ΕΛΛΗΝΙΚΗ ΔΗΜΟΚΡΑΤΙΑ
Υπουργείο Οικονομικών

GREEN-WORKING PAPER

A Policy Framework for Greece's Fiscal Consolidation, Recovery, and Growth

Ministry of Finance
Hellenic Republic

May 2015

Preface and acknowledgments

To recover fully and sustainably, Greece requires reforms that work together to unleash the country's considerable potential from bottlenecks in several realms: fiscal policy and debt sustainability, productive investment, credit provision, innovation, competition, social security, public administration, the judiciary, labour's in-formalisation, cultural production and, last but not least, democratic governance.

In commissioning this Green-Working Paper, I asked the Ministry's staff to outline a program for Greece's fiscal consolidation, recovery and growth drawing upon input provided by all ministries of state. Naturally, the present document is, and can only be, work-in-progress and merely indicative of the Ministry's thinking, at this important juncture, regarding the Greek government's comprehensive reform and growth agenda.

Thanks are due to Jeff Sachs who worked with me and with the Ministry's General Secretary of Fiscal Policy, Mr Nicholas Theocarakis, to edit and compile the present Green-Working Paper, to staff from across the Ministry, and of course to our distinguished Board of International Advisors who valiantly, and pro bono, offered to lend their expertise, time and energies to developing the ideas and policy proposals therein.

Yanis Varoufakis 11th May 2015

Minister of Finance
Hellenic Republic

Board of International Advisors, advising the Minister of Finance on the government's *Policy Framework for Greece's Fiscal Consolidation, Recovery and Growth*

James K. Galbraith (University of Texas at Austin)
Jeff Sachs (Columbia University, Special Advisor to the UN's Secretary General)
Lord (Norman) Lamont (formerly Britain's Chancellor of the Exchequer)
Mariana Mazzucato (University of Sussex, and author of *The Entrepreneurial State*)
Thomas Mayer (Director, Flossbach-von-Storch, formerly Chief Economist, DB)
Larry Summers (Harvard University, formerly US Treasury Secretary)

TABLE OF CONTENTS

1. Fiscal Policy and Debt Sustainability

Our government came into office more than a month after the start of a serious run on bank deposits and a resulting liquidity squeeze. Under these extremely tight circumstances the economy suffered, with depressing effects on economic growth and tax receipts. More precisely, the government believes that 2015 could have registered real GDP growth of 1.5% but will, as a result of the financial crisis and uncertainties probably result in net zero growth. However, as long as the planned reforms (see below) are put into place by the middle of the year, and an agreement is reached at Eurogroup level by June 2015, the year 2016 should be the first year of genuine growth since 2008, with nominal GDP growth reaching and exceeding 4% in 2017 and beyond – see Table 1 below.

Table 1: Potential and Real GDP Growth Rates

	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
Potential GDP Growth	1.5%	1.5%	1.6%	1.7%	1.9%	1.9%	1.9%	1.9%	1.9%	1.9%	1.9%
Real GDP Growth	0.1%	2.0%	3.3%	3.3%	3.5%	3.4%	3.4%	3.4%	3.4%	1.9%	1.9%
GDP Deflator	-1.8%	0.0%	0.4%	1.1%	1.3%	1.4%	1.8%	2.0%	2.0%	2.0%	2.0%
Nominal GDP Growth	-1.7%	2.0%	3.7%	4.5%	4.8%	4.9%	5.3%	5.5%	5.4%	3.9%	3.9%

Source: Hellenic Ministry of Finance. Preliminary projections, under constant revision

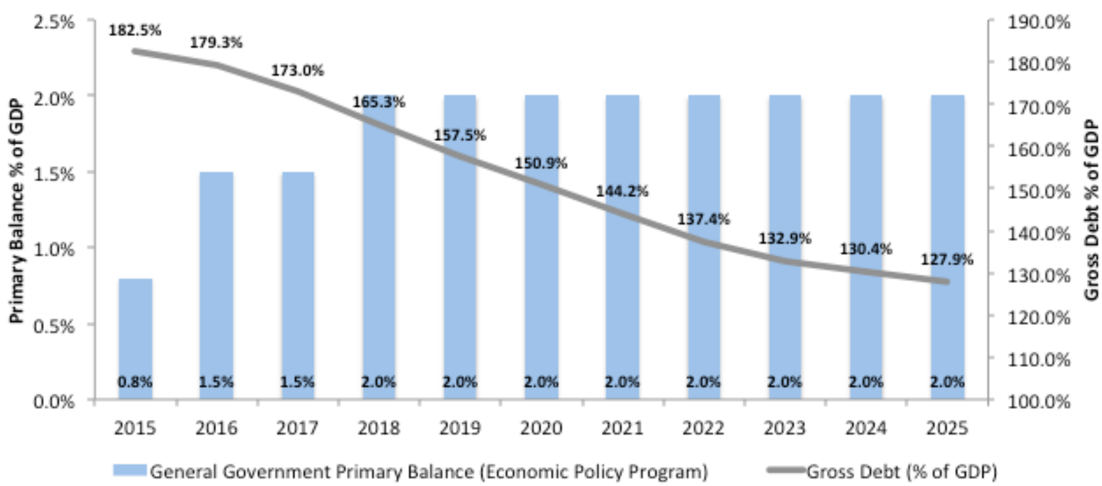
In terms of revenues, March and April 2015 showed positive signals. Despite the on-going liquidity squeeze, the tax take exceeded the level that the previous government had budgeted for, an indication that as long as the current negotiations are concluded quickly (and the liquidity squeeze ends) the government's 2015 fiscal position will be robust. To make the fiscal outcome even stronger, the government plans to introduce a number of fiscal measures with a positive net fiscal effect on the 2015 budget – see Table 2 below.

