euro-area Member States have decided to lower the interest rate on loans to Greece. The margin was reduced by 100 basis points, that is, to 200 basis points for the interest periods up to and including the third anniversary and to 300 basis points for the subsequent interest periods. This decision concerns all future interest payments made by Greece after the Amendment of the Loan Facility Agreement is signed.

Table : Interest rates and interest payments for Euro Area loan to Greece

Date	Interest rate	Interest paid, bn EUR
15 June 2010	3.423%	0.039
15 September 2010	3.719%	0.138
15 December 2010	3.879%	0.207
15 March 2011	4.026%	0.250
15 June 2011	4.173% / 3.173% **	0.408
15 September 2011*	4.494% / 3.494%**	0.506

* calculated to be paid

**1 p.p. reduction will be retroactively applied after Amendment enters into force

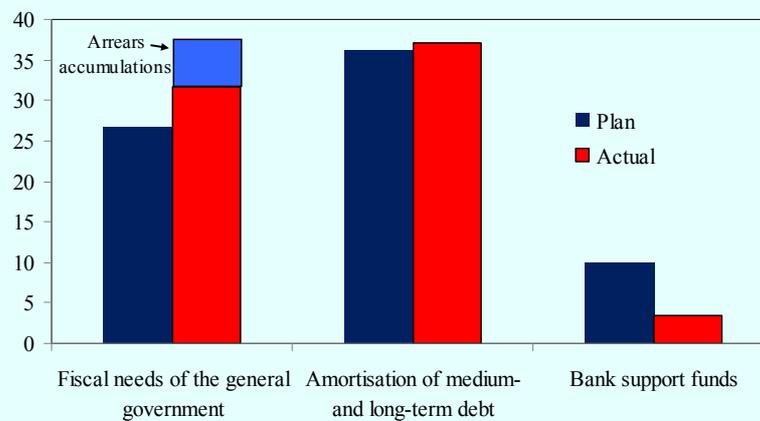
Interest rate under the EFSF loans

Euro area member states have taken decision on 21 July that the EFSF loans will be provided at interest rates close to, but without going below, the EFSF funding cost (in line with interest rates applied on the balance of payments facility). The latest estimate suggests that in current market condition interest rates on EFSF loans to Greece will be around 4 percent, albeit this estimate is subject to change, as it depends on actual EFSF cost prevailing at the time of its borrowing.

Box 5: Financing of the Greek sovereign state since the start of the programme: planned versus actual outcome

Financing needs. The financing of the Greek economic adjustment programmes, as initially designed, foresaw financing maturing medium- and long-term debt, deficit (including needs of state owned companies), bank recapitalisation, and a part of the outstanding short-term debt. The actual financing needs differed from the initial estimates, mostly due to the fact that the cash fiscal needs have been substantially above the forecast. In addition, maturing medium and long-term debt was slightly underestimated. The chart below summarises the original estimates of the Greek sovereign needs and the actual outcome till the end of the third quarter 2011.

Graph 1. Financing needs

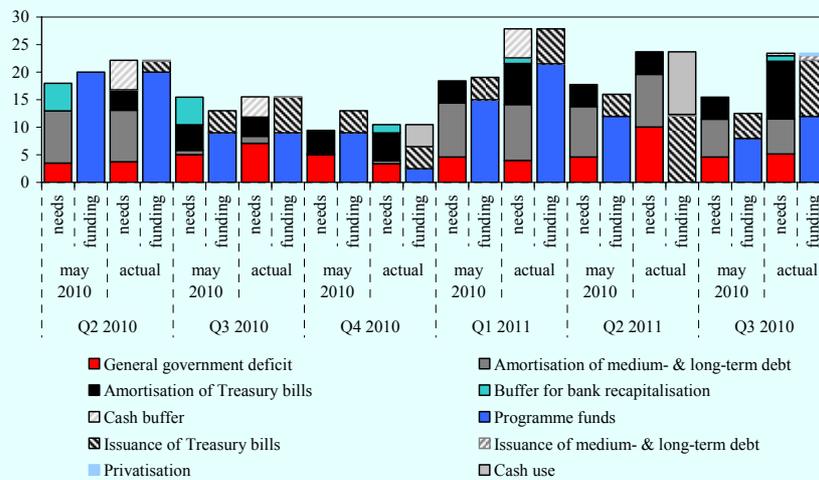


Source: GAO and Commission Services calculations

Sources of funds. During the programme, the largest part of financing is provided by international assistance loans. However, a sovereign itself can also cover some part funding, by selling state assets. Accumulation of arrears also often serves as a funding source. The Greek government arrears amounted to EUR 6.5 billion at the end of July 2011, and have, most likely, increased in the meantime.

The chart below summarises the planned and actual needs and funding sources (excluding arrears). It illustrates that Treasury bills have been used as the adjustment variable given higher-than-planned financing needs.

Graph 2: Greece's financing from May 2010 to September 2011: planned versus actual



Source: GAO and Commission Services calculations

4.5. TECHNICAL ASSISTANCE

61. The Commission has established a taskforce to coordinate the provision of technical assistance to Greece. Currently, there are ongoing technical assistance projects in statistics (by Eurostat), absorption of structural funds (by the Commission and the EIB), public finance management, and revenue administration (by the IMF), and tax policy (by the IMF and the Commission). Technical assistance to Greece has been lifted to a new level with the establishment of a taskforce under the direct supervision of the Commission President and the Commissioner for Economic and Monetary Affairs. The goal of the taskforce is to coordinate the technical assistance that Greece needs to deliver the economic adjustment programme, and to recommend measures for an accelerated take-up of EU funds, focusing on competitiveness, growth and employment. The taskforce has started operating in September and will enhance significantly the scope of technical assistance offered to Greece, drawing on resources and expertise, in addition to Commission-internal ones, of EU Member States and international organisations. The focus of the assistance will be on the rapid deployment of projects boosting economic growth, particularly those financed by the EU structural funds, and the enhancement of the administrative capacity of the Greek government to implement the reforms under the adjustment programme. A preliminary list of projects for which Greece requests technical assistance has been transmitted to the taskforce and the response of potential technical assistance providers to a call for interest has been positive. The taskforce is expected to submit its first progress report for early November.

Appendix 1. System of tax and social contributions and payments of lawyers to the Bar Association

	Before Law 3919/2011	After Law 3919/2011
Regulation of fees	<u>Compulsory minimum fees</u> : fees are determined by agreement reached between the advocate and their client but this may not be <i>below</i> the lower minimum limits contained in the Lawyers' Code; otherwise the agreement governing a lower fee is null and void.	<u>Principle of free negotiation of fees between lawyers and their clients</u> if and only if this is done in writing. In the absence of a valid written agreement, legal fees apply to a variety of cases. (*)
Fees for court appearances	<u>VAT</u> : 23 percent VAT was calculated on the actual fee collected by the lawyer.	<u>VAT</u> : calculated on the actual amount declared in the invoice.
	<u>Contributions to the Bar Association</u> : Every Bar Association took 10 percent of the minimum fee, of which 2 percent covered the operating –and other- costs of the Bar, 3 percent went to the Fund of Lawyers (pension) and 5 percent to the Insurance Fund of Lawyers (healthcare).(**)	<u>Contributions to the Bar Association</u> : calculated on the legal fee (former minimum fee).
	<u>Income tax</u> : 15 percent income tax deduction was calculated on the minimum fee after deducting the 10 percent (or 12 percent) contribution. This tax deduction acted as withholding tax (i.e., the lawyer had to submit an annual income tax declaration, after which, adjustments were made).	<u>Income tax</u> : the 15 percent withholding tax is calculated on the entire amount of lawyer's fees, without the deduction of 12%.
Fees for contracts	<u>VAT</u> : 23 percent VAT calculated on the actual fee collected by the lawyer.	<u>VAT</u> : calculated on the actual amount declared in the invoice.
	<u>Contributions to the Bar Association</u> : The Bar Association retained 10 percent of the minimum fee (based on the value of the contract) for the Fund of Lawyers (pension) and another percentage for the Cooperation Fund, which was different in each Bar Association. For example, in the Athens Bar Association, a 25 percent of the minimum fees of contracts go to the Cooperation Fund.	<u>Contributions to the Bar Association</u> : No significant changes in the <i>modus operandi</i> , except that the contributions are based on the reference amounts and the specific percentages are subject to changes. Temporarily, the former minimum fees apply as reference amounts.
	<u>Income tax</u> : 20 percent withholding tax calculated on the minimum fee (net of the above mentioned percentages of 10% and 25%)	<u>Income tax</u> : A 15 percent withholding tax is calculated on the entire amount of the lawyer's fees, without prior deduction of the amounts paid to the Bar association.
<p>(*) For the provision of legal services relating to the conduct of a trial under the voluntary procedure; for the award of court costs; for fees for the court lawyer appointed to provide legal assistance or legal aid; for fees regulated in a number of articles of the Code of Lawyers.</p> <p>(**) In Athens and Piraeus, the percentage was 12 percent, which was distributed as follows: 3 percent covered the operating costs of the bar, 1 percent for the young lawyers' distributive fund, 3 percent goes to the Fund of Lawyers (pension) and 5 percent goes to the Insurance Fund of Lawyers (healthcare).</p>		

**Annex 1: Assessment of compliance with the
Memorandum of Understanding on Specific Policy Conditionality
(fourth update, 2 July 2011)**

Requirements in the memorandum of understanding	Comments
FISCAL CONSOLIDATION	
<i>Achieving 2011 fiscal target</i>	
Adoption of additional fiscal measures for 2011 with the aim of reducing the deficit to EUR 17 065 million [Q2-2011].	
<i>Medium-term fiscal strategy</i>	
Adoption by Parliament of the medium-term fiscal strategy (hereinafter MTFS) through 2015 and respective implementing bill. The MTFS elaborates on the permanent fiscal consolidation measures, which ensure that the deficit ceiling for 2011-15 as established by the Council Decision are not exceeded, and that the debt-to-GDP ratio is put on a sustainable downward path. [Q2-2011]	<p>Partially observed.</p> <p>The MTFS has been adopted by Parliament (Law 3985/2011), and implementation laws have also been adopted.</p> <p>However, the way some specific measures are being implemented lead to fewer saving than in the MTFS.</p>
The MTFS includes, in particular:	
<ul style="list-style-type: none"> - prudent macroeconomic forecasts; - baseline revenue and expenditure projections for the state and for the other government entities; - a description of permanent fiscal measures, their timing and quantification; - annual spending ceilings for each ministry and fiscal targets for other government entities through 2015; - post-measures fiscal projections for general government in line with the deficit and debt targets; - longer-term debt projections based on prudent macroeconomic and fiscal projections, and privatisation plans. 	
The MTFS provides for fiscal consolidation measures as described in Annex 1.	

<p><i>Budget implementation</i></p> <p>Government rigorously implements the budget for 2011, including supplementary measures. Government stands ready to define and enact additional measures if needed to respect the budgetary ceilings established in Council Decision 2010/320/EU. [continuous]</p>	
<p>The Ministry of Finance ensures tight supervision of expenditure commitments by the government departments, including extra-budgetary funds, the public investment budget, social security funds and hospitals, local governments and state-owned enterprises, and effective tax collection, to secure the attainment of the programme quantitative criteria (Article 1 (2 and 3) of Council Decision 2010/320/EU, as amended, and Table 2 of the MEFP). [continuous]</p>	<p>Partially observed.</p> <p>Given deviations in budgetary implementation, the Government has announced new austerity measures. However, projections indicate that the 2011 deficit ceiling will be exceeded.</p>
<p>Government will adopt and implement the budget for 2012 and subsequent years in line with the MTFs, this memorandum, and Council Decision 2010/320/EU.</p>	<p><i>Not yet applicable.</i></p>
<p>STRUCTURAL FISCAL REFORMS</p>	
<p><i>Asset management and privatisation</i></p>	
<p>Government privatises assets worth at least EUR 390 million, and adopts a privatisation programme [Q2-2011] with the aim of collecting at least EUR 15 billion by end-2012, and at least EUR 50 billion by end-2015</p> <p>Proceeds from privatisation of financial and non-financial assets are to be used to redeem outstanding medium- and long-term debt and do not substitute fiscal consolidation efforts. When restructuring state-owned enterprises with a view to preparing them for privatisation, specific attention will be given to a timely clearance of state aid issues. [continuous]</p>	<p>Partially observed.</p> <p>The target for the collection of privatisation proceeds until end July has been achieved through the sale of 10 percent of the share capital of the telecommunication company OTE.</p> <p>However, the performance criterion for end-September has not been met, while projections suggest the end-December 2011 target (EUR 5 billion) will not be met either.</p>
<p>Government privatises assets (listed and non-listed companies, concessions and real estate) to collect receipts in line with [Annex 3]. [continuous]</p>	
<p>A privatisation fund with sound governance is established to accelerate the privatisation process and guarantee its irreversibility and professional management [Q2-2011]</p>	<p>Observed.</p> <p>The <i>Hellenic Republic Asset Development Fund (HRADF)</i> has been established by Law 3986/2011.</p>

Government publishes an inventory of state-owned assets, including stakes in listed and non-listed enterprises and commercially viable real estate and land. [Q2-2011] The inventory will continue to be updated until end-2011 to ensure it is comprehensive.	Observed. An inventory of state-owned assets is being compiled
A new General Secretariat of Real Estate Development is established with the aim of improving management of real estate assets, clear them of encumbrances and prepare them for privatisation. [July 2011]	Partially observed. The secretariat has been legally established (Law 3965/2011) but no terms of reference on the operational role of this Secretariat has been sent. Its exact role needs to be clearly defined.
Government adopts an act enabling the promotion of investment in the tourism sector (tourist resorts and secondary tourist housing). This act, together with the bill on land use will allow for accelerating the privatisation process of land plots managed by the Greek Tourist Real Estate Agency (ETA). [August 2011]	Observed. The act was included in the Second Implementation Bill, adopted in August 2011
Government adopts the legal framework enabling fast assignment of land use and accelerates state land ownership registration. [Q3-2011]	Not observed.
<i>Fighting waste in public enterprises and other public entities</i>	
Legislation to close, merge and downsize non-viable entities will be tabled by the government [July 2011] and adopted by Parliament. [mid-August 2011] Among other, the legislation will relate to large entities which will be closed with functions transferred accordingly, merged or substantially downsized: KED , ETA , ODDY, National Youth Institute, EOMEX , IGME, (closure), OSK , DEPANOM , THEMIS , ETHYAGE, DIMITRA (merger), ERT (downsizing). [Q3-2011]	Partially observed. Government has adopted legislation that will lead to the closure, merger or downsizing of these entities. However, the savings that are expected from this reform are less than projected in the MTFS.
Government takes measures enabling a reduction in procurement and third party costs in state-owned enterprises, updating tariffs, and creating new business lines, and reduce personnel costs by completing and implementing an employment retrenchment plan. [Q3-2011]	Ongoing.
Excess staff that cannot be removed by the hiring rule of 1 recruitment for 5 exits (1 for 10 in 2011) will be dealt with through non-voluntary redundancies and furlough (labour reserve). This rule is without sectoral exceptions; it also applies to staff transferred from public enterprises to other government entities after screening of professional qualifications by ASEP under its regular evaluation criteria. Staff in the labour reserve will be paid at 60 percent of their wage (excluding overtime and other extra payments) for not more than 12 months, after which they will be dismissed. [continuous starting Q3-2011]	Partially observed. The law that establishes the labour reserve has been adopted in Parliament. However, so far, no public entity has released staff to the labour reserve. The recruitment rules have not been respected.
Tariffs in OASA and OSE and other state-owned enterprises will increase by at least 25 percent. [Q1-2013]	<i>Not yet applicable.</i>

