

Greece: State of play of the 5th review of the 2nd economic adjustment programme

The Greek authorities committed to deliver a strong and comprehensive package of reforms to ensure the program remains on track to meet its objectives. This requires moving forward on structural benchmarks and other key programme conditionality, without compromising quality and credibility. Overall, the authorities have made good progress, although a number of important issues remain to be addressed with a view to conclude the 5th review, including in some areas, there is a need to clarify and make concrete commitments already provided.

Budget and fiscal sustainability

- **Budget.** The authorities committed unconditionally to deliver the primary surplus targets of 3% of GDP in 2015 and 4.5% of GDP in 2016. They have adopted the 2015 budget and have proposed to take certain measures to achieve the 2015 target (e.g., increasing the VAT rate for hotels from 6.5% to 13%; reducing or abolishing general government non-wage benefits; and lowering spending ceilings). However, the EC-ECB-IMF project a sizeable gap, and discussions are ongoing on measures to close it, including legislating now measures that have been proposed by the authorities on a contingent basis.
- **Instalment schemes.** Discussions are ongoing on needed modifications of recently enacted schemes for the payment of tax and social security debt to align them with programme commitments, preserve the payment culture, and reduce fiscal costs. These relate for instance to eligibility criteria identifying debtors' capacity to pay, strengthening enforcement, and improving incentives for early payment. The authorities have committed to fully staff the tax investigation and large debtor units, and to amend the processes for dealing with uncollectable tax debts where significant changes from old practices and procedures are needed.
- **Revenue administration.** Long-standing programme objectives are to strengthen significantly the autonomy of and modernize the tax administration. There is agreement in principle to adopt policies in this review for establishing a revenue administration agency, with appropriate autonomy from the Ministry of Finance, governed by a management board that develops and approves the human resource strategy and budget of the agency, and having a new funding formula that allows budget flexibility. As per the authorities' action plan, discussions on draft legislation will take place with the aim to adopt the legislation, to the extent possible, by end-2014.
- **Pension reform.** The programme commitment entails consolidating pension funds, containing spending, and establishing close links between contributions and benefits in all funds. The authorities committed to adopt legislation taking certain administrative (e.g., unification of social security funds) and policy (e.g., gradual elimination of early retirement privileges) actions with effect in the medium to long term. Discussions are ongoing on the scale and scope of the reforms needed to meet the programme commitments.
- **VAT reform.** The programme commitment is to legislate a comprehensive reform of VAT policy and administration. The authorities committed to legislate in the context of

this review an increase of the VAT rate on hotels in 2015 from 6.5% to 13% and to take administrative measures to increase compliance and enforcement. Discussions continue on needed reforms to narrow the VAT gap and simplify the VAT rate structure.

- **Income tax reform.** The authorities have made significant progress in finalizing the ongoing modernization of the income tax system and tax procedures—in particular, on quantifying and assessing current tax incentives, preparing legislation to integrate into the income tax code the taxation of collective investment vehicles and business income tax expenditures, and broadening the definition of tax fraud and evasion.
- **Public administration reform.** Programme commitments include legislating reforms of the public sector wage grid in a fiscally neutral manner and aligning non-wage benefits with good practices in other countries. Progress is being made and the authorities committed to legislate by end-2014 the key principles of a fiscally neutral public sector wage grid reform for implementation by January 2016, conduct a pilot of the new wage grid in the Ministry of Finance, and adopt legislation to rationalize non-wage benefits (including the reform of generous leaves).
- **Arrears clearance.** The authorities have expressed their willingness to discuss ways to catch up on targets on arrears clearance, and on the clearance of the outstanding stock of tax refund and pension claims.
- **Organic Budget Law.** The authorities agreed to amend the budget legislation framework inter alia to clarify budget implementation, control and reporting responsibilities; modernize payment procedures; and enhance debt and cash management.

Financial stability

- **Insolvency reform.** The authorities enacted a new out-of-court debt resolution mechanism; this mechanism needs to be amended to make it consistent with the needed reforms of the instalment schemes. The authorities also committed—and the details need to be discussed and agreed—to making interim changes to the insolvency regime by amending the household and corporate insolvency laws and to establishing a professional body of insolvency administrators. Looking forward, the authorities have committed to a more permanent and comprehensive overhaul the insolvency framework, by end-2015, including introducing specialized insolvency courts.

Structural reforms to enhance growth

- **Judicial reform.** The authorities have committed to adopt as agreed a major reform of the code of civil procedures.
- **Labour market reforms.** Programme commitments were to legislate reforms of the collective dismissal framework, if there is doubt about whether the existing system replicates best practice in an effective, credible and durable way, as well as to legislate the necessary reforms of the industrial action framework. Discussions are ongoing about the efficacy of the current collective dismissal framework. The authorities committed to

putting disputes on wage payments during industrial actions under a fast-track judicial process rather than to amend the legislation. They proposed to amend the legislation on trade union activities inter alia to modernize the processes related to deciding and notifying strikes and streamline the benefits of trade unionists. They also committed to eliminate some excessive restrictions in the labour market. All these proposals are under discussion.

- **Product market reforms.** Programme commitments span licensing reform, administrative burdens, OECD competition assessments, nuisance charges, restricted professions, and energy reforms. While the authorities have progressed in some areas (e.g., adopting legislation to remove licensing requirements on low-risk activities, and reducing administrative burdens), discussions are pending in others (e.g., OECD competition assessments, nuisance charges that finance pensions, and restricted professions). The authorities have stated their commitments in the context of this review to deliver legislative reforms to liberalize the gas market, binding offers for privatizing ADMIE, and reforms of the capacity payments system.
- **Privatization.** To catch up on delays and shortfalls, the authorities have committed in the context of this review to finalize two port concession agreements; seek binding bids for railways; transfer telecommunication company shares to the privatization agency for sale; ensure fully operational port and airport regulators; and complete all pending government actions in this area.
- **Statistics.** The authorities have committed to implement the necessary measures to fully honour the Commitment on Confidence in Statistics. The authorities will also extend the term of the Good Practice Advisory Committee for at least another two years.