Overall, in view of the above growth pattern, the Ministry of Finance aims at a primary surplus of 0.8% in 2015 (Nb. it came to 0.6% in 2014) to be followed by primary surpluses of 1.5% in the following two years and 2% thereafter. These balances, in conjunction with the projected growth rates, will reduce Greece's public debt-to-GDP ratio from 182.5% in 2015 to less than 130% in 2025 – see Table 3. While this figure is above the 120% level envisaged by the previous program, we believe that it is the best that can be achieved given the anticipated pathway of primary surpluses, and within the scope of current debt parameters. The Greek Government looks forward to further brainstorming with partners to find pathways to deeper and faster declines in the debt-GDP ratio consistent with the fiscal envelope envisioned by the Government.

Table 2: Overview of reforms with fiscal impact (millions of euros)

Revenue Measure	Budget Impact	2015	2016	2017
Intensification of audits on lists of bank transfers and offshore entities	Income Tax	363	1,000	1,000
Combating illegal trade on oil	VAT	75	500	500
Introduction of a VAT lottery scheme	VAT	130	260	590
Fight against VAT fraud	VAT	175	350	420
Improvement of state revenue collection mechanism	Direct Tax Arrears / Indirect Tax Arrears	113	225	235
Instalment scheme	Direct Tax Arrears / Indirect Tax Arrears	150	300	400
Luxury tax	Indirect Tax	10	20	20
Incentives for tax payments based on audits	Income Tax	50	100	300
Electronic Payments	VAT	135	565	954
Facilitate arrears recovery (Law 4321/2015)	Other non tax revenue	150	297	290
Staffing and reinforcement public control mechanism	Other non tax revenue	67	150	150
Total		**1,417**	**3,767**	**4,859**
Expenditure measure	**Budget Impact**			
Safeguard supplementary pensions level	Pensions	326	172	261
Safeguard lump sums pension level	Pensions	120	201	172
Protection of low wage pensioners (preservation EKAS benefits)	Pensions	82	-	-
Protection low wage pensioners: restart of 13th pension	Pensions	550	550	550
Health Care Reform	Health care expenses	-	1,050	2,100
Law 4320/2015 (Humanitarian Crisis)	Social protection		271	271
GMI	Social protection	-	750	1,500
Total		**1,078**	**2,994**	**4,854**
Net Fiscal Impact		**339**	**773**	**5**

Table 3: General government primary balance (economic policy program) and gross debt 2015-2025 (% of GDP)



Source for Tables 2&3: Hellenic Ministry of Finance. Preliminary projections under constant revision

2. Economic Reforms

The Greek government is targeting four areas for urgent reforms: the real economy (including labour markets, product markets and competition), social security or pension funds, banking (i.e. private investment and credit), and public investment vehicles.

2.1 Public investment: Privatisation, the Development Bank and Social Security Funds

The Government intends to found a public Development Bank (along the lines of, for example, Germany's KfW) whose remit will be to mobilise public assets and idle savings (from within and outside Greece) in the interests of crowding-in investment flows. Public assets will, in this context, be either privatised or collateralised.

Privatisations will proceed on four conditions. Bidders will need to (a) pledge minimum investment levels, (b) guarantee minimum labour rights, (c) include commitments that benefit the local social economies, and (d) accept that the state retains a substantial (possibly minority) equity share. Part of the sale price will be used to re-capitalise pensions funds while the state's equity share will be infused into the Development Bank to be used as collateral that will be suitably levered in order to fund private sector activity.

The Development Bank will collaborate with the European Investment Bank, the Investment Plan of the European Commission (the Juncker Plan), the European Bank for Reconstruction and Development etc. Emphasis will be given in funding innovative start-ups, in association with the European Investment Fund.

The Development Bank's shares will be transferred, at some point, to social security, or pension, funds in lieu of compensation for the 2012 haircut of their GGB holdings that cost them €26 billion.

2.2 Banking reforms: A 'Bad Bank', the Hellenic Financial Stability Facility (HFSF) and the European Stability Mechanism (ESM)

One of the financial factors weighing on the Greek economy is the large and potentially growing number of non-performing loans (NPLs) on the domestic banks' balance sheet. The large size of these portfolios places enormous capital pressure on the banks and the pressure of dealing with defaulting loans and workouts also distracts the banks' management from performing their regular duties, which would, if done normally, support the proper functioning of the economy.

We estimate the current size of the NPL portfolios as between 9% and 19% of total assets of the four systemic banks or roughly €30.65 billion. However, in economic crises such estimates can change on a daily basis and typically for the worse. It is important, therefore, to segregate the NPLs into a vehicle ('Bad Bank") where they could be looked after and managed by a professional team of workout specialists. This solution has already been implemented in other European countries with a fair degree of success.

Past experience shows that the sooner such a structure is put in place and the sooner the appropriate team is tasked with the active management of its portfolio, the higher the likelihood of a return to normal and to a well-functioning banking sector. We envisage the funding of the new vehicle through a combination of equity and subordinated debt instruments (in-line with SAREB in Spain) with a 49% participation by the Greek government funded partly from the HFSF's remaining capital cushion (€10.9 billion at present)[1] – see Appendix 3 for an example.

The Greek government plans to follow the well-known path of establishing such vehicles taken by other Eurogroup countries. This will involve the following steps:

1. Identify the size and composition of the NPL and highly illiquid/high risk portfolios at each bank.
2. Establish the correct special purpose entity structure (BB)
    a) Determine the size of the funding gap and the requisite equity and subordinated debt issuance by the vehicle, the split of equity participation by the originating banks and the government and the size of any government bond issuance for the recapitalization of the banks.
    b) Identify and deploy the appropriate management team for the bad bank and establish the correct organizational and management structure.

The government will support the proper functioning of the Bad Bank by ensuring that appropriate statutes enabling fair and efficient workout of non-performing loans are in place. It will conduct an audit of the existing bankruptcy and repossession laws and propose amendments and/or new statutes to fortify the efforts of the team. Finally, once the NPL portfolios have been cleared from the banking sector's balance sheet, the government, in association with the Bank of Greece, will look at the remaining balance sheets and determine whether further consolidation within the banking sector is warranted.