<i>Tax reform and revenue administration reforms</i>	
In line with the recent anti-tax evasion action plan, the Government will step up audits of large-scale tax payers, high-wealth individuals and self-employed, and accelerate the resolution of tax arrears. Progress will be monitored by quantitative indicators. [continuous]	
To simplify the tax system, improve tax administration, and achieve fairer taxation, Government -broadens the personal income tax base by limiting the application of the basic allowance, introducing a ceiling to deductions; [July 2011] -moves non-basic goods and services (restaurants and bars) from the VAT reduced rate to the standard rate; [July 2011] -widens the property tax base and increases rates; [July 2011] -reduces investment-related tax expenditure. [ministerial decision in July 2011]	Observed. Included in Law 3986/2011.
To avoid that measures to increase revenue translate into additional spending by local government, Government introduces mechanisms to adjust revenue-sharing agreements. [Q3-2011]	Observed.
To advance the reforms of revenue administration, Government will -prepare a strategic plan for medium term reforms [July 2011] , setting the priorities and timeline for reform of the tax administration, including adopting risk management approaches, establishing a large taxpayer unit, reshaping tax audit, debt collection, and administrative dispute resolution and introducing taxpayer services.	Observed.
-establish a central directorate general for debt collection, and a large-scale tax payers unit. [Q3-2011]	Partially observed. The central directorate for debt collection has been established, including the approval of the organisational structure, appointment of director and start of hiring staff. The large-taxpayer unit is expected to be operational by end October.
-overhaul the administration into a more modern functionally-based organization including the work of the 5 task forces which have designed short-term anti-tax evasion action plans, and identified barriers to effective administration that need to be removed. [Q3-2011]	

-implement the recently announced anti-tax evasion action plan. [continuous]	Ongoing.
-remove barriers to effective tax administration by implementing the key reforms of the new tax law, including reassessing tax auditors' qualifications and hiring new auditors by Q3-2011 .	
-make operational the newly established arbitration agency and set up an independent fast track administrative dispute resolution process to deal rapidly with large dispute cases (i.e. within 90 days). [Q3-2011]	
-merge, transfer competences and close 200 local tax offices identified as inefficient, starting by Q3-2011 , completed by Q4-2011	Not observed. Because of IT-related constraints, the number of local tax offices to be merged is being reduced to around 31.
To speed up judicial appeals, the government has created the possibility of dedicated court chambers for tax cases, which are expected to be operational by end-September 2011 .	Ongoing.
The government will adopt further measures to simplify the tax system, broaden bases and reduce tax rates in a fiscally-neutral manner. This relates to the personal income tax, corporate income tax and VAT. [September 2011]	Delayed. This reform is postponed to end-year, to ensure growth-enhancing changes in the tax structure and revenue neutrality.
<i>Public financial management reforms</i>	
Government clears payment arrears accumulated until end-2010 and ensures that no payment arrears are accumulated from Q3-2011 on. To strengthen expenditure control, Government	Not observed By end-August, the stock of arrears coming from 2010 and earlier years amounted to 6.5 billion. From 1 January 2011 to 31 August 2011, the stock of arrears owed by the states and hospitals increased by 1.2 billion.
-adopts a decision specifying the qualification and responsibilities of accounting officers to be appointed in all line ministries with the responsibility to ensure sound financial controls; [July 2011]	Observed. The decision has been adopted with circular n. 2/46369/0004 (15 July 2011).

-appoints financial accounting officers; [July 2011]	Ongoing. Interim accounting officers have been appointed. Permanent officers are expected to be appointed by end-November.
-accelerates the process of establishing commitment registries. It will make operational registries covering the whole general government (except the smallest entities); [July 2011]	Partially observed. Commitment registry is operational in each mine ministry but not yet in all the other government entities. Fiscal reporting has improved significantly in terms of coverage but the quality of reported data can be improved.
-undertakes inspections in the several ministries and general government entities with the largest arrears, to ensure the application of registers. Inspections cover entities accounting for at least 75 percent of arrears; [July 2011]	Observed. Inspections have been carried out. The main findings are that outside the central government, some entities are not fully complying with the new fiscal reporting standard of quality...
-creates general directorates for financial services in each ministry. [Q3-2011]	Observed with delays The organizational plan for the new directorates of financial services has been completed and approved. Line ministries will be obliged to adopt and implement the new plan by end-November.
<i>To modernise public administration</i>	
<i>Functional reviews</i>	
Government assesses the results of the first phase of the independent functional review of central administration, including operational policy recommendations. These recommendations should determine how to achieve a more streamlined and effective public service, define clear responsibilities and command lines of ministerial departments, eliminating overlapping competences, and improving inter- and intra-mobility. [Q2-2011]	Delayed. The report prepared by the OECD is available. The assessment of the results is ongoing, through the preparation of an action plan.
The functional review of existing social programmes is finalised. [Q3-2011]	Ongoing. The draft report prepared by the OECD is ready and now being reviewed.

<p>Government assesses the results of the second and final phase of the independent functional review of central administration. Government adopts legislation and measures to implement the operational recommendations of the first phase of the functional review of public administration at central level and of the full review of existing social programmes. [Q3-2011]</p>	<p>Delayed. The assessment will depend on the agreement on the action plans for the central administration and the social programmes, respectively.</p>
<p>Government assesses the results of the second and final phase of the independent functional review of central administration [Q4-2011]</p>	<p><i>Not yet applicable.</i></p>
<p><i>Public sector wages and human resource management</i></p>	
<p>Government finalises a medium-term staffing plan for the period up to 2015 in line with the rule of 1 recruitment for 5 exits (1 for 10 in 2011). The plan will include tighter rules for temporary staff, cancellation of vacant job post and reallocation of qualified staff to priority areas and takes into account the extension of working hours in the public sector. [July 2011]</p>	<p>Not observed. The rule of 1 recruitment for 5 exits (1 for 10 in 2011) is official government policy and it was enshrined in law. The staffing plans that would contribute to the prepare the reallocation of staff have not been prepared. Given the number of exits in 2010 (53 336), the 1-for-10 rule would allow 5 333 recruitments during the whole year 2011. However, in the first and second quarters 2011, the number of hirings is estimated to have been 10 862.</p>
<p>A detailed action plan with a timeline to complete and implement the simplified remuneration system is presented, in line with private sector wages, achieving a reduction in the total wage bill. This plan is based on the results of the report published by the Ministry of Finance and the Single Payment Authority. The legislation for a simplified remuneration system will be introduced in Parliament by July 2011 and phased in over 3 years. Wages of state-owned enterprises employees will be in line with the new wage grid for the public sector.</p>	<p>Observed with delay. The bill that implements the simplified remuneration scheme has been tabled in Parliament at the beginning of October and is expected to be adopted shortly.</p>
<p>Publication of monthly data on staff movements (entries, exits, transfers among entities) of the several government departments commences. [July 2011]</p>	<p>Partially observed. Quarterly data on staff movements are available.</p>
<p><i>Public procurement</i></p>	
<p>Legislation is adopted to establish the Single Public Procurement Authority (SPPA) with the mandate, objectives, competences, powers and schedule for entry into force, in line with the Action Plan agreed with the European Commission in November 2010. [July 2011]</p>	<p>Observed. Law 4013/2011 setting up the Central Public Procurement Authority was adopted by Parliament on 6 September .</p>

<p>Government launches the development of an e-procurement IT platform and sets intermediate milestones in line with the action plan. This includes testing a pilot version (agora.gov.gr), availability of all functionalities for all contracts and phasing-in of the mandatory use of e-procurement system for supplies and services. [July 2011], Works contracts will also be added to the e-procurement platform, promptly.</p>	<p>Observed, with delay.</p> <p>The contract for the development of an e-procurement IT platform was signed on 5 October 2011. Some functions, such as the e-auctioning system will be available by January 2012, whereas all applications of the platform are expected to be fully operational by October 2012.</p>
<p>A thorough review of the system of redress against award procedures and the role to confer to the SPPA is carried out, in agreement with the European Commission. [Q3 2011]</p>	<p>Ongoing.</p> <p>The information provided so far is not comprehensive and does not have sufficient degree of breakdown. The Greek authorities committed to provide a thorough study on this issue by the end of October 2011.</p>
<p>Government undertakes a review identifying areas to increase the efficiency of the public procurement system outside the SPPA, as specified in the Action Plan. The review includes conclusions and actions in agreement with the European Commission. [July 2011]</p>	<p>Ongoing.</p> <p>A first report assessing the Greek public procurement system and the place of the SPPA within this system prepared by the Greek EU economic law centre (MOPADIS) was submitted to the Commission at the end of August 2011. Conclusions and actions need to be developed in cooperation with the European Commission.</p>
<p>Government issues decisions</p> <p>-to provide for the institution and establishment of positions for the SPPA's personnel, as well as for the organization of human resources and services of the Authority in accordance with the provisions of the law on the SPPA</p> <p>-to appoint the members of the SPPA. [Q3-2011]</p>	<p>Ongoing.</p> <p>The Greek Government has communicated that drafts of these Ministerial Decisions should be ready by end-October 2011.</p>
<p>The SPPA starts its operations with the necessary resources to fulfil its mandate, objectives, competences and powers as defined in the law on the SPPA and the Action Plan agreed with the European Commission in November 2010. [January 2012]</p>	<p><i>Not yet applicable.</i></p>
<p>The e-procurement framework is fully operational, and a common website is created for the publication of all procurement procedures and outcomes. [Q2-2012]</p>	<p><i>Not yet applicable.</i></p>

To complete the pension reform

The National Actuarial Authority (NAA) continues the submission of long-term projections of pension expenditure up to 2060 under the adopted reform. The projections shall encompass the main supplementary (auxiliary) schemes (ETEAM, TEADY, MTPY), based on comprehensive data collected and elaborated by the NAA. [Q2-2011]The projection will be peer-reviewed and validated by the EU Economic Policy Committee and the European Commission, ECB, and IMF staff. For the remaining supplementary schemes, the same procedure is followed. [Q3-2011]

The list of heavy and arduous professions is revised and its coverage is reduced to no more than 10 percent of employment. The new list of difficult and hazardous occupations (Law 3863/2010) applies with effect from 1 August 2011 to all current and future workers.

Government proceeds with an in-depth revision of the functioning of secondary/supplementary public pension funds, including welfare funds and lump-sum schemes. The aim of the revision is to stabilise pension expenditure, guarantee the budgetary neutrality of these schemes, and ensure medium- and long-term sustainability of the system. The revision achieves:

- a further reduction in the number of existing funds;
- the elimination of imbalances in those funds with deficits;
- the stabilisation of the current spending at sustainable level, through appropriate adjustments to be made from 1 January 2012;
- the long-term sustainability of secondary schemes through a strict link between contributions and benefits. [Q3-2011]

Ongoing.

The NAA is producing long-term projections for the main supplementary pensions. The actuarial studies for all supplementary pensions and Pension projections for main and supplementary pension funds are to be submitted to the AWG by 25 October 2011 to be peer reviewed in November.

Ongoing with delays.

A Committee has analysed the criteria by other EU countries to classify professions as hazardous and has reviewed the current list in Greece proposing the removal of various professions from the list. The first part of the new list is to be published by end-October 2011. Authorities indicated that the list of hazardous professions would correspond to less than 9 percent of employment.

The government is waiting for the completion of the actuarial studies for the supplementary pension funds to start the legislative process of reforming supplementary pensions. The legislative process is to be finalised by the end of the year and new rules should be in place from 1 January 2012. In the meantime, the government is introducing cuts in the main, auxiliary and lump sum pensions,

<p>The reform of the secondary/supplementary schemes is designed in consultation with European Commission, ECB and IMF staff, and its estimated impact on long-term sustainability is validated by the EU Economic Policy Committee. The parameters of the new secondary notional defined-contribution system ensure long-term actuarial balance, as assessed by the NAA. [legislation: Q3-2011; implementation: Q1-2012]</p>	
<p>Government identifies the schemes for which lump sums paid on retirement are out of line with contributions paid, [Q3-2011] and adjusts the payments. [Q4-2011]</p>	<p><i>Not yet applicable.</i></p>
<p>The reform contributes to achieve the overarching target of reducing the overall (basic, contributory, supplementary and any other related scheme, including lump sums at retirement) increase of public sector pension spending, over the period 2009-60, to under 2.5 percentage points of GDP. If the projections by the NAA show that, even after the reforms of the supplementary schemes, the projected increase in the total public pension expenditure exceeds the limit of 2.5 percentage points of GDP over 2009-60, Government revises also the main parameters of the pension system provided by Law 3863/2010. [Q4-2011]</p>	
<p>The Health Committees set up by Law 3863/2010 will start operating the planned revision of disability status and produce a first quarterly report of its activities by end-December 2011. The objective is to reduce the disability pensions to not more than 10 percent of the overall number of pensions. For this purpose, the definition of disability and respective rules will be revised by end-August 2011.</p>	<p>Ongoing with delays.</p> <p>After one year since the law was enacted, a single centre for certification of disability will start operating as of September 2011, replacing a large number of committees. This is complemented by an updated definition of disability and the use of electronic registration of beneficiaries. The share of disability pensions is currently 14% of all pensions but authorities expect it to go down to 10% in the coming years to reach less than 8% in 2020.</p>
<p>Government implements the reform of the secondary/supplementary pension schemes, by merging funds and starting the calculation of benefits on the basis of the new notional defined-contribution system. Government freezes nominal supplementary pensions and reduces the replacement rates for accrued rights in funds with deficits, based on the actuarial study prepared by the NAA. In case the actuarial study is not ready, replacement rates are reduced, starting from 1 January 2012, to avoid deficits. All funds set up a computerised system of individual pension accounts. [Q1-2012]</p>	<p><i>Not yet applicable.</i></p>
<p>The Bank of Greece commits not to grant pension privileges to its staff and to revise the main parameters of its pension scheme to align them with those of IKA.</p>	