As the Bad Bank allows commercial banks more leeway to fund productive firms, and as growth begins to return to the Greek private sector as a result also of the Development

[1] The remaining HFSF capital should be kept in abeyance for possible further bank re-capitalization.

Bank's work, the Bad Bank's own assets will begin to perform, creating new value that can be then be added to the circular flow of investments.

2.3 Social Security Funds

Greek pension funds were traditionally required by law to hold their reserves in Greek government bonds. So, when the 2012 haircut (PSI) was effected, they lost €26 billion. Soon after, pensions were cut by up to 44.2% in the private sector and up to 48% in the public sector. As a result, see Table 4 below, the average pensioner is Greece is now one euro away from the official poverty line of 60% of median income. It is for this reason that the Greek government resists the demand that pensions be cut further. Our resistance to this demand is based on macroeconomic as well as moral and political grounds, as the multiplier of pension cuts is very high and such cuts will directly depress economic activity and deepen the recession.

Table 4: More than 44% of pensioners (2013 data) receive a pension below the official relative poverty limit while the average pensioner is almost precisely on that official poverty line

	%	Number (Out of a total of 2,654,784 pensioners)			
Pensions below the rel. poverty limit (€664)	44.8%	1,189,396	Average primary pension	€665	Private sector pension reduction 2010-2013
Pensions below €700	60%	1,511,000	Average secondary pension	€168	Private sector pension reduction 2010-2013

Instead of further pension cuts – which do not qualify as 'reforms' – the Greek government proposes the following policies:

- Strict limits on early retirements, in effect stopping private sector employers (mostly banks) from 'unloading' employees from their payroll onto the public sector social security system.
- Reforming the pension funds through mergers and strict audits that reveal fraudulent claims.
- Re-capitalising the pension funds by transferring to them part of privatisation receipts as well as the future stream of dividends of the Development Bank – see section 2.1 above.

2.4 Real economy reforms

Labour markets, product markets and reasonably open access to the professions are areas in which the government has firm plans for wide-ranging reforms.

Labour markets. Recent estimates put up to one third of all paid labour in the informal (undeclared) labour category. If one adds to this figure the fact that less than 10% of unemployed workers ever receive any unemployment benefits, it is clear that the Greek labour market is more de-regulated than most other European labour markets. Further reductions in worker protection will not benefit high-quality employers, who are bound to be handicapped by having to compete against competitors that hire informal labour.

In short, the labour market needs regulation to formalize the informal labour force, with positive externalities for pension funds and government revenues. It is for this reason that most employers' organisations in Greece are in favour of new collective bargaining legislation and higher minimum wages. To this effect the government has already began a fruitful dialogue with the International Labour Organization (ILO) to formulate suitable legislation – see Appendix 1 for more.

Product markets. The government will deregulate the market for natural gas, consider the French bilateral contracts model in the regulation of the electricity power and distribution sector (without however privatising the existing power generating company), deregulate product specifications (e.g. dairy products, non-prescription pharmaceuticals), simplify business licensing (in close cooperation with the World Bank), legislate the inclusion of all discounts into retailers invoices (to limit supermarkets' oligopoly power over their local suppliers). Finally, the government will strengthen the Competition Commission and empower it with its own budget and revenue raising capacity.

With respect to traded goods, the Greek government is aware that the world economy is highly competitive, and Greece is caught between advanced industrial economies to her North and low-wage manufacturing-intensive economies to her East. While Greece retains expertise and competitiveness in some industrial sectors (e.g., pharmaceuticals) and in shipping, she is unlikely to succeed in the short run in advanced manufacturing. Instead, Greece will focus on providing advanced tradable services, suited to Greek conditions – see Section 7 below.

The goal of Greece's investment strategy in the real economy is to foster a sustainable balance between the Greek public sector surplus and steady debt reduction on one side, and economic growth, development and employment on the other.

3. Democratic Governance Reforms

Tax administration: The Ministry of Finance plans to turn the General Secretariat of Public Revenues into a self-governing IRS-like Service (to be known as The Hellenic Excise and Customs Service - HECS), answerable to Parliament and immune to both political and corporate influence. The plan is for a Parliamentary committee to appoint (on the basis of an enhanced, e.g. two thirds, majority) a Board of Directors and an Audit Commission that keeps an eye on the Board's management of HECS. HECS employees are civil servants, recruited and promoted through the normal civil service channels, but the Board of Directors will appoint special selection committees that recruit tax commissioners and auditors from the civil service personnel list. HECS will have its own separate budget, be answerable only to Parliament and will embrace all relevant departments currently under the Finance Ministry's umbrella (e.g. IT, SDOE etc.)

Media: The government has legislated for the auctioning off of radio and TV frequencies, noting that previously television companies have paid almost nothing for their licences.

Bureaucracy - Procurement: The government intends to introduce legislation that bans public-sector units from requesting – either from citizens or from business – documents certifying information that the state already possesses. Smart Citizen's Cards will play a key role in this important reform. Procurement will be streamlined with a platform for electronic auctions, minimizing the opportunities for collusive behaviour.

Judiciary: The Greek government will conclude, in collaboration with local lawyers' associations, amendments to the Civil Procedure Code to be tabled in Parliament as soon as feasible. By means of immediate legal amendments to the Administrative Procedure Law we will pursue the early administrative (out-of-court) resolution of tax arrears (as well as for non-performing loans of financial institutions) for cases that have not reached the final stages of court procedures and with a view to instant dispute resolution. The purpose will be to allow the state and the banking sector to weed out strategic defaulters who hide behind citizens and firms that are genuinely in distress.

Political parties: Strict limits and absolute transparency will be imposed not only with respect to campaign contributions but also in relation to loans that political parties may agree with commercial banks.