<i>To modernise the health care system</i>	
<p>Government continues to implement the comprehensive reform of the health care system started in 2010 with the objective of keeping public health expenditure at or below 6 percent of GDP, while maintaining universal access and improving the quality of care delivery. Policy measures include the integration of primary healthcare, strengthening central procurement and e-health capacity.</p> <p>Government continues to undertake measures yielding savings on pharmaceuticals of at least EUR 2 billion relative to the 2010 level, of which at least EUR 1 billion in 2011. This will bring average public spending on outpatient pharmaceuticals to about 1 percent of GDP (in line with the EU average) by end 2012.</p>	Ongoing.
<i>Governance</i>	
<p>The provisions of Article 31 and 32 of Law 3863/2010 are implemented. In particular, the Health Benefit Coordination Council (SYSPY):</p> <p>-continues the work on establishing new criteria and terms for the conclusions of contracts by social security funds with all healthcare providers, and all other actions envisaged in Article 32 with the aim of achieving the targeted reduction in spending;</p> <p>-initiates joint purchase of medical services and goods to achieve substantial expenditure reduction of at least 25 percent compared to 2010 through price-volume agreements. [July 2011]</p>	Ongoing.
<p>Government equalises the common benefit package for the insurers of EOPYY, with the aim of full equalisation of benefits and contributions across funds by December 2011, and align the contributions paid by OGA members to those of other members of EOPYY, as envisaged in the medium-term fiscal strategy. [July 2011]</p>	<p>Ongoing.</p> <p>The regulation defining the common package of health services for EOPYY will be adopted in October. The contributions rates will have been equalised across all originating funds except for OGA. For OGA authorities intend to apply a stepwise process of increasing contribution, but a date for a full equalisation is not yet planned.</p>
<p>All necessary steps are taken for EOPYY to initiate its operations as planned 6 months after the adoption of Law 3918/2011, including the appointment of the necessary and qualified staff. To this aim, government sets up a selection committee and devises objective criteria to ensure transparent procedures to govern the selection of the management of EOPYY. Members will be required to be qualified experts of recognised standing in health, management and health administration. [July 2011]</p>	<p>Observed</p> <p>The Members of the Board have been chosen and the administrative staff has been attributed from each of the originating funds to EOPYY.</p>

<p>EOPYY starts operating. The new fund will lead to a substantial reduction of administrative staff of at least 50 percent and of contracted doctors of at least 25 percent as compared to the four originating funds combined. The aim is to achieve a ratio of patients per doctor in line with the European average. [Q3-2011]</p>	<p>Ongoing EOPYY will start its operations as of October 2011. It remains to be verified that the number of doctors contracted by EOPYY is 25% lower than the number of doctors corresponding to the sum of the four originating funds.</p>
<p>Government revokes market regulation 40 (17.12.1990) to abolish the 0.4 percent contribution of wholesale sales prices in favour of the Panhellenic Pharmaceutical Association. [Q3-2011]</p>	<p>Not observed.</p>
<p>An action plan is adopted by early November 2011, based on the final report of the task force (see below), including a timetable for concrete actions. [Q4-2011]</p>	<p><i>Not yet applicable.</i></p>

Pricing of medicines and medical services

<p>Government</p> <ul style="list-style-type: none"> -collects the rebates from pharmacies with sales above a designated threshold against the payment due to pharmacies; it continues to do so on a monthly basis; -publishes the complete price list for the medicines in the market, using a new pricing mechanism based on the three EU countries with the lowest prices. The list will be updated on a quarterly basis. -lifts the caps to the price reductions used when the price list was first introduced. [Q2-2011] 	<p>Ongoing:</p> <p>Social security funds are collecting the rebate, although this may not have materialised in the reduction of profit margin as initially expected.</p> <p>The price list for medicines has been updated on the basis of the three cheapest countries of a sample of 22 EU Member States. The next mission will review if there has been an update.</p> <p>The caps on price reductions used when the first price list has first been introduced have been lifted.</p>
<p>Fees for medical services outsourced to private providers are reviewed with the aim of reducing related costs by at least 15 percent in 2011, and by an additional 15 percent in 2012. [Q4-2011]</p>	<p><i>Not yet applicable.</i></p>
<p>Starting from 2012, pharmacies' profit margins are calculated as a flat amount or flat fee combined with a small profit margin with the aim of reducing the overall profit margin to no more than 15 percent, including on the most expensive drugs as defined in law 3816/2010. [Q1-2012]</p>	<p><i>Not yet applicable.</i></p>

Prescribing and monitoring

<p>Government</p> <p>-publishes binding prescription guidelines for physicians defined by EOF on the basis of international prescription guidelines to ensure a cost-effective use of medicines; [July 2011]</p> <p>-publishes and continuously updates the positive list of reimbursed medicines using the reference price system developed by EOF. [Q2-2011]</p>	<p>Ongoing with delays.</p> <p>A large number of prescription guidelines have been developed and await final agreement by the National Health Council. However, they have not been published and they are not binding. This risks jeopardise their effectiveness.</p> <p>After some delay and following several rounds of consultation and changes, the criteria for the positive price list and reference price system for reimbursement has been published in September 2011. The reference price system and positive list implementation are due to follow.</p>
<p>Government takes further measures to extend in a cost-effective way the e-prescribing of medicines, diagnostics and doctors' referrals to all social security funds, health centres and hospitals. In compliance with EU procurement rules, Government conducts the necessary tendering procedures to implement a comprehensive and uniform health care information system (e-health system). [Q3-2011]</p>	<p>Ongoing.</p> <p>Some e-health project proposals have been approved by the Digital Convergence Programme to be launched in the coming months. Next review will verify if these have been launched.</p>
<p>EOPYY and the remaining social security funds establish a process to regularly assess the information obtained through the e-prescribing system and produce regular reports, at least on a quarterly basis, to be transmitted to the competent authorities in the Ministry of Labour, Ministry of Health, Ministry of Finance and ELSTAT. Monitoring and assessment is carried out through a dedicated common unit under SYSPY. Feedback is provided to each physician at least every quarter and a yearly report is published. Sanctions and penalties will be enforced as a follow-up to the assessment. [Q4-2011]</p>	<p><i>Not yet applicable.</i></p>
<p>Government starts to produce a semi-annual report on the prescription and consumption of medicines and diagnostic tests. This report includes information on the rebate received from pharmacies and from pharmaceutical companies and on the volume and value of medicines. It provides a feedback report to all physicians on their prescription volume and value, at least on a quarterly basis. Monitoring and reporting of misconduct and conflict of interest in prescription behaviour are intensified. [Q4-2011]</p>	<p><i>Not yet applicable.</i></p>

<p>E-prescribing covers all medical acts (medicines, referrals, diagnostics, surgery) in both NHS facilities and providers contracted by EOPYY and the social security funds. Detailed monthly auditing reports are produced by NHS facilities and by providers. [Q1-2012]</p>	<p>Ongoing.</p> <p>The authorities are extending the OAEE and OPAD e-prescription systems to other funds and NHS facilities. Until December 2011, EOPYY will also scan all prescriptions, because the other components – former IKA and OGA- are not ready with e-prescription.. Authorities have prepared a tender specification for full e-prescription system to be launched in early September.</p>
<p><i>Increasing use of generic medicines</i></p>	
<p>Additional measures are taken to promote the use of generic medicines through:</p> <ul style="list-style-type: none"> -compulsory e-prescription by active substance and of less expensive generics when available; -associating a lower cost-sharing rate to generic medicines that have a significantly lower price than the reference price (lower than 60 percent of the reference price) on the basis of the experience of other EU countries; -setting the maximum price of generics to 60 percent of the branded medicine with similar active substance. [Q2-2011] 	<p>Not observed</p> <p>Although generic prices are now at 63% of the originator drug and a new policy sets the price of originator off patent drugs to 75% of the patent price.</p>
<p>Government takes further measures to ensure that at least 30 percent of the volume of medicines used by public hospitals is composed of generics with a price below that of similar branded products and off-patent medicines, in particular by making compulsory that all public hospitals procure pharmaceutical products by active substance. [Q3-2011]</p>	<p>Ongoing.</p> <p>Generic use in hospitals is increasing and constitutes 17% of the whole expenditure on pharmaceuticals in hospitals. There is still a very large variation across hospitals (between less than 10% and more than 60%). The government has launched the first e-tender for drugs by active substance and which can lead to potential large savings and increased use of generics in hospitals</p>
<p>Further measures ensure that at least 50 percent of the volume of medicines used by public hospitals is composed of generics with a price below that of similar branded products and off-patent medicines, in particular by making compulsory that all public hospitals procure pharmaceutical products by active substance. [Q4-2011]</p>	<p><i>Not yet applicable.</i></p>

<p><i>NHS (ESY) service provision</i></p> <p>A plan for the reorganisation and restructuring is prepared for the short and medium term with a view to reducing existing inefficiencies, utilising economies of scale and scope, and improving quality of care for patients. The aim is to reduce hospital costs by at least 10 percent in 2011 and by an additional 5 percent in 2012 in addition to the previous year. This is to be achieved through:</p> <ul style="list-style-type: none"> -adjusting public hospital provision within and between hospitals within the same district and health region; -revising the activity of small hospitals towards specialisation in areas such as rehabilitation, cancer treatment or terminal care where relevant; -increasing the mobility of healthcare staff (including doctors) within and across health facilities and health regions; -preparing a joint management/operation system in districts with more than one hospital, excluding university hospitals. [Q2-2011] 	<p>Ongoing.</p> <p>Joint management of hospitals has been introduced reducing the number of hospital boards down to 81. Joint management is the first step in hospital restructuring and reorganisation. Authorities need now to start concentrating and specialising NHS hospitals and departments, including emergency departments and reviewing and ensuring mobility of staff in order to produce more substantial savings. This has only started and needs to be fully implemented in the coming year possibly using a plan proposed by a dedicated task force.</p>
<p>Government sets up selection criteria to ensure transparent procedures to govern the selection of the management of hospitals. Members will be required to be persons of recognised standing in health, management and health administration. [Q2-2011]</p>	<p>Observed.</p> <p>The open government criteria were used to choose hospital managers.</p>
<p>A system for comparing hospital performance (benchmarking) is set up on the basis of a comprehensive set of indicators. [Q1-2012] Annual reports will be published as of end-2012.</p>	<p><i>Not yet applicable.</i></p>
<p>Wages and human resource management in the health care sector</p> <p>The Ministries of Health and Labour, in cooperation with the Ministry of Finance, prepare the first draft report presenting the structure (age, specialty, grade, regional distribution), levels of remuneration (including fees provisions to consultants and doctors) and the volume and dynamics of employment in hospitals, health centres, and health funds. This report will be updated annually and be used as a human resources planning instrument. The 2011 report will present plans for the allocation and re-qualification of human resources for the period up to 2013 as well as providing guidance for the education system. It specifies a plan to reallocate qualified and support staff within the NHS and health funds. [Q3-2011]</p>	<p>Ongoing.</p> <p>The authorities are collecting the requested data.</p>

<p>Government extends the use of capitation payments of physicians, currently used by OAEE, to all contracts between social security funds and the doctors they contract. The new payment mechanism starts for each new contract renewed in 2011 and for all contracts from 2012. It defines a minimum number of patients per doctor, on the basis of the experience of other EU countries. The new system will lead to a reduction in the overall compensation cost (wages and fees) of physicians by at least 10 percent in 2011, and an additional 15 percent in 2012 as compared to the previous year. [Q3-2011]</p>	<p>Ongoing</p> <p>EOPYY will apply the capitation system to their contracts with physicians. The next review will verify the cost savings involved.</p>
<p><i>Accounting and control</i></p>	
<p>Internal controllers are assigned to all major hospitals. [Q3-2011]</p>	<p>Ongoing</p> <p>EOPYY will apply the capitation system to their contracts with physicians. The next review will verify the cost savings involved.</p>
<p>By Q2-2011, Government starts publishing the monthly report with analysis and description of detailed data on healthcare expenditure by all social security funds with a lag of three weeks after the end of the respective month.</p>	<p>Ongoing.</p> <p>The biggest social security funds provide this information but not all funds report the information monthly and with the same level of detail as the four biggest.</p>
<p>Social security funds start publishing an annual report on medicine prescription. Individual prescription reports serve as regular feedback to each physician (at least semi-annually). The annual report and the individual prescription reports examine prescription behaviour with particular reference to the most costly and most used medicines. [Q1-2012]</p>	<p><i>Not yet applicable.</i></p>
<p><i>Hospital computerisation and monitoring system</i></p>	
<p>The necessary tendering procedures are carried out to develop the full and integrated system of hospitals' IT systems. [Q3-2011]</p>	<p>Ongoing.</p> <p>Several projects have been agreed by the Digital Convergence programme and tenders need now to be launched.</p>
<p>The Ministry of Health completes the programme of hospital computerisation. Building on the web-based platform ESY.net, it finalises the process of centralisation of information. The Ministry of Health, through a dedicated service/unit, collects and scrutinises data and produces monthly and annual reports, which are published. [Q2-2011]</p>	<p>Ongoing</p> <p>ESY.net is functioning and a dedicated unit in the Ministry of Health centralises financial and activity data. However, data for some hospitals is still provided through excel sheets. Improving data reporting requires improvements in hospital ICT systems.</p>
<p>Further measures are taken to improve the accounting, book-keeping of medical supplies and billing systems, through:</p>	<p>Ongoing</p> <p>The process of hospitals computerisation is ongoing but a small number</p>

<p>-finalising the introduction of double-entry accrual accounting systems and the regular annual publication of balance sheets in all hospitals;</p> <p>-the calculation of stocks and flows of medical supplies in all the hospitals using the uniform coding system for medical supplies developed by the Health Procurement Commission (EPY) and the National Centre for Medical Technology (EKEVYL) for the purpose of procuring medical supplies;</p> <p>-timely invoicing of treatment costs (no later than 2 months) to Greek social security funds, other EU countries and private health insurers for the treatment of non-nationals/non-residents. [Q4-2011]</p>	<p>of hospitals (10) still do not have adequate ICT systems. See previous point.</p> <p>Hospital are slowly using the uniform coding and observe.net has been put in place to monitor hospital use of supplies.</p> <p>Invoicing times have been reduced but the process is still cumbersome.</p>
<p>The programme of hospital computerisation allows for a measurement of hospital and health centres activity. Government defines a core set of activity and expenditure indicators in line with Eurostat, OECD and WHO health databases. ELSTAT starts providing data in line with the System of Health National Accounts (joint questionnaire collection exercise). [Q4-2011]</p>	<p><i>Not yet applicable.</i></p>
<p>The programme of hospital computerisation allows for the setting up of a basic system of patient electronic medical records. [Q4-2011]</p>	
<p>In a group of hospitals, Government pilots the set of DRGs (diagnostic-related groups) developed, with a view to developing a modern hospital costing system for contracting (on the basis of prospective block contracts). To support the development of DRGs, the government develops clinical guidelines. [Q4-2011]</p>	<p>Ongoing: DRGs have been developed for the Greek context on the basis of German and Australian DRGs and are being piloted.</p>
<p><i>Centralised procurement</i></p>	
<p>Government will move towards centralised procurement of pharmaceuticals and medical goods for the NHS through the Supplies Coordination Committee with the support of the Specifications Committee, using the uniform coding system for medical supplies and pharmaceuticals. [Q1-2012]</p>	<p>Ongoing: Several tenders have been launched including a recent e-tender for drugs. The process needs now to be extended to other drugs and medical supplies and to all hospitals.</p>