4. Development of the Service Sectors

As the birthplace of democracy, a leader in culture, a home to world famous cuisine, a magnet for tourism, and with a competitive edge in many services, Greece aims to promote its service sectors, including green tech, culture, transport, higher education, culinary and other distinctive and high-end services.

High-end niche agricultural products: Greece will promote high-quality agricultural products that are branded and marketed as grown in Greece. Presently the distribution of key agricultural products has limited their revenue potential for Greek farmers; this can be changed by a well-designed strategy of agricultural investment and marketing.

Renewable and decarbonized energy: With abundant solar and wind potential, Greece seeks to become a laboratory for sustainable energy production and low GHG impact.

Retirement communities and health and care services*:* As European integration proceeds and as Europe's population ages, retirees from across the continent will seek out communities where they can settle and receive high-quality services and health care. Greece proposes to pioneer in the development of such communities for middle-class retirees, alongside strengthening the provision of health services for Greek citizens and residents.

World universities and colleges: A growing trend in higher education is the establishment of transnational branches of world-class universities and colleges, leveraging the academic traditions and research strengths of the West with resources from Asia and the Middle East. Greece proposes to become a centre for such projects, permitting the growth and development of international human capital on Greek soil in an atmosphere of cultural riches and academic freedom.

Arts and Culture: Greece offers splendid locations for active programs fostering the arts and culture, with tax incentives for filmmaking, writers' retreats, visual artists, and performers. In turn the government proposes to help showcase the work of artists, strengthening Greece's reputation as a mecca for creative industries.

Science and Research: The government, in collaboration with the private sector and the European Commission, will establish scientific research zones, for the location of research facilities, laboratories and other scientific establishments that can attract to Greece the investment of new and existing scientific research centres.

Tourism: Greece's potential for tourism is boundless. Our emphasis will fall on distinctive small hotels, restaurants, archaeological sites and cultural centres that are presently the hallmark of the tourist appeal of Greece. Beaches will be maintained in the public sphere as an entirely distinctive characteristic of Greece compared to other Mediterranean countries.

IT start-ups: Young Greeks boast many highly skilled ICT engineers. The Greek state will provide co-operative start-ups with a honeymoon period of up to five years during which they will not make mandatory pension contributions and pay corporate tax at lower levels. In due course, the state will also provide them with free infrastructure.

Shipping and Trans-shipment: Through development of the Port of Piraeus and the Turkish Stream pipeline, Greece will enhance its role as a centre for shipping and trans-shipment of goods from the Asian heartland toward the European Union.

5. Public debt management

Creating a sustainable public debt policy centres on the establishment and execution of a strategy for the management of the government's debt in order to raise required funding, achieve its risk and cost objectives, and meet other sovereign debt management goals including a sound relationship with creditors and the development and maintenance of an efficient market for government securities. Such a policy must be both robust and coherent within a broader macroeconomic context that ensures that public debt is fundamentally sustainable, and can be serviced under a wide range of circumstances, while meeting cost and risk objectives.

In the near-term, the Greek authorities are addressing immediate financing needs through a variety of short-term cash mobilisation mechanisms. For the medium to long-term period, a sustainable debt management policy would focus on developing a liability payment schedule in line with long-term debt-servicing capacity.

Based on the fiscal policy objectives outlined in Section 1 above, combined with a review of Greece's current liability schedule and the development of a new debt program profile, there are a number of areas where further cooperation, as noted in the November 2012 Eurogroup conclusions[2], with the institutions could yield a significant improvement in the reduction of risk elements within its debt program.

[2] November 2012 Eurogroup announcement sates "Members states will consider further measures and assistance… if necessary for achieving a further credible and sustainable reduction of Greek debt-to-GDP ration, when Greece reaches an annual primary surplus, as envisaged in the current MOU, conditional on full implementation of all conditions contained in the programme".

Develop New Debt Program: The Greek government intends to use fiscal and DSA outputs to determine short, medium, and long-term needs in line with core principles and debt sustainability, by employing refinancing, new debt instruments and other processes to be agreed with creditors. Some approaches to be agreed with creditors may include the following steps, noting that these are matters for discussion and negotiation, and are put forward here to reflect ideas and initial proposals of the Greek Government:

Short-term: Address selected near-term 2015 financing requirements:

1. SMP GGBs – target the soon to expire ECB-held SMP program GGBs (€6.7 billion of these expiring in July and August 2015) through a swap with long-term EFSF related loans. Such a swap will ease Greece's immediate funding needs and, importantly, reduce the stock of GGBs held by the ECB thus allowing Greek paper to become eligible for the ECB's asset purchase (or quantitative easing) program as soon as in July 2015.[3]
2. T-bills – raise current T-bill issuance ceiling to the original €15 billion level. In addition, remove current €3.8 billion cap on Greek bank exposure to domestic T-bills to facilitate local banks mobilizing collateral with the Eurosystem.

Medium-term: Review terms of current liability program to reduce the net present value of Greek public debt servicing costs as a portion of GDP without imposing losses:

- *Reference rates on the Greek Loan Facility*: Convert approximately €52.9 billion current 3-month Euribor + 50 bps interest rate facility to actual Euro member state funding cost of 3-month Treasury bill rate for each state (e.g. German T-bill rate, French T-bill rate, etc.). Such a facility would more accurately reflect the funding of each member state such that no individual state will be better or worse off in their loan facility to Greece.
- *Maturity Extension on the Greek Loan Facility*: Extend the final maturity of the Greek Loan Facility to beyond 2041, allowing an additional 10-year extension of both the grace period and final maturity. Assuming current interest rate assumptions, an extension would further bring net present value to the Hellenic Republic. (Nb. Public debt and deficit related to euro-area financial assistance programs do not count in the debt and deficit measures under European fiscal rules).
- *Exchange on the Greek Loan Facility:* GDP-linked debt instruments were introduced in the 2012 PSI debt exchange. Such notes exhibit both counter-cyclicality and high

[3] This would involve a new loan with related interest costs versus the 'profit' pay-back of interest paid under the current arrangement. The current account would be adversely affected and this would have to factored into the New Development Program.

correlation to the underlying growth in the economy thus further aligning the interests of the euro-member states with Greece. However, given the high level of interest rate concessionality already granted to the Greek debt, the mechanism of indexation will focus on the amount of principal debt redemption.

- *Maturity Extension of EFSF loans:* Greece has currently borrowed €141.8 bn. from EFSF with an average maturity over 30 years with the last tranche maturing in 2054. An additional 10-year maturity extension would provide additional time for the Hellenic Republic to improve its balance sheet prior to its return to the international capital markets. The net present value benefit would be approximately 9% of GDP.

New Funding Obligations: Develop long-term structural lending solutions through asset backed funding (e.g. state related receivables, sale/lease back arrangements, banks shares held at HFSF, excess military hardware, etc.). Such arrangements could also be used to proportionally exchange with the Greek Loan Facility and/or EFSF related loans.

- *Privatisation Notes*: Offer a securitised private placement lending facility backed by future privatisation proceeds by mobilising privatisation related assets and embedding them in the proposed Development Bank. The issuance will be conducted by HRADF or a similar entity backed by pre-committed privatisation assets. Analysis of eligible assets and pricing are to be determined.
- *Co-financing:* Further promote supplementary credit facilitation programs (e.g. EIB's Trade Finance Facility, Institute for Growth, etc.) towards most the most promising export-oriented SMEs in Greece.
- *Private Public NPL initiatives:* Facilitate the release of value trapped in current NPL portfolios within the banking system though co-owned partnerships with committed private sector funding providers.

SMP-GGB Swap Arrangement

- The government proposes that the ECB sells to the EFSF the remaining stock of GGBs related to earlier SMP bonds at the original purchase price of the bonds. With ECB related holdings of GGBs below the maximum threshold, new issues of GGBs will be eligible for the ECB's QE program.
- ESM-EFSF should enter a new loan agreement with Greece to finance the purchase by the Hellenic Republic of the GGBs now held at the EFSF. New terms to be in-line with the outstanding program.
- All SMP-related profits repatriation requirements by the ECB and NCBs should be cancelled.
- All newly acquired GGBs to be extinguished by the Hellenic Republic.
- All material gains from repurchase of GGBs from EFSF to be applied to the New Development Program.

6. Conclusion

Greece looks forward to working with its European and international partners to implement a full set of reforms to re-establish economic growth, while meeting the needs of the Greek people and securing the cooperation of Greece's partners.

Appendix 1: Labour market reforms

The labour market reform plan of the Greek government takes into consideration the serious structural weaknesses of the labour market, as well as the urgent need to restore social cohesion. To this end, the reform plan contains policies to enhance purchasing power and thus internal demand by initiating a gradual raise of the minimum wage (section 5.1), to implement an efficient and streamlined institutional framework of collective bargaining, mediation and labour arbitration (section 5.2), and to enhance the monitoring mechanisms in order to battle undeclared and under-declared work (section 5.3).

Wage levels: The proposed labour market reforms include:

1. Unifying the minimum wages of “white” and “blue collar” workers.
2. Abolishing wage differentiation based on age.
3. Gradually increasing the minimum wage after consultations with the social partners[4].

The increase of the minimum wage will be implemented in two stages and only once (since the collective bargaining system will be restored – see next section):

	Currently (Law 4093/2012)	1st stage (1st October 2015)	2nd stage (1st July 2016)
Minimum wage (under 25)	€510.95	€650	€751.32
Minimum wage (25+)	€586.08		
Minimum daily wage (under 25)	€22.83	€29.05	€33.57
Minimum daily wage (25+)	€26.18		

The authority responsible for this reform is the Ministry of Labor, Social Security and Social Solidarity. The increase of the minimum wage has been estimated to have negligible fiscal impact for 2015 and 2016, as the additional expenditure will be to a large extent offset by IKA-ETAM (social security) contributions.

Collective bargaining reforms

The proposed reforms and the actions that are planned with regards to collective bargaining include:

[4] Hellenic Federation of Enterprises, National Confederation of Hellenic Commerce, Greek Tourism Confederation, Hellenic Confederation of Professionals, Craftsmen & Merchants, General Confederation of Greek Workers

- Establishment of minimum employment terms through the National General Collective Labor Agreement.
- Provision for collective bargaining in Holding Companies.
- Establishment of the “favourability principle” across the different levels of collective labour agreements.
- Establishment of legislation for the expansion of collective agreements’ application at professional and sectoral level, if agreements cover 51% of employment inside a sector.
- Extension of the application of agreements from 3 to 6 months after their expiration.
- Upgrade of the role of the OMED.
- Upgrade of the role of the mediation process in order to facilitate achievement of consensus.
- Restoration of the regulative field of the Labour Arbitration process and expansion to all subjects of the collective dispute (as opposed to just the basic salary and the daily wage).
- As a legislative innovation, unilateral access to labour arbitration exclusively as a last resort (‘ultimum refugium’) in order to resolve collective conflicts, available to employers and employees alike, and in conformity with international trends[5].

The above reforms will be implemented by amending Law 1876/1990, after consultation with the social partners and in compliance with the relevant recommendations of the ILO for Greece.

The responsible authorities are the Ministry of Labour, Social Security and Social Solidarity (in cooperation with the ILO) and OMED.

Given the administrative and institutional character of the above reforms, there is no fiscal impact. Non-quantifiable impacts include:

- Contribution to the proper function of the labour market through the development of fair competition in every sector of economic activity:
- Strengthening of social cohesion, and minimisation of uneven labour conditions within the same sector of economic activity;
- Strengthening of the autonomy of collective bargaining units.
- Ensure compliance of national legislation with the framework relevant to collective autonomy of the EU law and the international labour conventions, in order to stop the violations that have been repeatedly observed by the Committee of Experts on the Application of Conventions and Recommendations of the ILO.