Independent task force of health policy experts

<p>The independent task force of health policy experts produces, in cooperation with the European Commission, ECB and IMF, a first draft of its policy report, with specific recommendations on policies to be implemented. The report and policies proposals cover the following areas:</p> <ul style="list-style-type: none"> -health system governance to reduce the fragmentation of the system; -financing: pooling, collection and distribution of funds; -harmonisation of health packages across funds; -service provision and incentives for providers including: <ul style="list-style-type: none"> -integration between private and public provision; -primary care vis-à-vis specialist and hospital care; -efficiency in the provision of hospital services; -pharmaceutical consumption; -human resources; -public health priorities, health promotion and disease prevention; -data collection, health technology assessment and assessment of performance; -expenditure control mechanisms. [Q2-2011] 	<p>Ongoing with delays</p> <p>The Task Force is working on the 1st draft of the final report which will be delivered by end-October 2011 and the final report which it will deliver by end-November 2011. The delays is mainly related to the change of Chairman.</p>
<p>The report will provide preliminary quantitative targets in the fields above, in order to contribute to keep public health expenditure --constant at, or below, 6 percent of GDP. The task force of health policy experts produces the final comprehensive policy report, with specific recommendations on policies to be implemented. [Q3-2011]</p>	
<p>On the basis of this report, the Government adopts an action plan by October 2011, including a timetable for concrete actions.</p>	
<p>The taskforce produces an implementation report, revising the policies implemented so far. [Q1-2012]</p>	<p><i>Not yet applicable.</i></p>

FINANCIAL SECTOR REGULATION AND SUPERVISION	
Government transfers, each quarter, EUR 1 000 million to a dedicated government account opened by the General Accounting Office. Funds from this account are regularly released to the Hellenic Financial Stability Fund to ensure the latter keeps a cash balance of EUR 1 500 million and if programme reviews of bank capital suggest that the resources are necessary. The release of the funds is subject to agreement by the European Commission, ECB and IMF staffs.	Observed.
The Bank of Greece has developed a supervisory watch list for weak insurance companies and completed comprehensive on-site inspections. It has participated in the EIOPA stress tests and uses its supervisory powers to deal with firms which have not passed the stress test.	
Legislation establishing a bank resolution framework, including a revision of the HFSF law, is adopted by the Parliament and enacted.	
The Bank of Greece completed the quarterly forward looking profitability assessment in the context of its regular Pillar II reviews.	
The capital increase of ATE is completed.	Partially observed. Due to the length and complexity of procedures some banks have not yet completed the required actions.
The Bank of Greece will require the banks whose capital base has fallen short of regulatory requirements to take appropriate actions via capital injections or restructuring. Should it include the involvement of other local financial institutions, the Bank of Greece will submit a financial impact analysis and legal opinion.	
The Bank of Greece transfers staff with prerequisite specialist skills into the supervision department. It will also consider requesting long-term technical assistance to be resourced from other European supervisory authorities.	Partially observed. Strengthening of the supervision function is ongoing. Contacts have been established with the Central Bank of Ireland.
FSF is adequately staffed.	Partially observed. Top management is adequately staffed. The number of lower level employees are, however, still not adequate. Six vacancies have been published.
The Bank of Greece and the HFSF complete a memorandum of understanding to further strengthen their cooperation, including sharing of appropriate supervisory information.	Partially observed. Legal changes have been passed enabling signature of the memorandum.

The Bank of Greece commits to reduce remuneration of its staff in light of the overall effort of fiscal consolidation.	Partially observed. A reduction of about 4 percent in the wage bill – with no individual wage cuts was achieved by the Bank of Greece in 2010.
Government tables legislation that places all registered banks' employees under the same private sector status, regardless of the bank ownership.	Not observed.
To support banks in their effort to restructure operations, Government takes steps to limit bonuses and to eliminate the so called 'balance-sheet premium,' or other equivalent measures.	
GROWTH-ENHANCING STRUCTURAL REFORMS	
<i>To strengthen labour market institutions:</i>	
Government reforms legislation on fixed-term contracts (including by establishing specific fixed-term contracts for youth at sub-minima wages) and on working-time management, and simplifies the procedure for the creation of firm-level trade unions. [Q2-2011]	Observed. Legislation was passed in July 2011.
Government adapts legislation on tackling undeclared work to require the registration of new employees before they start working. [July 2011]	Observed. Legislation was passed in July 2011.
The reform to strengthen the Labour Inspectorate is completed, with the appropriately qualified staff. Quantitative targets on the number of controls to be executed are set for the Labour Inspectorate. A pilot study is implemented to verify the favourable financial net impact on the overall social security budget of a discount of up to 10 percent on social contributions for those enterprises introducing the labour card. The pilot study covers a limited scope of firms (maximum 100), over a short period of time (maximum four months). [Q3-2011]	Not observed. The economic pilot study has not yet been prepared.

<p>Government promotes, monitors and assesses the implementation of the new special firm-level collective agreements. It ensures that there is no formal or effective impediment to these agreements and that they contribute to improve the adaptability of firms to market conditions, with a view to create and preserve jobs and improve the firms' competitiveness, by aligning wage developments with productivity developments at firm level, thereby promoting competitiveness and creating and preserving jobs. It provides a report on its assessment. Any other amendment to the law on sectoral collective bargaining is adopted before end-July 2011.</p>	<p>Partially observed.</p> <p>Until October 2011, ten special firm level collective agreements (SFLCAs) have been signed. The procedure according to which the Labour Inspectorate provides an opinion on each new SFLCA has effectively blocked the acceleration of procedures.</p> <p>No complete report has been made public, and no further amendment to the law has been tabled.</p>
<p>An assessment on the effectiveness of the Labour Inspectorate law will be made six months after its implementation. Should the law prove ineffective, an appropriate amendment will be adopted. In particular, any wider-scale application of a discount of up to 10 percent on social security contributions for those enterprises introducing the labour card will be conditional on the pilot study showing sufficient evidence of a favourable financial impact of the discount on the overall social security budget. [Q4-2011]</p>	<p><i>Not yet applicable.</i></p>
<p><i>To improve the business environment and enhance competition in open markets</i></p>	
<p><i>Regulated professions</i></p>	
<p>In the implementation of Law 3919/2011, restrictions to be reinstated consider the need to promote competition and take into account international best practice. Government consults widely before the adoption of these restrictions. [Q2-2011]</p>	<p>Not observed.</p> <p>A Presidential Decree (for court clerks) was issued during the four months' transitory period provided for in Chapter A of Law 3919/2011.</p>
<p>A Ministerial Decision is issued setting the value of a transaction above which the notaries' pro rata fee for drafting contracts is the maximum permissible fee. For transactions below this maximum value, pro rata fees are set at successively decreasing rates in inverse proportion to the graduated increase, with the starting fee, ending fee and the number of tranches set so as to ensure a sharp reduction of the average fee by, at least, 50 percent. The Ministerial Decision also lowers fees for company creation, for copies and for additional pages. [Q3-2011]</p>	<p>Not observed.</p> <p>A Ministerial Decision on notaries' fees was issued in August 2011. The Decisions provides for a regressive scale of <i>pro rata</i> fees, leaving the status quo virtually unchanged –i.e., there is a very small reduction in pro rata fees below EUR 2 billion (of 4 percent compared to the previous system), a tranche capturing a sizeable share of notaries transaction. In addition, the Decision does not reduce the fees for copies and for additional pages.</p>
<p>For the legal profession, Government issues a Presidential Decree revising the percentages applicable to the reference amounts (Article 96(2) of the Code of Lawyers, as amended), which sets prepaid amounts for each procedural act or court appearances (i.e., it sets a system of prepaid fixed/contract sums for each procedural act or appearance by a lawyer which is not linked to a specific 'reference amount'). [Q3-2011]</p>	<p>Not observed.</p> <p>This Presidential Decree has not been issued, and no draft of it has been presented.</p>

<p>Government screens the laws and other regulations of the professional chambers to identify rules on pricing, on access to, and exercise of, the profession that are against Law 3919/2011, EU law and competition rules. [July 2011]</p>	<p>Observed.</p> <p>The government has reported that no contradictions were found with EU law / competence rules. The Commission has given examples of regulations of lawyers and engineers that could be problematic from the point of view of EU law / competition rules. These items are under discussion.</p>
<p>Measures are identified to ensure that providers of services are not subject to requirements which oblige them to exercise a given specific activity exclusively, or which restrict the exercise jointly or in partnership of different activities, except in the circumstances and under the conditions set in the Services Directive. [July 2011]</p>	<p>Not observed.</p> <p>The only restriction reported concern lawyers; however, the restriction does not concern multidisciplinary activities, but shareholding capital requirements.</p>
<p>Government identifies measures to remove complete prohibitions on commercial communications by the regulated professions and to ensure that professional rules on commercial communications are non-discriminatory, justified by an overriding reason relating to the public interest and proportionate. [July 2011]</p>	<p>Not observed.</p> <p>No draft regulations have been reported except a proposal from the Bar Association which contains complete bans on some forms of advertising.</p>
<p>An audit is launched to assess to what extent the contributions of lawyers and engineers to cover the operating costs of their professional associations are reasonable, proportionate and justified. [July 2011]</p>	<p>Not observed.</p> <p>The Technical Chamber of Greece (i.e., professional body for engineers) plans to start the audit in October 2011. There is no information about the plans of the Bar Associations (i.e., professional bodies for lawyers) in this respect.</p>
<p>Government starts screening legislation on the main regulated professions in order to assess the justification and the proportionality of requirements in force reserving certain activities to providers with specific professional qualifications. [July 2011]</p>	<p>Not observed.</p> <p>This screening has not been launched. A clarification of the scope of the screening was send to the Greek government in mid September 2011.</p>

<p>Government publishes a report on the implementation of Law 3919/2011, including</p> <ul style="list-style-type: none"> -the list of professions falling under the scope of the law; -the list of professions exempted from the lifting of restrictions by Presidential Decree and the justifications for such exemptions; -an assessment of whether further measures are needed on the rules on access to, and exercise of the profession and on pricing to align Greek legislation with EU law and competition rules; -a timetable to screen existing legislation and to adopt the necessary changes to the existing specific regulations of the professions (i.e., Presidential Decrees, Ministerial Decisions and Circulars) to make them fully compatible with chapter A of Law 3919/2011, EU law and competition rules. [July 2011] 	<p>Partially observed.</p> <p>The report submitted does not include a timetable to screen existing legislation and to adopt the necessary changes to the existing specific regulations of the professions to make them fully compatible with chapter A of Law 3919/2011. However, the government has committed to complete the screening of all professions and economic activities falling under chapter A of law 3919/2011 by end March 2012, to eliminate inconsistencies with the provisions of that chapter concerning the exercise and the licensing of the profession. This screening will be outsourced.</p>
<p>The said Presidential Decrees, Ministerial Decisions and Circulars are promptly adopted. [Q3-2011]</p>	<p><i>Not yet applicable.</i></p>
<p>Government identifies measures to reinforce transparency in the functioning of professional bodies by requiring them to publish an annual report on their webpage regarding their financial performance and statistics on disciplinary actions in defence of consumers' interests. [Q3-2011]</p>	<p>Partially observed.</p> <p>The Ministry of Infrastructure has reported on the transparency requirements of the Technical Chamber of Greece. There is no information about the plans of other professional associations. In any case, this requirement calls for a horizontal approach, rather than each professional association deciding by themselves on how to comply with the principle of transparency.</p>
<p>Government monitors the implementation of Law 3919/2011 and publishes a study on how effective such a law is in increasing competition and reducing prices. [Q3-2011]. Adjustments to the law with the aim of increasing competition are adopted by Q1-2012.</p>	<p>Partially observed.</p> <p>The Government has commissioned a study to the Centre of Programming and Economic Research (KEPE), i.e., a Greek think tank, to prepare a study on the impact of the law on prices, quality, employment and competition effects. The study will be updated on a quarterly basis, with the first interim reports taking place in December 2011 and the final study presented in August 2012.</p>
<p>Government presents the results of screening of the requirements reserving certain activities to providers with specific professional qualifications for the main regulated professions. [Q3-2011]</p>	<p>Not observed.</p> <p>As of October 2011 the screening referred to in this requirement had not been launched.</p>
<p>All Presidential Decrees needed for the implementation of the law on fast-track licensing procedure for technical professions are adopted. [October 2011]</p>	<p>Ongoing. Four draft Presidential Decrees have been submitted to the Commission Services at the beginning of October 2011.</p>

<p>Government prepares acts by end-2011, to be adopted by Q1-2012, to</p> <ul style="list-style-type: none"> -abolish provisions of the regulations of the professional chambers on access to, and exercise of, the profession and on pricing, that are against Law 3919/2011 and EU law including competition rules (see requirement for Q2 2011). -ensure that providers of services are not subject to requirements which oblige them to exercise a given specific activity exclusively, or which restrict the exercise jointly or in partnership of different activities, except in the circumstances and under the conditions set in the Services Directive. -remove complete prohibitions on commercial communications by the regulated professions and to ensure that professional rules on commercial communications are non-discriminatory, justified by an overriding reason relating to the public interest and proportionate. -reinforce transparency in the functioning of professional bodies (see requirement for Q3-2011). -set up contributions of lawyers and engineers to their professional associations that reflect the operating costs of the services provided by those associations. -simplify the requirements reserving certain activities to the legal and engineering professions that are not justified or proportionate. -tackle any other issues identified in the assessment of the implementation of Law 3919/2011 carried out by the government in Q3-2011. 	<p><i>Not yet applicable.</i></p>
<p>Government requests the Hellenic Competition Commission to issue an opinion of the proposed acts. [Q4-2011]</p>	

Recognition of professional qualifications

<p>All the necessary measures are taken to ensure the effective implementation of EU rules on recognition of professional qualifications, including compliance with ECJ rulings (inter alia, related to franchised diplomas). Government updates information on the number of pending applications for recognition of professional qualifications, and sends it to the Commission.</p> <p>-presents draft legislation amending Law 3328/2005 on the Hellenic Academic Recognition and Information Center and other provisions in order to remove the prohibition to recognise the professional qualifications derived from franchised degrees. Holders of franchised degrees from other Member States should have the right to work in Greece under the same conditions as holders of Greek degrees. [Q3-2011]</p>	<p>Ongoing.</p> <p>Information on the implementation of EU rules on recognition of professional qualifications has been submitted at the end of September 2011. At the same time, the government has provided draft legislation in early October in response to the requirement to recognise franchise degrees for the purposes of accessing the labour market.</p>
<p>Legislation amending Law 3328/2005 is adopted to ensure that holders of franchised diplomas from other Member States have the right to work in Greece, accordingly, under the same conditions as holders of Greek degrees. [Q4-2011]</p>	<p><i>Not yet applicable</i></p>

Services Directive

<p>Government completes the adoption of changes to existing sectoral legislation in key services sectors such as retail (e.g. open air markets and outdoor trade), wholesale (e.g. central markets), agriculture (e.g. veterinary services), employment (employment agencies), and technical services. Government specifies, for any remaining services sector, a timetable for adopting sectoral regulations by end-2011 that ensures full compliance with the requirements of the Services Directive. New regulations should:</p> <ul style="list-style-type: none"> -facilitate establishment by <ul style="list-style-type: none"> -abolishing or amending requirements which are prohibited by the Services Directive; -abolishing or amending unjustified and disproportionate requirements, including those relating to quantitative and territorial restrictions, legal form requirements, shareholding requirements, fixed minimum and/or maximum tariffs and restrictions to multidisciplinary activities. -facilitate the provision of cross-border services, so that providers of cross-border services are required to comply with specific requirements of the Greek legislation only in exceptional cases (when admitted by Articles 16 or 17 of the Services Directive). -provide legal certainty for providers of cross-border services by setting out in the respective (sectoral) legislation which requirements can and which requirements cannot be applied to cross-border services. [Q3-2011] 	<p>Ongoing.</p> <p>Compared to July 2011, fixed minimum tariffs for veterinarians have been abolished. However, the following sector specific legislation is pending /requirements should be abolished: i) legislation providing for the cross border provision of services in organized street markets, for ambulant traders (itinerant/standing) and for providers of exhibitions and of trade fair services; ii) abolition of the requirement that no exhibitions are allowed in Greece during the Thessaloniki International Fair; iii) abolition of the requirement that the provider of exhibitions and of trade fair services cannot exercise other professions; iv) abolition of the economic test for slaughter houses; v) law allowing for secondary establishments of employment agencies after authorisation; abolishing fixed maximum rates for private employment agencies and allowing for the cross border provision of services –with some conditions; vi) law on real estate agents and commercial representatives; etc.</p>
<p>Government ensures</p> <ul style="list-style-type: none"> -that the point of single contact (PSC) distinguishes between procedures applicable to service providers established in Greece and those applicable to cross-border providers (in particular for the regulated professions). [July 2011] -adequate connection between the PSC and other relevant authorities (including professional associations). [July 2011] 	<p>Ongoing.</p> <p>The Authorities have reported that as of end Q3 2011 there were 163 procedures available online. These procedures are only applicable for the establishment in Greece. For cross border provision of services, the situation is complicated, as the Greek legislation does not distinguish between establishment and cross border provision.</p> <p>Connection with other authorities, such as with the Ministry of Education for the recognition of professional qualifications, is not available.</p>

<p>The online completion of procedures covers, at least, the procedures in the distribution services, tourism, education and construction sectors as well as in food and beverage services, services of the regulated professions, real estate services, and business services. [July 2011]</p>	<p>Ongoing. Tourism is the area where progress with the simplification of the authorisation schemes and access via the Point of Single Contact is most advanced.</p>
<p>The PSC is fully operational and the completion of procedures by electronic means is possible in all sectors covered by the Services Directive. [Q3-2011]</p>	<p>Not observed</p>
<p>Any remaining sectoral regulation is adopted ensuring full compliance with the Services Directive. [Q4-2011]</p>	<p><i>Not yet applicable</i></p>

Sectoral growth drivers

<p>Government publishes reports which analyse</p> <ul style="list-style-type: none"> -the potential contribution of the tourism sector to growth and jobs. It should identify legislative, administrative and other obstacles hindering competition and market entry to the realisation of sector potential. [July 2011] -the potential contribution of the retail sector to price flexibility, growth and jobs. It should identify legislative, administrative and other obstacles hindering competition and market entry to the realisation of sector potential. [July 2011] 	<p>Not observed or <i>not yet applicable</i></p>
<p>Legislation and other structural actions are prepared [Q3-2011] and adopted [Q4-2011] to implement the findings of the reports which analyse the potential contribution of the tourism and retail sectors to growth and jobs, and price flexibility, in the Greek economy.</p>	
<p>Government initiates additional studies on manufacturing, energy, and wholesale sectors with a view to removing remaining obstacles to growth in these sectors. [Q3-2011] On the basis of these studies, Government prepares concrete actions and a timetable for implementation [Q4 2011].</p>	

Business environment

<p>Government presents a plan [Q2-2011] for a "Business-Friendly Greece" to tackle 30 remaining restrictions to business activities, investment and innovation. The plan identifies hurdles to innovation and entrepreneurship - ranging from company creation to company liquidation - and presents the corresponding corrective actions. The plan includes measures, among others, to</p> <ul style="list-style-type: none"> -simplify and reduce costs linked to company publication requirements; -complete the setting-up of the General Commercial Registry (GEMI) by promptly taking measures such as the training of OSS and GEMI users, the completion of the GEMI database, the further development of web services and use of electronic signatures, the interconnection of GEMI to the Chamber's information systems and to the PSC, in order to ensure access to online completion of procedures both for company formation and for any administrative procedures necessary for the exercise of their activities; -simplify location, environmental, building and operating permits;-eliminate distortions in fuel distribution; -develop a "single electronic window" centralizing standardized trade-related information and simplifying the number of documents needed to export; -address restrictions in the transport sector, including the transport of empty containers and of non-hazardous waste; -reduce the complexity of the Code of Books and Records and provide clarity on all categories of non-deducted expenses. 	<p>Partially observed.</p> <p>The action plan has not been published yet. The Authorities are drafting a Business Friendly Greece law, which will include actions, though as of the first week of October, the specific actions were still to be determined. The action plan assessed by the Commission services failed to address the requirement to simplify and reduce costs linked to company publication requirements, a long standing demand of the business community in Greece.</p>
<p>Government starts implementing the "Business-Friendly Greece" action plan. [Q2-2011].</p>	<p>Observed.</p> <p>Despite the fact that the Business Friendly Greece action plan has not been published, some of the actions in it have started to be implemented in the areas of environmental permits for using coastline and beaches, uncap the number of private tanker lorries that an oil company is entitled to acquire, the signature of agreements on double taxation, the reform of the legislation on illegal trading and the simplification of procedures to set up self service pumps.</p>
<p>Government starts screening Ministerial Decision A2-3391/2009 on market regulations as well as any other related regulations. The screening is carried out, in cooperation with the Hellenic Competition Commission, with a view to identifying administrative burdens and unnecessary barriers to competition to be eliminated, and developing alternative, less restrictive, policies to achieve government objectives. [Q2-2011]</p>	<p>Observed.</p> <p>The screening was launched in July and a public consultation process finalized at the end of September.</p>

<p>A comprehensive list of non-reciprocating charges in favour of third parties is presented, identifying beneficiaries and quantifies contributions paid by consumers in favour of those beneficiaries. [Q3-2011].</p>	<p>Not observed</p>
<p>/Legislation is adopted to simplify and shorten procedures to complete studies on environmental impact and to get the approval of environmental terms with a view to reducing the number of projects subject to environmental licensing and the duration of approval procedures to EU average levels. The acceleration of the environmental licensing is assured by committing the authorising authority to proceed with the approval procedure after a specified time period. [July 2011]</p>	<p>Observed. Law 4014/2011 was adopted on 13 September</p>
<p>Government reviews and codifies the legislative framework of exports (i.e., Law 936/79 and Law Order 3999/59), simplifies the process to clear customs for exports and imports and gives larger companies or industrial areas the possibility to be certified to clear cargo for the customs themselves. [Q3-2011]</p>	<p>Ongoing. The government has passed a Ministerial Decision for the simplification of exports procedures. In addition, as of the first week of October 2011, a Ministerial Decision on the terms and conditions for the implementation of simplified procedures for imports was pending for publication.</p>
<p>The obligation of registration with the exporters' registry of the Chamber of Commerce is abolished; such a registration is simplified and becomes voluntary. [Q3-2011]</p>	<p>Ongoing. The government presented in mid-September draft legislation that will eliminate the requirement to register with the exporter's registry and will replace all previous export-related legislation. It also sets the framework for the introduction, by end-2012, of a single electronic export window.</p>
<p>To help attract investment in key sectors, including tourism, energy and real estate, government speeds up the review of private project applications in the pipeline and advances at least one large public sector project. [Q3-2011]</p>	<p>Ongoing. As of the first half of October 2011, four investment projects had been approved by the inter-Ministerial Committee on strategic investments. .</p>
<p>The Decrees necessary for the implementation of the law on fast-track licensing procedure for manufacturing activities and business parks are implemented. [October 2011]</p>	<p>Ongoing</p>
<p>Government introduces legislation to mitigate tax obstacles to mergers and acquisitions such as the non-transfer of accumulated losses, together with the company and the complex computation of 'excessive benefit' (Law 3522/2006, Article 11) in the transfer of private limited companies. [Q3-2011]</p>	<p>Not observed.</p>

<p>An impact assessment is presented to evaluate Law 3853/2010 on simplification of procedures for the establishment of companies in terms of the savings in time and cost to set up a business. [Q3-2011]</p>	<p>Not observed.</p> <p>However, the government has provided information to the Commission services on the estimated savings in company creation derived from the One Stop Shops. In addition, information on the number of companies created via the OSS is regularly updated.</p>
<p>Government submits to the European Commission the draft regulation on the market surveillance service, as provided for in Article 53(2) of the Competition law. [Q3-2011]</p>	<p>Ongoing.</p>
<p>Government provides sufficient resources for accelerating the completion of the land registry, with a view to</p> <ul style="list-style-type: none"> -tendering cadastral projects for additional 4 million rights by December 2011; -digitalising the operations of all mortgage and notaries' offices and conveying all newly registered deeds to the cadastre by 2015; -exclusively-operating cadastral offices for large urban centres by 2015; -establishing a complete cadastral register and exclusively operating cadastral offices nationwide by 2020. [Q4-2011] 	<p><i>Not yet applicable</i></p>
<p>A Ministerial Decision on market regulations is issued following the screening launched in Q2-2011. [Q1-2012]</p>	
<p><i>Transport</i></p>	
<p>Government ensures a quarterly update of the existing business plans of OSE/TRAINOSE and OASA, with detailed monitoring and enforcement mechanisms and including realistic key performance indicators and benchmarks per line of activity. By Q2-2011, OASA Group's merging process is terminated and monitored to ensure the group breaks even.</p>	<p>Observed.</p>
<p>Legislation liberalizing tourist coaches is passed by end-July. Secondary legislation establishing the costs and the time required for issuing new licenses will be adopted by end-September. Such costs will not exceed the administrative costs and the required timing will not exceed 20 business days in total.</p>	<p>Partially observed.</p> <p>Legislation was passed in July, but secondary legislation is pending.</p>

TRAI NOSE breaks even [Q3-2011] and is prepared for privatisation [Q4-2011].	Not observed. It is unlikely that the privatisation of TRAI NOSE will take place by end-year.
Government submits a policy paper, indicating how all regional airports will be merged into groups ensuring that regional airports become economically viable in compliance with state-aid rules, including realistic projections identified by the appointed financial advisors. [Q3-2011] After ensuring that regional airports are economically viable, Government launches an effective transaction strategy leading to their privatisation. [Q4-2011]	Not observed. The policy paper has not yet been prepared.
A report is submitted on the functioning of the regular passenger transport services (KTEL), presenting options for liberalisation. [Q3-2011]	Not observed.
The necessary secondary legislation as foreseen in Law 3887/2010 (Article 14(11)) is adopted, specifying the cost for issuing new road transport operator licences. This cost is transparent, objectively calculated in relation to the number of vehicles of the road transport operator and does not exceed the relevant administrative cost. [Q4-2011]	<i>Not yet applicable</i>
<i>Energy</i>	
Government finalises the remedies to ensure the access of third-parties to lignite-fired electricity generation. [Q2-2011]	Not observed.
Legislation is adopted to award the hydro reserves management to an independent body. [July 2011]	Not observed.

<p>To ensure that network activities are unbundled from supply activities,</p> <p>-the law on the unbundling modalities of the Transmission System Operator (TSO) and the Distribution System Operator (DSO) is adopted, in compliance with the third energy liberalisation package; [July 2011]</p> <p>-the TSO is established as a legal entity [July 2011].</p> <p>All necessary transfers of staff and assets are completed; [Q3 2011]</p> <p>-the DSO is established as a legal entity [July -2011]. All necessary transfers of staff are completed. [Q1-2012]</p>	<p>Partially observed.</p> <p>Parliament adopted law 2011/4001 on 2 August 2011, on the regulatory framework for the operation of electricity and gas energy markets. The law transposes the common rules for the generation, transmission, distribution and supply of electricity and the respective provisions on gas of the third energy package, strengthens the role of the energy regulator (RAE) and regulates the exploration and production of hydrocarbons.</p> <p>For electricity, the TSO and DSO were established as legal entities by decision of PPC's Board of Directors of December 30, 2010. However, the transfers of staff and assets to the TSO have so far not taken place. For gas, there has been no action to set up the TSO as a legal entity.</p> <p>The new energy law contains two provisions -67 (4) and 97 (5)- which seem to ensure that the State will retain the control in DESFA –i.e., the gas TSO- and ADMHE –i.e., the electricity TSO- irrespective of the level of its shareholding. This issue may raise concerns as to its compatibility with the Treaty's freedom of capital movement and the freedom of establishment, as well as eventually harm privatization policy.</p>
<p>All regulatory powers assigned to EU energy regulators in the third energy liberalisation package (licensing, network access, network charges, market monitoring, etc.) are transferred to the Regulatory Authority for Energy (RAE). [July 2011]</p>	<p>Observed.</p> <p>The law transposing the third energy package provides for increased powers of the Greek energy regulator. The focus should now be on implementation of this transfer of powers to the Regulator and on the strengthening of the staff of the Regulator.</p>
<p>Measures are adopted to ensure the independence of RAE, i.e. impartial and transparent nomination of board, management authority with regard to budget and personnel, etc. in line with the third energy liberalisation package. [July 2011]</p>	
<p>Government starts implementing the measures ensuring the access by third parties to lignite-fired electricity generation. [Q3-2011]</p>	<p>Not observed.</p>
<p>Detailed plans are presented for ensuring a maximum market opening as regards the non-interconnected system, covering among others, access of suppliers to the non- interconnected system markets in particular in Rhodes and Crete. Government submits a request for derogation under certain conditions of Art 44 Directive 2009/72 for small isolated systems. [Q3-2011]</p>	<p>Not observed</p>

<p>Hydro reserves are effectively and fairly managed by an independent body. [Q3-2011]</p>	<p>Not observed. This stems from lack of compliance with the requirement on legislation to award hydro reserved to an independent body.</p>
<p>The unbundling of the TSO (for electricity and gas) and DSO (for electricity) is effectively completed. [Q1-2012]</p>	<p><i>Not yet applicable.</i></p>
<p>Government removes regulated tariffs for customers except households and small enterprises (as defined in the second and third energy liberalisation packages). [Q4-2011]</p>	
<p>Further measures are adopted to ensure that the energy component of regulated tariffs for households and small enterprises reflects, at the latest by June 2013, wholesale market prices, except for vulnerable consumers. [Q4-2011]</p>	
<p>Government completes the implementation of the measures to ensure access by competitors of PPC to lignite-fired electricity generation. Third parties can effectively use lignite-fired generation in the Greek market. [Q2-2012]</p>	
<p><i>R&D and innovation</i> Government pursues an up-to-date and in-depth evaluation of all R&D and ongoing innovation actions, including in various operational programmes, and presents a strategic action plan for policies aimed at enhancing the quality and the synergies between public and private R&D and innovation, as well as tertiary education. This action plan identifies a clear timetable for relevant measures to be taken, taking the budgetary impact into account and harmonising these actions with other relevant initiatives in these areas, in particular the investment law. [Q4-2011]</p>	

Better regulation

Government adopts legislation to improve regulatory governance covering in particular:

- the principles of better regulation;
- the obligations of the regulator for the fulfilment of those principles;
- the tools of better regulation, including the codification, recast, consolidation, repeal of obsolete legislation, simplification of legislation, screening of the entire body of existing regulation, ex-ante and ex-post impact assessments and public consultation processes;
- the transposition and implementation of EU law and exclusion of gold plating;
- the setting-up of better regulation structures in each ministry as well as the creation of a Central Better Regulation unit;
- the requirement that draft laws and the most important draft legislative acts (Presidential Decrees and Ministerial Decisions) are accompanied by an implementation timetable;
- electronic access to a directory of existing legislation and an annual progress report on Better Regulation.