[5] The provision for unilateral access to arbitration is a constitutional obligation for the Greek Government according to Decision 2307/2014 of the Council of State (the Highest Administrative Court in Greece).

Formalisation of informal employment

The government's plan comprises comprehensive reform initiatives to formalize the labour market. These include the reorganisation of the Labour Inspectorate Body (SEPE) services as well as the completion of current programs to streamline procedures and implement an Integrated Information System (OPS). The actions that have been planned include:

- Establishment of competent control groups and mechanisms for the strengthening of the local services and the unification of all control authorities of the Ministry of Labor, Social Security and Social Solidarity.
- Reorganisation of the Labor Inspectorate Body (SEPE) services.
- Development of an advanced Risk Analysis System in the context of the development of the Integrated Information System of SEPE (also see below).
- Completion of the current programs of simplifying procedures and of implementing the integrated information system (OPS).
- Upgrading of the ERGANE system (which monitors job flow and quality characteristics of industrial relations), the emphasis being on diagnosis of needs and risk analysis.
- A special agreement for a national strategy on battling undeclared work and illegality in the Labour Market, involving social dialogue at a higher level, with the participation of representatives of the social partners, production agencies, social organisations and local authorities.

The aforementioned Risk Analysis will include the setting of specific rules - conditions examined at company level in order to assess the risk of a particular offense category. Each rule will correspond to a numerical result expressing the degree of importance / conformity in respect of this rule. The offense categories (e.g. undeclared work, non-payment of accrued and other remuneration, illegal employment of personnel) will be grouped, and specific rules will be associated with each group, thereby making the control - inspection of certain offenses more efficient.

The responsible Authority is the Ministry of Labor, Social Security and Social Solidarity, in collaboration with SEPE, Social Security Organization (IKA), and Manpower Employment Organization (OAED).

The aforementioned actions are estimated to result in an additional number of 89,000 employees gradually recorded in the ERGANE System. Given the inflows / outflows for different types of work (full employment / part employment / job rotation), social security contributions will be increased by an estimated €89 million in 2015 and €100 million in 2016.

Other positive side effects include the increase of public revenues by battling tax evasion, broadening of the tax base, as well as reaching conditions of fair and undistorted business competition.

Appendix 2: Pension reforms

Long-standing structural issues of the Greek pensions system have only been partially addressed by reforms. In the Government's view, they have been addressed in socially and constitutionally unpalatable ways that ultimately undermine the Greek state pensions system's viability. A forthcoming ruling by the Council of State is widely expected to render crucial aspects of previous reforms unconstitutional, necessitating a wholesale re-design of the Greek pensions system.

The state pensions system, as the largest category of general government spending, has borne the brunt of recent cuts. Drastic cuts in pensions and pension rights of the order of 35%-50% – have combined to aggravate the effects of the depression and push many more old-age pensioners, heavily dependent on government transfers, into poverty. Moreover, the recession has further exacerbated structural issues of the Greek pensions system through a rapid rise in unemployment and consequent fall in contributions; the 2012 PSI wiped out more than 50% of funds' investment assets; and a there has been a wave of early retirements as a better alternative to long-term unemployment or in anticipation of further cuts in future pension rights. As a consequence, the gap between contributions and benefits (amounting to direct government subsidies) rose to 6% of GDP in 2013. In the Government's view, this is not a sustainable path for the Greek pensions system.

At the heart of the Greek pensions system's structural problems lies a set of issues that, although not unique to the Greek political economy, creates a precarious combination:

- A fragile "social contract" based on nearly total lack of transparency between contributions and benefits, often resulting in differentiated and inequitable treatments of various social groups.
- Continuing confusion regarding the use of the state pensions system as a welfare safety net.
- Weak accountability of the pension management system on a range of financial, social fairness and service quality expectations, and;
- A legacy system of incentives that encourages early retirement and uninsured work.

The Government welcomes the once-in-a-generation opportunity to make substantial progress forward on each of these areas based on a sequence of short-term and mid-term policy initiatives.

Short-term policy initiatives

- Support low pensions

The Government's first priority is to mitigate hardship faced by low-pension pensioners. The Government will repeal legal clauses that induce further cuts in low pensions such as the "zero deficit clause" in supplementary pension funds (implying a 15% reduction on 2015 average pension levels) and will review all available options and funding possibilities to top-up low pensions.

In the Government's view, supporting low-pension pensioners is not only socially just but will contribute to revival of growth from a segment with proven high fiscal multipliers. Such measures will be of a necessary but temporary application as they will be succeeded by mid-term policies that will, on the one hand, re-design the structure of contributions and benefits in a way that confirms the distributive character of the new Greek pensions system in a new social contract (see below), and; on the other hand, extend proper welfare benefits to those in need via the establishment of the guaranteed minimum income scheme.

Further, it is the Government's expectation that the resumption of economic growth, in combination with other reforms (see below), will render the "zero deficit clause" obsolete as contributions recover and benefits are controlled[6]. A recent study by the National Actuarial Authority has confirmed that the Greek pensions system is financially sustainable on the basis of already voted measures, with pension expenditures actually declining by 1,9% as a proportion of GDP by 2060, versus a sustainability criterion of increase by 2,5% of GDP over the same period, giving ample fiscal space to correct for recent problems. Putting these numbers in perspective, Greek Government proposals submitted to Institutions to reinstall a number of social benefits for low-pension pensioners amount to the totals shown in Table 2.