[July 2011]

On impact assessments, legislation provides that

- implementing legislation with potentially large significant impact is also subject to the requirement to produce an impact assessment;
- impact assessments address the competitiveness and other economic effects of legislation by making use of the Commission Impact Assessment guidelines and the OECD Competition Assessment toolkit;
- the Central Better Regulation Unit can seek the opinion of other ministerial departments and independent authorities for regulations that fall under their respective competences so as to improve the quality of impact assessment;
- an independent authority and the Central Better Regulation Unit carry out quality checks of impact assessments.
- the Central Better Unit consults the Hellenic Competition Commission when formulating and drafting the guidelines to be implemented by the ministries' better regulation units;
- impact assessments are published.

Observed.

The draft law was introduced in Parliament. The draft law does not include recast of legislation as a better regulation tool, nor does it provide for the publication of an annual report on better regulation. On impact assessments, the draft law does not provide for an evaluation of the impact assessment by an independent authority.

<p>Government identifies priority areas to codify and simplify existing legislation within the better regulation agenda. [July 2011]</p>	<p>Not observed.</p>
<p>On administrative burden reduction, Government submits a list of 13 selected priority areas to the European Commission that will be subject to measurement. It also sets deadlines for the completion of measurements in each area, for the identification of proposals to reduce burdens and for the amendment of the regulations. This policy initiative should reduce administrative burdens by 25 percent (compared with the baseline year 2008) in the 13 priority areas. [July 2011]</p>	<p>Not observed. The government has not provided information on the 13 selected priority areas, nor about plans to reduce</p>
<p><i>To raise the absorption rates of structural and cohesion funds</i></p>	
<p>Legislation is adopted, and immediately implemented, to shorten deadlines and simplify procedures on contract award and land expropriations, including the deadlines needed for the relevant legal proceedings. [Q3-2011]</p>	<p>Not observed.</p>
<p>Government meets targets for payment claims in the absorption of EU structural and cohesion funds set down in the table below. Compliance with the targets shall be measured by certified data. In addition, Government achieves a semi-annual target of submitting 5 major project applications to the European Commission. It provides data on expenditure for non-targeted <i>de minimis</i> state aid measures declared to the European Commission in 2010. [Q2-2011]</p>	<p>Partially observed. The semi annual target of submitting 5 major project applications was met. However, the semi-annual target in the absorption of EU structural and cohesion funds was missed by EUR 478 million. Nevertheless, it is expected that the annual absorption target of €3,350 could still be reached, partly aided by the increase in the co-financing rate. Information on expenditure for non-targeted <i>de minimis</i> state aid measures was also provided.</p>
<p>Government adopts and implements the appropriate acts to ensure the smooth and timely implementation of structural-fund programmes in the framework of the recent local administration reform. [Q2-2011]</p>	<p>Observed.</p>
<p>Government launches an internal pilot web-based monitoring tool of procedures for approval of project proposals and for implementation of public projects. [Q3-2011]</p>	<p>Observed. The application will allow people to follow the implementation of NSRF projects. It will include data on execution of project as well as on expected outcomes.</p>

<p>Government meets targets for payment claims in the absorption of EU structural and cohesion funds set down in Table 1. Compliance with the targets shall be measured by certified data. In addition, Government submits 10 additional major project applications to the Commission, in view of achieving an annual target of submitting 15 major projects. In meeting absorption rate targets, recourse to non-targeted <i>de minimis</i> state aid measures should be gradually reduced. Government provides data on expenditure for non-targeted <i>de minimis</i> state aid measures co-financed by the structural funds in 2011. [Q4-2011]</p>	<p>Partially observed.</p> <p>The payment claims submitted to the EU structural funds in the first half of 2011 were below target.</p> <table border="1" data-bbox="1350 323 2145 815"> <thead> <tr> <th data-bbox="1350 323 1809 389"></th> <th data-bbox="1809 323 2145 389">2011</th> </tr> </thead> <tbody> <tr> <td data-bbox="1350 389 1809 491">European Regional Fund and Cohesion Fund</td> <td data-bbox="1809 389 2145 491"><i>target: 2 600</i></td> </tr> <tr> <td data-bbox="1350 491 1809 557">European Social Fund</td> <td data-bbox="1809 491 2145 557"><i>target: 750</i></td> </tr> <tr> <td data-bbox="1350 557 1809 659">Target of first half of the year</td> <td data-bbox="1809 557 2145 659"><i>target: 1 105</i> <i>outcome: 627</i></td> </tr> <tr> <td data-bbox="1350 659 1809 748">Target of second half of the year</td> <td data-bbox="1809 659 2145 748"><i>target: 2 245</i></td> </tr> <tr> <td data-bbox="1350 748 1809 815">Total annual target</td> <td data-bbox="1809 748 2145 815"><i>target: 3 350</i></td> </tr> </tbody> </table>			2011	European Regional Fund and Cohesion Fund	<i>target: 2 600</i>	European Social Fund	<i>target: 750</i>	Target of first half of the year	<i>target: 1 105</i> <i>outcome: 627</i>	Target of second half of the year	<i>target: 2 245</i>	Total annual target	<i>target: 3 350</i>
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<p>The web-based open-access monitoring tool of procedures for approval of project proposals and for implementation of public projects is fully operational. [Q4-2011]</p>	<p><i>Not yet applicable.</i></p>													
<p>The managerial capacity of all managing authorities and intermediate bodies of operational programmes under the framework of the National Strategy Reference Framework 2007-13 is certified according to the standard ISO 9001:2008 (quality management). [Q4-2011]</p>														
<p>A report is presented on the activities of the task force assessing progress in ensuring the rapid implementation absorption of structural funds, and proposing improvements when necessary. [Q4-2011]</p>														
<p>Government provides an impact assessment of measures since 2010 to accelerate the absorption of structural and cohesion funds adopted since May 2010, and indicates any further measures. [Q4-2011]</p>														

<i>To upgrade the education system</i>	
<p>The independent taskforce on education publishes a detailed blueprint for improvement of the efficiency and effectiveness in the use of resources in the public education system. This blueprint includes concrete policy recommendations that the Ministry of Education takes into account for implementation. [Q2-2011]</p>	<p>Partially observed.</p> <p>The OECD-led taskforce has prepared guidelines on the reform of the education system. The Government has adopted a law on the reform of the tertiary education and is currently drafting a law on the primary and secondary education.</p> <p>No action plan has been submitted.</p>
<p>Governments prepares, and starts implementing, an action plan for the improvement of the effectiveness and efficiency of the education system taking into account the measures recommended by the independent taskforce. [Q3-2011]</p>	
<p>Based on the recommendations of the blueprint and the action plan, the existing legal/institutional framework for primary, secondary and tertiary education will be amended with a view to increasing the efficiency and effectiveness of the education system. The government starts publishing a bi-annual progress report on the implementation of the law on quality assurance in Higher Education. [Q4-2011]</p>	
<i>To reform the judicial system</i>	
<p>To improve the functioning of the judicial system, which is essential for the proper and fair functioning of the economy, and without prejudice to the constitutional principles and the independence of justice, Government:</p> <ul style="list-style-type: none"> -ensures effective and timely enforcement of contracts, competition rules and judicial decisions; -increases efficiency by broadening the skills' base of senior judges to whom court management tasks have been assigned; -speeds up the system by eliminating backlog of courts cases and by facilitating out-of-court settlement mechanisms. <p>Specifically, Government:</p> <ul style="list-style-type: none"> -establishes a work plan for the clearance of the backlog of tax cases in all administrative tribunals and administrative courts of appeal by the end of July 2013, which provides for semi-annual intermediate targets for reducing the backlog by at least 15% by end-2011, 50% by end-July 2012 and 80% by end-2012; [Q2-2011] 	<p>Not observed.</p> <p>No formal work plan established by end-June 2011; however, the Government expects to meet the 15% per cent reduction target by end-December 2011, i.e. reduce the backlog by approximately 27 000 cases, and present the work plan that was initially due by end-June 2011.</p>

<p>-conducts, jointly with an external body of experts, a study of the backlog of cases in all remaining courts, including the Supreme Court and the Supreme Administrative Court, with data available by end-March 2012 and analysis by end-June 2012. [Q2-2011]</p>	<p>Not observed.</p> <p>The external body of experts has not been appointed by end-June 2011; external experts have been approached in August 2011 to assist Government with this task but as of the first half of October 2011 there was no agreement yet from the external experts to undertake this work.</p>
<p>-introduces flanking measures for the bill on the rationalisation and improvement of the administration of civil justice promoting the wide-spread use of e-filing, e-signature and e-tracking of the status of individual cases; [Q3-2011]</p>	<p>Ongoing.</p> <p>Although the implementing legislation for the introduction of e-filing in courts required <i>inter alia</i> in accordance with Articles 9 and 20 of Law 3994 has been delayed, the Government has pledged to offer this facility as soon as possible; The Government expects that e-registration and e-tracking of the status of individual cases will be extended to all courts in the country by end-2013.</p>
<p>-puts in place implementing rules for Law 3898/2010 on mediation in civil and commercial matters; -improves alternative dispute resolution for out-of-court settlement and actively promotes pre-trial conciliation, mediation, and arbitration; [Q3-2011]</p>	<p>Ongoing</p> <p>As the draft implementing rules have been prepared and have been sent to the relevant decision-making bodies, the Government expects that this requirement will be met by end-October 2011. The Government does not intend to promote means of alternative dispute resolution until the implementing rules for Law 3898 have been adopted.</p>
<p>-identifies dormant cases; [Q3-2011]</p>	<p>Ongoing.</p> <p>Government is expected to provide data on dormant cases by end-October 2011.</p>

<p>-reduces the processing time of cases through the adoption of specific additional efficiency measures, including simplifying case registration, rationalizing docket management with a view to allowing the resolution of docketed cases, and by providing computer support to judges in order to allow the issuance of written decisions within two weeks from the judge taking the decision. [Q3-2011]</p>	<p>Ongoing. The Government intends to address these issues and the issue of relieving judges from non-adjudicatory work in a proposal for amendment of the Code of Civil Procedure expected to be adopted by end-year.</p>
<p>-Government adopts measures to ensure that enforcement cases concerning agreements arising from alternative dispute resolution are treated in the courts in the same way as enforcement cases concerning judicial decisions; [Q4-2011]</p>	<p><i>Not yet applicable.</i></p>
<p>-To improve efficiency of courts, Government amends Law 1756/1988 on the organisation of the courts and the situation of court officials, and relevant implementing rules, always respecting the independence of justice, to allow and facilitate the introduction of human resource management measures in courts, such as mobility of court officials, incentives for the efficient administration of courts and continuous management training programmes for court officials with management tasks; [Q1-2012]</p>	

<p>-takes the necessary measures to be able to publish quarterly reports on recovery rates, duration and costs of corporate insolvency and tax cases; [Q4-2011]</p>	
<p>-conducts an assessment of whether the reform of the Code of Administrative Procedure and the enactment of Law 3898/2010 on mediation in civil and commercial matters have delivered the results which the legislation had set out to do; [Q4-2011]</p>	
<p>-increases court registration fees in civil and administrative matters; [Q4-2011]</p>	
<p>-establishes a task force that will design a performance framework for courts with a view to considering links to resource allocation in future revisions of this Memorandum. The task force will develop by September 2012 i) a dependable data management system, a workload measurement system, and a management structure, that is conducive to a more effective, responsible, and accountable judicial management; ii) a fully operational and publicly available database with case data for each court (as well as consolidated data for all courts), giving basic performance data, including number of judges and staff, number of cases (including by case type) and backlogs; iii) a work plan on benchmarking cases for workload measurement, including focusing on delays in case processing, and the types of cases where such delays are most acute. [Q4-2011]</p>	<p><i>Not yet applicable.</i></p>
<p>-Government imposes additional dissuasive measures against non-cooperative debtors in enforcement cases; [Q1-2012]</p>	
<p>-Government broadens the skills' base of court officials to whom court management tasks have been assigned through a continuous management training programme; [Q1-2012]</p>	
<p>-Government opens access to the regulated profession of mediator to non-lawyers in line with the MoU conditionality on regulated professions. [Q1-2012]</p>	

<p>-Government establishes a Task Force, which is broadly representative of the legal community, including independent representatives of the legal professions, to review the Code of Civil Procedure to bring it in line with international best practices on, inter alia, (i) case management, including the possibility of removing dormant cases from court registers, (ii) the execution of decisions and orders to pay, in particular small claims cases with a view to reducing the role of the judge in these procedures, and (iii) enforcing statutory deadlines for court processes, in particular for injunction procedures and debt enforcement and insolvency cases; [Q2-2012]</p>	<p>The Government intends to have a proposal for amendment of the Code of Civil Procedure adopted by end-year; this proposal is likely to cover the enforcement of decisions and orders to pay, in particular small claims cases with a view to reducing the role of the judge in these procedures, and measures to relieve judges from non-adjudicatory work. However, this is without prejudice to the comprehensive review of the Code of Civil Procedure due to commence in the second quarter of 2012.</p>
<p>-Government evaluates the backlog reduction plan of tax cases in all administrative tribunals established in Q2-2011 and takes remedial action in case of deviations to achieve full clearance of the backlog by end-July 2013; [Q3-2012]</p>	<p><i>Not yet applicable.</i></p>
<p>-By end-August 2012, Government presents, based on the study conducted jointly with an external body of experts, an action plan with specific targets for a reduction of the backlog of the cases of the remaining courts of at least 50 per cent by end-July 2013 and starts implementing the action plan. [Q3-2012]</p>	
<p>-The taskforce on the review of the Code of Civil Procedure makes specific recommendations on (i) case management, (ii) the reduction of the role of the judge in the execution of decisions and orders to pay and (iii) on enforcing statutory deadlines for court processes. [Q4-2012]</p>	<p><i>See above.</i></p>

TECHNICAL ASSISTANCE AND REFORM MONITORING

<p>Government sets up a committee to oversee structural reforms, identify where more capacity and technical assistance are required. The committee will appoint project managers for each initiative to be carried out in the various areas (labour market reform, product and service market reform, investment promotion, and judicial reform), establishing clear lines of responsibility and accountability. The committee will also be responsible to develop, utilise, and publish monitoring indicators for each of the key structural reform initiatives, on a quarterly basis. [July 2011]</p>	<p>Not observed.</p>
<p>As a complement to the technical assistance provided by the European Commission and the IMF, Government will request resident long-term technical assistance to be provided by the EU Member States in priority areas, such as health and social security reforms (e.g. e-procurement, e-prescription and IT systems), state enterprises restructuring (e.g. performance reviews), growth-enhancing structural reforms (e.g. labour training), fiscal management (e.g. administrative reorganisation and expenditure monitoring) and taxation (e.g. anti-corruption reforms and audit techniques). [Q3-2011]</p>	<p>Ongoing. The European Commission set up a taskforce dedicated to coordinate the provision of technical assistance to Greece.</p>

PROVISION OF DATA REQUIREMENTS		
<p>Preliminary monthly data on the state budget execution (including breakdown by main categories of revenue and expenditure and by line ministry).</p> <p><i>(Data compiled by the Ministry of Finance)</i></p>	<p>Monthly, 15 days after the end of each month; these data should also be included in subsequent transmissions in case of revision.</p>	<p>Observed.</p>
<p>Updated monthly plans for the state budget execution for the remainder of the year, including breakdown by main categories of revenue and expenditure and by line ministry.</p> <p><i>(Data compiled by the Ministry of Finance)</i></p>	<p>Monthly, 30 days after the end of each month.</p>	<p>Not observed.</p>
<p>Preliminary monthly cash data on general government entities other than the state.</p> <p><i>(Data compiled by the Ministry of Finance)</i></p>	<p>Monthly, 30 days after the end of each month, these data should also be included in subsequent transmissions in case of revision.</p>	<p>Observed.</p>

<p>Monthly data on the public wage bill (of general government, including a breakdown in nominal wage and allowances paid to government employees per line ministry and public entity), number of employees (including a breakdown per ministry and public entities outside the central government) and average wage (including the relative shares of the base wage, allowances and bonuses).</p> <p><i>(Data compiled by the Ministries of Interior and Finance)</i></p>	<p>Monthly, 30 days after the end of each month (starting in June 2010).</p>	<p>Partially observed.</p>
<p>Monthly data on staff: number of employees, entries, exits, transfers among government entities; and from and into the labour reserve, per entity.</p> <p><i>(Data compiled by the Ministries of Interior and Finance)</i></p>	<p>Monthly, 30 days after the end of each month.</p>	<p>Not observed. Greece has provided data on the number of permanent staff at the end of each quarter.</p>
<p>Weekly information on the Government's cash position with indication of sources and uses as well of number of days covered.</p> <p><i>(Data compiled by the Ministry of Finance)</i></p>	<p>Weekly on Friday, reporting on the previous Thursday.</p>	<p>Observed.</p>
<p>Data on below-the-line financing for the general government.</p> <p><i>(Data compiled by the Ministry of Finance)</i></p>	<p>Monthly, no later than 15 days after the end of each month; these data should also be included in subsequent transmissions in case of revision.</p>	<p>Observed.</p>
<p>Data on expenditure pending payment (including arrears) of the general government, including the State, local government, social security, hospitals and legal entities.</p> <p><i>(Data compiled by the Ministry of Finance on the basis of basic data from the several line ministries)</i></p>	<p>Quarterly, within 55 days after the end of each quarter.</p>	<p>Observed Provisional data on accounts payable have been provided for the first time in August 2011.</p>
<p>Data on use of international assistance loans split among following categories: Financial stability fund, escrow account, debt redemption, interest payments, other fiscal needs, building of cash buffer; per quarter and cumulative</p>	<p>Quarterly, by the end of each quarter</p>	<p>Observed.</p>

<p>Data on public debt and new guarantees issued by the general government to public enterprises and the private sector.</p> <p>Data on maturing debt (planned redemptions per month, split between short-term (Treasury bills and other short-term debt) and long-term (bonds and other long-term debt).</p> <p>Data on planned monthly interest outflows.</p> <p><i>(Data compiled by the Ministry of Finance)</i></p>	<p>Monthly, within one month.</p>	<p>Observed.</p>
<p>Data on assets privatised and proceeds collected.</p> <p><i>(Data compiled by the Ministry of Finance)</i></p>	<p>Quarterly</p>	<p>Observed</p>
<p>Data on debt redeemed with privatisation proceeds.</p> <p><i>(Data compiled by the Debt Management Office)</i></p>	<p>Monthly, by the end of each month</p>	
<p>Data on public enterprises: revenue, costs, payroll, number of employees and liabilities (including maturities of public enterprises' debts)</p> <p><i>(Data compiled by the Ministry of Finance)</i></p>	<p>Monthly, within three weeks of the end of each month for the ten largest enterprises. Quarterly within three weeks of the end of each quarter for the other enterprises.</p> <p>Quarterly for the maturities of public enterprises' liabilities.</p>	<p>Observed.</p>
<p>Monthly statement of the transactions through off-budget accounts.</p> <p><i>(Data compiled by the Ministries of Finance and Education)</i></p>	<p>Monthly, at the end of each month.</p>	
<p>Monthly statement of the operations on the special accounts.</p> <p><i>(Data compiled by the Ministry of Finance)</i></p>	<p>Monthly, at the end of each month.</p>	

<p>Report on progress with fulfilment of policy conditionality. <i>(Report prepared by the Ministry of Finance)</i></p>	<p>Quarterly before the respective review starts.</p>	<p>Observed. This report was transmitted on 20 August 2011,</p>
<p>Monthly data on healthcare expenditure by the social security funds with a lag of three weeks after the end of the respective quarter. <i>(Data compiled by the Ministries of Labour and Health)</i></p>	<p>Monthly, within three weeks of the end of each month. Starting with data for January 2011 for IKA, OAEE, OGA and OPAD, and from April 2011 on for the other funds</p>	<p>Observed.</p>

To be provided by the Bank of Greece

Assets and liabilities of the Bank of Greece.	Weekly, next working day.	Observed
Assets and liabilities of the Greek banking system - aggregate monetary balance sheet of credit institutions.	Monthly, 30 days after the end of each month.	Observed
Evolution of the external funding provided by Greek banks to their subsidiaries abroad. ¹	Monthly, 15 days after the end of each month.	Observed
Report on banking sector liquidity situation.	Weekly, next working day.	Observed
Report on the evolution of financial stability indicators.	Quarterly, 30 days after the publication data of each quarter.	Observed
Report on results from the regular quarterly solvency assessment exercise.	Quarterly, 15 days after the end of each quarter depending on data availability.	Observed
Weighted average of Loan-to-value (LTV) ratio for new loans with real estate collateral	Yearly.	Observed

¹ All forms of debt instruments and capital, as well as net deposits provided to subsidiaries abroad.

To be provided by the Hellenic Financial Stability Fund

Detailed report on the balance sheet of the Financial Stability Fund with indication and explanation of changes in the accounts.	Weekly, next working day.	Observed
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Annex 2: Macroeconomic forecast

Table A1: USE AND SUPPLY OF GOODS AND SERVICES (volume)

<i>Annual % change</i>	2010	2011	2012	2013	2014	2015
1. Private consumption expenditure	-3.6	-6.2	-4.3	-0.9	0.6	0.7
2. Government consumption expenditure	-7.2	-8.5	-9.0	-7.0	-4.0	-1.0
3. Gross fixed capital formation	-15.0	-15.9	-3.6	6.3	8.6	8.4
4. Final domestic demand	-6.2	-8.1	-5.0	-0.8	1.2	1.8
5. Change in inventories + net acquisitions of valuables	-0.5	0.0	0.0	0.0	0.0	0.0
6. Domestic demand	-5.7	-7.7	-5.0	-0.8	1.2	1.8
7. Exports of goods and services	4.2	4.8	6.5	6.5	7.0	7.0
7a. - of which goods	5.4	6.9	6.0	6.5	7.1	7.0
7b. - of which services	3.2	3.0	7.0	6.5	7.0	7.0
8. Final demand	-4.2	-5.6	-2.9	0.7	2.4	2.9
9. Imports of goods and services	-7.2	-6.2	-3.2	0.6	2.7	3.0
9a. - of which goods	-10.7	-6.0	-3.2	0.6	2.6	3.0
9b. - of which services	7.0	-7.0	-3.0	0.6	3.0	3.0
10. Gross domestic product at market prices	-3.5	-5.5	-2.81	0.7	2.4	2.9
<i>Contribution to change in GDP</i>						
11. Final domestic demand	-7.0	-9.0	-5.3	-0.8	1.2	1.8
12. Change in inventories + net acq. of valuables	0.6	0.5	0.0	0.0	0.0	0.0
13. External balance of goods and services	3.1	2.9	2.5	1.5	1.2	1.1

Table A2: USE AND SUPPLY OF GOODS AND SERVICES (value)

<i>Annual % change</i>	2010	2011	2012	2013	2014	2015
1. Private consumption expenditure	0.7	-3.4	-3.5	-0.3	1.2	1.3
2. Government consumption expenditure	-12.7	-11.3	-10.8	-6.7	-3.5	-0.4
3. Gross fixed capital formation	-14.4	-14.9	-2.8	6.8	9.0	9.0
4. Final domestic demand	-4.3	-6.5	-4.6	-0.2	1.7	2.3
5. Change in inventories + net acquisition of valuables						
6. Domestic demand	-4.0	-6.1	-4.6	-0.2	1.7	2.3
7. Exports of goods and services	9.9	8.0	6.9	7.0	7.4	7.6
7a. - of which, goods	13.8	10.1	6.4	7.0	7.4	7.6
7a. - of which, services	6.8	6.1	7.5	7.1	7.4	7.6
8. Final demand	-2.0	-3.8	-2.4	1.2	3.0	3.5
9. Imports of goods and services	-2.4	-2.5	-1.9	2.0	3.5	3.3
9a. - of which goods	-5.2	-2.2	-1.9	2.0	3.4	3.3
9a. - of which, services	9.2	-3.3	-1.7	2.0	3.8	3.3
10. Gross domestic product at market prices	-1.9	-4.2	-2.6	1.0	2.8	3.6
11. - of which, external balance of goods and services						
12. Balance of primary income with rest of the world						
13. Gross national income	-1.9	-4.4	-2.8	0.7	2.6	3.7
14. Compensation of employees	-5.1	-5.6	-6.7	-0.7	0.9	1.7
15. Gross operating surplus and mixed income	-0.9	-6.3	0.6	2.0	3.8	1.7
16. Gross value added at basic prices	-2.6	-6.0	-2.4	1.0	2.7	1.7
16a. - of which, labour costs, including self-employed	-5.1	-8.2	-5.5	-0.8	1.4	2.3
17. Taxes net of subsidies	6.6	3.0	3.0	3.0	3.0	3.0
18. - taxes on products	6.1	3.0	3.0	3.0	3.0	3.0
19. - subsidies on products	-16.4	2.6	2.6	2.6	2.6	2.6
20. Gross domestic product at market prices	-1.9	-4.2	-2.6	1.0	2.8	3.6

Table A3: COSTS AND PRICES

<i>% change in implicit price deflator</i>	2010	2011	2012	2013	2014	2015
1. Private consumption expenditure	4.5	3.0	0.8	0.6	0.6	0.6
2. Government consumption expenditure	-6.0	-3.0	-2.0	0.3	0.5	0.6
3. Gross fixed capital formation	0.7	1.2	0.9	0.5	0.4	0.6
3a. - of which, construction	0.3	0.7	0.9	0.6	0.4	0.6
3b. - of which, equipment	1.3	0.8	0.8	0.4	0.5	0.5
4. Final domestic demand	2.0	1.8	0.4	0.6	0.6	0.6
	-	-	-	-	-	-
6. Domestic demand	1.8	1.8	0.4	0.6	0.6	0.6
7. Exports of goods and services	5.5	3.0	0.4	0.5	0.4	0.6
7a. - of which, goods	7.9	3.0	0.4	0.4	0.4	0.6
7b. - of which, services	3.5	3.0	0.4	0.5	0.4	0.6
8. Final demand	2.3	2.0	0.4	0.6	0.5	0.6
9. Imports of goods and services	5.2	4.0	1.3	1.3	0.8	0.3
9a. - of which, goods	6.1	4.0	1.3	1.3	0.8	0.3
9a. - of which, services	2.1	4.0	1.3	1.3	0.8	0.3
10. Gross domestic product at market prices	1.7	1.4	0.2	0.3	0.4	0.6
11. Terms of trade of goods and services	0.3	-1.0	-0.9	-0.8	-0.4	0.3
11a. - of which, terms of trade of goods	1.7	-1.0	-0.9	-0.8	-0.4	0.3
11b. - of which, terms of trade of services	1.4	-1.0	-0.9	-0.8	-0.4	0.3
12. HICP	4.7	3.0	0.7	0.8	1.0	1.1
12. -at constant taxes	1.4	1.0	-0.3	0.4	1.0	1.1

Table A4: LABOUR MARKET AND LABOUR COST

<i>Annual % change</i>	2010	2011	2012	2013	2014	2015
1. Gross value added at 1995 basic prices	-3.6	-5.3	-2.7	0.7	2.4	2.9
2. Employment	-1.9	-5.7	-2.8	0.4	1.0	1.2
3. GVA per occupied person	-1.7	0.4	0.1	0.3	1.4	1.7
4. Compensation of employees (per employee)	-3.3	-2.7	-2.8	-1.2	0.4	1.1
5. Unit labour costs	-1.6	-3.1	-2.9	-1.5	-1.0	-0.6
6. Total population	0.2	0.2	0.2	0.2	0.2	0.2
7. Population of working age (15-64 years)	0.5	0.2	0.2	0.2	0.2	0.2
8. Total labour force	1.2	-1.2	-0.6	0.3	0.3	0.5
11. Total employment	-1.9	-5.7	-2.8	0.4	1.0	1.2
11a. - of which, employees	-1.9	-3.0	-4.0	0.5	0.5	0.6
11b. - of which, self-employed	-1.9	-10.9	-0.3	0.2	2.0	2.4
13. Unemployment	33.0	33.0	11.0	0.0	-3.0	-3.0

Table B1: USE AND SUPPLY OF GOODS AND SERVICES (value, in EUR billion)

<i>levels</i>	2010	2011	2012	2013	2014	2015
1. Private consumption expenditure	169.4	163.6	157.8	157.4	159.3	161.4
2. Government consumption expenditure	41.3	36.7	32.7	30.5	29.4	29.3
3. Gross fixed capital formation	37.8	32.1	31.2	33.4	36.4	39.6
4. Final domestic demand (1+2+3)	248.5	232.4	221.8	221.3	225.1	230.3
5. Change in inventories + net acquisition of valuables as % of GDP	-1.0	0.0	0.0	0.0	0.0	0.0
6. Domestic demand (4+5)	247.5	232.4	221.8	221.3	225.1	230.3
7. Exports of goods and services	48.9	52.8	56.4	60.4	64.9	69.8
7a. - of which, goods	22.8	25.1	26.7	28.6	30.7	33.1
7a. - of which, services	26.1	27.7	29.7	31.8	34.2	36.8
8. Final demand (6+7)	296.4	285.2	278.2	281.7	290.0	300.2
9. Imports of goods and services	69.1	67.4	66.1	67.4	69.7	72.0
9a. - of which goods	54.2	52.9	51.9	52.9	54.7	56.6
9a. - of which, services	14.9	14.4	14.2	14.4	15.0	15.5
10. Gross domestic product at market prices (8-9)	227.3	217.8	212.1	214.3	220.3	228.1
11. - of which, external balance of goods and services						
12. Balance of primary income with rest of the world	-6.3	-6.5	-6.8	-7.4	-8.0	-8.0
13. Gross national income at market prices (10+12)	221.0	211.3	205.3	206.9	212.3	220.1
14. Compensation of employees	82.0	77.4	72.2	71.7	72.3	73.6
15. Gross operating surplus and mixed income	121.2	113.6	114.2	116.5	120.9	123.0
16. Gross value added at basic prices	200.6	190.3	183.8	185.1	190.2	197.2
16a. - of which, labour costs, including self-employed	124.8	114.6	108.2	107.4	108.9	111.4
17. Taxes net of subsidies (18-19)	26.69	27.5	28.3	29.2	30.0	31.0
18. - taxes on products	27.1	27.9	28.8	29.6	30.5	31.5
19. - subsidies on products	0.4	0.4	0.5	0.5	0.5	0.5
20. Gross domestic product at market prices (16 + 17)	227.3	217.8	212.1	214.3	220.3	228.1