- Decisively reduce early retirements

Recently passed legislation has tightened rules on retirement age and state pension eligibility at full or reduced pension levels. The positive impact of this legislation remains to be observed: 22% of population currently 55-59 years old are registered as pensioners, 44% among 60-64 years-old, when the current statutory retirement age is 67. In fact, early retirement has been the better choice for many over 50s finding themselves in the vortex of long-term unemployment. In other cases, this choice is also

6 On the basis that the fund's deficit is non-recurring or substantially declining on reasonable growth expectations, it may be amortized over a 5-7 year period with a small, say 3%, cut upfront. For 2015, the deficit is estimated at €326 million, less than 1% of budgeted pensions spending.

strategic: locking-in their pension rights early evades forward reductions of their pension rights but further damages the financial position of the pensions system while depriving the Greek economy of valuable human capital.

The Government will meticulously examine the enforcement of current legislation on the retirement age and minimum state pension eligibility provisions in order to discourage early retirement. The Government will legislate if necessary on associated penalties and economic disincentives (e.g. reduced state pension according to the chosen age of retirement and years of insurance contributions) with a view to significantly reduce grandfathering, eliminate any legal loop holes, and put a decisive halt on early retirements (except for cases of disability etc.)

At the same time, social security support will be extended to the long-term unemployed, especially those over 50, initially through re-positioning EKAS as a welfare tool, and later through extension of the guaranteed minimum income scheme.

The Government will review, in collaboration with the competent institutions, various "voluntary exit" or pre-retirement schemes especially in the banking sector and some state-owned enterprises where early retirement has been used as a means to transfer future labor costs onto state pension funds. If necessary, new legislation will ensure that the cost of early retirements is passed to respective employers. The Ministry of Labor estimates potential employer liabilities to amount to €150 million.

Mid-term policy initiatives

- A new social contract for pensions

The Government's new social contract for pensions will be in place by the end of 2016. It is a radical proposal to address institutional weaknesses of the current pensions system, as well as those of voted but not implemented legal measures. It will be additionally informed by forthcoming judgments from the Council of State and further democratic consultation, as well as from technical inputs from the Institutions. The new social contract for pensions is expected to include the following broad provisions:

- Set-up of personal notional accounts for the contributions of all insured citizens in the compulsory state pensions scheme
- Insured citizens will be able to follow their state pension contributions with paper or on-line statements every 3 months. In this way, they will be able to hold their employers to account for any unpaid contributions while also keeping track of their future, estimated, pensions benefits

- Individual state pension benefits will be a “function” of individual lifetime contributions and years of insurance. “Function” is implied as a formula that subsidizes low contributors (with low lifetime incomes) from high contributors so that the distributive nature of the system is ensured
- The function will be adjusted regularly so that the minimum statutory pension is substantially funded from the pool of contributions but also in a way that provides a society-level incentive to increase the contributions pool (rather than a society-level incentive to increase government subsidy)
- A revised compulsory contributions formula for the self-employed, taking into account their turnover levels
- Phasing out of contributions through certain products and services (nuisance charges) in a fiscally neutral manner
- Substantial honeymoon periods for start-up companies from paying pension contributions (possibly substituted with pension credits to individual citizens risking entrepreneurial work)
- Strict enforcement of retirement age and statutory pension eligibility criteria for all citizens with no exemptions
- Streamlining contributions and benefits rules for all citizens and legal persons irrespective of pension fund and insured class, as regards the state pension provisions
- A new mechanism to support pension funds with intertemporal revenues (see below)
- A simplified but strictly enforced framework for the supervision of professional and private pension insurance schemes.

In summary, the Government intends that the new social contract for pensions will provide a democratically legitimate basis for reform that establishes a closer link between pension contributions and pension income, streamlines benefits and obligations in an equitable way for all insured citizens, and strengthens incentives to contribute to the state pensions system by both employers and citizens. The Government fully expects that implementation of the new social contract will result in further consolidation of pension funds and consequent benefits in terms of greater transparency, service quality, collectability and efficiency savings.

- New mechanism for intergenerational funding

Gradually to replenish losses suffered under the PSI debt haircut in 2012, and also to create a more fair intergenerational distribution of privatization receipts, the Government intends to reinforce state pension funds through revenues that will be secured through investment schemes which will be created within the framework of exploiting and developing public property and privatizations. Direct equity transfers are also envisaged in the context of privatization projects from the equity the state will retain, in consultation with the Institutions. In parallel, investment rules for state, professional and private pension schemes will be amended to enable voluntary investment in these assets and related securities.

- Administrative measures

The Government has committed to a range of actions to improve services for citizens, administrative efficiency, while tackling debt collectability and fraud. The Ministry of Labor intends to:

- Create a single debtors registry to support debt collection management procedures, monitoring and auditing of invoices and collection files. This initiative will go hand-in-hand with codification and simplification of the social security legislation and a public awareness campaign concerning social security rights and obligations
- Institute a single disability certification system through harmonization of different disability insurance regulations and modification of the process of granting disability benefits. The new process will improve the citizen's experience with the state (essentially by minimizing it!) while ensuring a consistent process less susceptible to fraudulent claims
- Improve the interconnection and operational compatibility of information systems of all social security institutions. This will have major impact in the way annual insurance renewal is conducted without necessitating the physical presence of the insured, with associated savings in administrative costs
- Improve electronic cross-checks to eliminate fraud and particularly employer contribution evasion.

Appendix 3: Bad Bank – an example

The following graphs illustrate what the balance sheet of the proposed Bad Bank could look like and how this would help de-clog the balance sheets of each of the four systemic banks. [Nb. the data used below are sourced from the official, publically available balance sheets of the four systemic banks.]