Table B2: LABOUR MARKET AND LABOUR COST (in EUR billion unless otherwise stated)

<i>levels</i>	2010	2011	2012	2013	2014	2015
1. Gross value added at 1995 basic prices	173.9	164.7	160.3	161.4	165.2	170.0
2. Employment ('000)	4743.4	4473.0	4347.8	4365.2	4408.8	4461.7
3. GVA per occupied person (1:2)	36.7	36.8	36.9	37.0	37.5	38.1
4. Compensation of employees (per employee)	26.3	25.6	24.9	24.6	24.7	25.0
5. Unit labour costs (4:3) (1995=100)	71.8	69.6	67.5	66.5	65.9	65.5
6. Total population	11310.1	11332.7	11355.4	11378.1	11400.9	11423.7
7. Population of working age (15-64 years)	7583.4	7598.6	7613.8	7629.0	7644.3	7659.6
8. Total labour force	5369.9	5306.3	5272.7	5290.1	5306.0	5332.0
9. Calculated activity rate (%) (8:7)	70.8	69.8	69.3	69.3	69.4	69.6
10. Total employment	4743.4	4473.0	4347.8	4365.2	4408.8	4461.7
11. Total employment	4743.4	4473.0	4347.8	4365.2	4408.8	4461.7
11a. - of which, employees	3114.6	3021.2	2900.3	2914.8	2929.4	2947.0
11b. - of which, self-employed	1628.8	1451.9	1447.5	1450.3	1479.4	1514.8
12. Calculated employment rate (11:7)	62.5	58.9	57.1	57.2	57.7	58.3
13. Unemployment (8 - 11)	626.5	833.3	924.9	924.9	897.2	870.3
13a. Calculated unemployment rate (%) (13:8)	11.7	15.7	17.5	17.5	16.9	16.3

Table B3: INCOME AND EXPENDITURE OF HOUSEHOLDS

levels	2010	2011	2012	2013	2014	2015
1. Compensation of employees	81.8	77.2	72.0	71.5	72.2	73.4
1a. - of which, gross wages and salaries	64.9	61.7	57.8	58.1	58.5	59.4
2. Non-labour income, net	85.0	86.8	87.6	88.7	90.1	91.2
3. Current transfers received	53.4	52.5	51.1	49.8	48.5	48.8
4. Current taxes on income and wealth	12.0	12.4	12.5	12.5	12.6	12.7
5. Current transfers paid	34.3	32.4	30.7	31.8	33.3	35.0
6. Gross disposable income (1+2+3-4-5)	174.0	171.7	167.5	165.7	164.9	165.7
8. Adjusted gross disposable income (6+7)	174.0	171.7	167.5	165.7	164.9	165.7
9. Real adjusted gross disposable income	148.1	141.9	137.4	135.1	133.6	133.5
10. Final consumption expenditure	169.4	163.6	157.8	157.4	159.3	161.4
11. Gross saving (8-10)	4.6	8.0	9.7	8.3	5.6	4.3
12. Saving rate (%) (11:8)	2.6	4.7	5.8	5.0	3.4	2.6
13. Gross capital formation	11.0	10.9	10.6	10.5	10.7	10.9
14. Other capital expenditure, net	-0.8	-0.8	-0.7	-0.6	-0.5	-0.4
15. Net lending (+) or net borrowing (-) (11-13-14)	-5.6	-2.1	-0.2	-1.6	-4.6	-6.2
<i>15a. p.m. 15 as % of GDP</i>	<i>-2.5</i>	<i>-1.0</i>	<i>-0.1</i>	<i>-0.7</i>	<i>-2.1</i>	<i>-2.7</i>

Table B4: EXTERNAL BALANCE

levels	2010	2011	2012	2013	2014	2015
1. Exports of goods (fob)	22.8	25.1	26.7	28.6	30.7	33.1
2. Imports of goods (fob)	54.2	52.9	51.9	52.9	54.7	56.6
3. Trade balance (goods, fob/fob) (1-2)	-31.3	-27.8	-25.2	-24.3	-24.0	-23.5
<i>3a. p.m. (3) as % of GDP</i>	<i>-13.8</i>	<i>-12.8</i>	<i>-11.9</i>	<i>-11.4</i>	<i>-10.9</i>	<i>-10.3</i>
4. Exports of services (a)	26.1	27.7	29.7	31.8	34.2	36.8
5. Imports of services (a)	14.9	14.4	14.2	14.4	15.0	15.5
6. Services balance (a) (4-5)	11.2	13.2	15.6	17.4	19.2	21.3
<i>6a. p.m. 6 as % of GDP</i>	<i>4.9</i>	<i>6.1</i>	<i>7.3</i>	<i>8.1</i>	<i>8.7</i>	<i>9.3</i>
7. External balance of goods & services (3+6)	-20.2	-14.6	-9.6	-7.0	-4.8	-2.2
<i>7a. p.m. 7 as % of GDP</i>	<i>-8.9</i>	<i>-6.7</i>	<i>-4.5</i>	<i>-3.2</i>	<i>-2.2</i>	<i>-1.0</i>
8. Balance of primary incomes and current Transfers	-7.7	-6.9	-6.9	-7.6	-8.0	-8.0
<i>8a. - of which, balance of primary income</i>	<i>-6.3</i>	<i>-6.5</i>	<i>-6.8</i>	<i>-7.4</i>	<i>-8.0</i>	<i>-8.0</i>
<i>8b. - of which, net current Transfers</i>	<i>-1.3</i>	<i>-0.4</i>	<i>-0.1</i>	<i>-0.2</i>	<i>-0.1</i>	<i>0.1</i>
<i>8c. p.m. 8 as % of GDP</i>	<i>-3.4</i>	<i>-3.2</i>	<i>-3.3</i>	<i>-3.6</i>	<i>-3.6</i>	<i>-3.5</i>
9. Current external balance (7+8)	-27.8	-21.5	-16.6	-14.6	-12.9	-10.2
<i>9a. p.m. 9 as % of GDP</i>	<i>-12.2</i>	<i>-9.9</i>	<i>-7.8</i>	<i>-6.8</i>	<i>-5.8</i>	<i>-4.5</i>
10. Net capital transactions	3.9	4.6	5.2	5.3	5.5	5.6
11. Net lending (+)/ net borrowing (-) (9+10)	-24.0	-16.9	-11.4	-9.3	-7.4	-4.6
<i>11a. p.m. 11 as % of GDP</i>	<i>-10.5</i>	<i>-7.8</i>	<i>-5.4</i>	<i>-4.4</i>	<i>-3.4</i>	<i>-2.0</i>

C1: FISCAL ACCOUNTS AND FORECAST

	2010	2011	2012	2013	2014
	<i>Levels (in EUR billion)</i>				
Total revenue	89.8	90.1	90.2	91.5	94.6
Indirect taxes	27.3	30.0	28.8	29.1	30.0
Direct taxes	17.5	17.3	19.2	19.6	20.7
Social contributions	29.8	28.1	26.6	27.6	28.9
Sales	5.5	4.5	4.4	4.5	4.8
Other current resources	5.1	5.5	5.2	5.1	5.2
Capital transfers received	4.6	4.7	6.0	5.5	5.0
Total expenditure	113.9	109.7	105.3	106.3	105.7
Intermediate consumption	14.0	10.7	10.4	10.3	9.6
Compensation of employees	27.5	25.3	22.3	22.7	22.9
Social transfers other than in kind	47.2	46.6	45.3	44.4	43.3
Interest (1/)	12.9	14.6	15.1	16.5	17.3
Subsidies	0.1	0.1	0.1	0.1	0.1
Other current expenditure	3.3	3.9	3.4	3.7	3.6
Gross fixed capital formation	6.3	5.7	5.7	5.8	6.0
Other capital expenditure	2.5	2.8	2.9	2.8	3.0
Measures that require further specification				3.4	4.8
General Government balance	-24.1	-18.5 to -19.1	-14.9	-11.4	-6.4
Primary balance	-11.3	-3.9 to -4.5	0.0	5.1	10.9
General Government balance (targets)		-17.1	-14.9	-11.4	-6.4
<i>Gap</i>		<i>-1.4 to -2.0</i>	<i>0.0</i>	<i>0.0</i>	<i>0.0</i>
	<i>% GDP</i>				
Total revenue	39.5	41.4	42.5	42.7	42.9
Indirect taxes	12.0	13.8	13.6	13.6	13.6
Direct taxes	7.7	7.9	9.1	9.2	9.4
Social contributions	13.1	12.9	12.5	12.9	13.1
Sales	2.4	2.0	2.1	2.1	2.2
Other current resources	2.2	2.5	2.5	2.4	2.3
Capital transfers received	2.0	2.2	2.8	2.6	2.3
Total expenditure	50.1	50.4	49.6	49.6	48.0
Intermediate consumption	6.1	4.9	4.9	4.8	4.4
Compensation of employees	12.1	11.6	10.5	10.6	10.4
Social transfers other than in kind	20.8	21.4	21.4	20.7	19.6
Interest (1/)	5.7	6.7	7.1	7.7	7.9
Subsidies	0.1	0.0	0.0	0.0	0.0
Other current expenditure	1.5	1.8	1.6	1.7	1.6
Gross fixed capital formation	2.8	2.6	2.7	2.7	2.7
Other capital expenditure	1.1	1.3	1.4	1.3	1.3
Measures that require further specification				1.6	2.2
General Government balance	-10.6	-8.5 to 9.0	-7.0	-5.3	-2.9
Primary balance	-5.0	-1.8 to -2.3	0.0	2.4	5.0
General Government balance (targets)		-7.8	-7.0	-5.3	-2.9
<i>Gap</i>		<i>0.7 to 1.2</i>	<i>0.0</i>	<i>0.0</i>	<i>0.0</i>

1/ Net of collateral related flows

C2: GOVERNMENT DEBT

	2010	2011	2012	2013	2014
	<i>levels (EUR billion)</i>				
Debt *	329.4	354.7	384.9	388.5	382.1
Change in debt	29.8	25.3	30.3	3.6	-6.4
Government deficit (level)	-24.1	-19.4	-14.9	-11.4	-6.4
Stock-flow adjustment	5.7	5.9	15.4	-7.8	-12.8
	<i>% GDP</i>				
Debt *	144.9	162.8	181.4	181.3	173.5
Change in the ratio	15.6	17.9	18.6	-0.1	-7.9
<i>Contributions:</i>					
Primary balance (+ is a deficit)	5.0	2.2	0.0	-2.4	-5.0
“Snow-ball” effect	8.1	13.0	11.4	5.3	2.3
Stock-flow adjustment	2.5	2.7	7.3	-3.0	-5.2
	<i>levels (EUR billion)</i>				
Debt including collateral	329.4	354.7	420.6	425.5	420.5
	<i>% GDP</i>				
Debt including collateral	144.9	162.8	198.2	198.6	190.9

Annex 3: Statement by the European Commission, the ECB and IMF on the Fifth Review Mission to Greece

Staff teams from the European Commission (EC), European Central Bank (ECB), and International Monetary Fund (IMF) have concluded their fifth review mission to Greece to discuss recent economic developments. The mission has reached staff-level agreement with the authorities on the economic and financial policies needed to bring the government's economic program back on track.

Regarding the outlook, the recession will be deeper than was anticipated in June and a recovery is now expected only from 2013 onwards. There is no evidence yet of improvement in investor sentiment and the related increase in investments, in part because the reform momentum has not gained the critical mass necessary to begin transforming the investment climate. However, exports are rebounding—albeit from a low base—and a shift towards a more dynamic export sector, supported by a moderation of unit labour costs, should lead to more balanced and sustainable growth over the medium term. Inflation has come down over the last year and is expected to remain below the euro area average in the period ahead.

In the fiscal area, the government has achieved a major reduction in the deficit since the start of the program despite a deep recession. However, the achievement of the fiscal target for 2011 is no longer within reach, partly because of a further drop in GDP, but also because of slippages in the implementation of some of the agreed measures.

As for 2012, the mission believes that the additional measures announced by the government, in combination with a determined implementation of the adjusted Medium-Term Fiscal Strategy, should be sufficient to bring the fiscal program back on track and ensure that the deficit target of EUR 14.9 billion will be met.

Looking to 2013-14, additional measures are likely to be needed to meet program targets. Such measures should be adopted in the context of an update of the Medium-Term Fiscal Strategy by mid-2012. To ensure that the program is growth-friendly, and in view of the ambitious assumptions regarding improvement in revenue administration already embedded in the Medium-Term Fiscal Strategy, it is essential that such measures focus on the expenditure side.

In the area of privatisation, progress has been achieved with the creation of a professionally managed privatisation fund. However, delays in the preparation of the assets for privatisation, and to some extent worse market conditions, mean that revenues in 2011 will be significantly lower than expected. The government remains, however, committed to the revenue target of EUR 35 billion by the end of 2014. Ensuring that the privatisation fund remains independent from political pressures, remains key for success in this area.

Banks have improved their capital base through market-based means. As evident from this weekend's resolution of Proton Bank, the recent amendment of the banking law ensures that non-viable banks can be wound down while protecting depositors' interest and preserving the stability of the financial system.

As to structural reforms, areas of progress include the transport sector, licensing procedures, and regulated professions. As overall progress has been uneven, a reinvigoration of reforms remains the overarching challenge facing the authorities. In this regard, the decision to suspend the mandatory extension of sector-level collective agreements to the firm level is a major step forward, as it will help ensure the flexibility in the labour market needed to boost growth and prevent high unemployment from getting entrenched.

Overall, the authorities continue to make important progress, notably with regard to fiscal consolidation. To ensure a further reduction in the deficit in a socially acceptable manner and to set the stage for a recovery to take hold, it is essential that the authorities put more emphasis on structural reforms in the public sector and the economy more broadly.

The success of the program continues to depend on mobilizing adequate financing from private sector involvement (PSI) and the official sector. Ongoing discussions on PSI together with assurances provided by European leaders at their July 21 summit suggest that the program remains fully financed.

Once the Eurogroup and the IMF's Executive Board have approved the conclusions of the fifth review, the next tranche of EUR 8 billion (EUR 5.8 billion by the euro area Member States, and EUR 2.2 billion by the IMF) will become available, most likely, in early November.

Brussels, 11 October 2011