Illustrative balance sheet of a proposed bad bank

Illustrative balance sheet of a proposed bad bank	
€mm	Dec-14
Gross non performing loans	73,012
(-) provisions	(42,364)
Net non performing loans	30,648
Total assets	**30,648**
Bond funding	26,664
Capital at 13% of assets	**3,984**
o.w. 4 systemic banks (51% of capital)	*2,032*
o.w. government (49% of capital)	*1,952*
Total liabilities and equity	**30,648**

- Greek systemic banks have in total €30.7bn net domestic NPLs which could be transferred to a potential bad bank, which would result in size in line with discussed Italian bad bank (€30bn)
- The bad bank should be majority owned by the banks themselves to comply with European State Aid rules as in both Irish or Spanish examples
- Assuming total bank capital of 13% of total assets, the government investment would be c. €2bn assuming 49% participation
- Capital as % of total assets:
  - Spanish SAREB 8% (2% equity, 6% subdebt)
  - Irish NAMA 5% subdebt
  - Italian bad bank 10% (rumoured)

Overview of domestic non performing loans

€mm, Dec-14		ALPHA BANK		Eurobank	TOTAL
Gross non performing loans	25,085	17,771	14,451	15,705	73,012
(-) provisions	(14,299)	(10,680)	(8,699)	(8,686)	(42,364)
Net non performing loans	**10,787**	**7,091**	**5,752**	**7,019**	**30,648**

CONSIDERATIONS ON POTENTIAL BAD BANK

CONFIDENTIAL 1

Balance sheets of systemic banks - current and pro forma NPL sale

Piraeus Bank

Current balance sheet of Piraeus Group	
€mm	Dec-14
Gross loans	72,983
(-) provisions	(15,840)
Net loans	**57,143**
Other assets	31,947
Total assets	**89,090**
ECB funding (latest)	**29,200**
Customer deposits (post deposit flight post Dec-14)	47,800
Other liabilities, minorities and non govt prefs	4,879
Shareholders' equity	**7,210**
Government prefs	0
Total liabilities and equity	**89,090**

Pro forma balance sheet of Piraeus Group	
€mm	Dec-14
Gross loans	47,898
(-) provisions	(1,542)
Net loans	**46,356**
Other assets	31,947
Total assets	**78,303**
ECB funding (latest)	**18,413**
Customer deposits (post deposit flight post Dec-14)	47,800
Other liabilities, minorities and non govt prefs	4,879
Shareholders' equity	**7,210**
Government prefs	0
Total liabilities and equity	**78,303**

Sale of €10.8bn net NPLs to bad bank with proceeds used to decrease ECB funding

CONSIDERATIONS ON POTENTIAL BAD BANK

CONFIDENTIAL 2

Balance sheets of systemic banks - current and pro forma NPL sale

Alpha Bank

Current balance sheet of Alpha Bank Group	
€mm	Dec-14
Gross loans	62,337
(-) provisions	(12,780)
Net loans	**49,557**
Other assets	23,378
Total assets	**72,935**
ECB funding (latest)	**22,400**
Customer deposits (post deposit flight post Dec-14)	37,301
Other liabilities, minorities and non govt prefs	5,583
Shareholders' equity	**7,652**
Government prefs	0
Total liabilities and equity	**72,935**

Pro forma balance sheet of Alpha Bank Group	
€mm	Dec-14
Gross loans	44,566
(-) provisions	(2,100)
Net loans	**42,466**
Other assets	23,378
Total assets	**65,844**
ECB funding (latest)	**15,309**
Customer deposits (post deposit flight post Dec-14)	37,301
Other liabilities, minorities and non govt prefs	5,583
Shareholders' equity	**7,652**
Government prefs	0
Total liabilities and equity	**65,844**

Sale of €7.1bn net NPLs to bad bank with proceeds used to decrease ECB funding

ISIDERATIONS ON POTENTIAL BAD BANK

Balance sheets of systemic banks - current and pro forma NPL sale

NBG

NATIONAL BANK OF GREECE

Current balance sheet of NBG Group	
€mm	Dec-14
Gross loans	72,055
(-) provisions	(10,574)
Net loans	**61,481**
Other assets	53,983
Total assets	**115,464**
ECB funding (latest)	**23,000**
Customer deposits (post deposit flight post Dec-14)	61,600
Other liabilities, minorities and non govt prefs	21,449
Shareholders' equity	**8,065**
Government prefs	1,350
Total liabilities and equity	**115,464**

Pro forma balance sheet of NBG Group	
€mm	Dec-14
Gross loans	57,604
(-) provisions	(1,875)
Net loans	**55,729**
Other assets	53,983
Total assets	**109,712**
ECB funding (latest)	**17,248**
Customer deposits (post deposit flight post Dec-14)	61,600
Other liabilities, minorities and non govt prefs	21,449
Shareholders' equity	**8,065**
Government prefs	1,350
Total liabilities and equity	**109,712**

Sale of €5.8bn net NPLs to bad bank with proceeds used to decrease ECB funding

Balance sheets of systemic banks - current and pro forma NPL sale

Eurobank

Current balance sheet of Eurobank Group

€mm	Dec-14
Gross loans	51,881
(-) provisions	(9,748)
Net loans	**42,133**
Other assets	33,385
Total assets	**75,518**
ECB funding (latest)	**29,000**
Customer deposits (post deposit flight post Dec-14)	35,877
Other liabilities, minorities and non govt prefs	5,082
Shareholders' equity	**4,609**
Government prefs	950
Total liabilities and equity	**75,518**

Pro forma balance sheet of Eurobank Group

€mm	Dec-14
Gross loans	36,176
(-) provisions	(1,062)
Net loans	**35,114**
Other assets	33,385
Total assets	**68,499**
ECB funding (latest)	**21,981**
Customer deposits (post deposit flight post Dec-14)	35,877
Other liabilities, minorities and non govt prefs	5,082
Shareholders' equity	**4,609**
Government prefs	950
Total liabilities and equity	**68,499**

Sale of €7.0bn net NPLs to bad bank with proceeds used to decrease ECB funding

Appendix 4. Medium Term Fiscal Strategy (MTFS) for Greece 2015 - 2025

An overview of the medium term fiscal strategy

The medium-term fiscal strategy of the Greek Government aims to restore stable and sustainable economic growth, permitting a return to potential GDP over seven years and a steady reduction in the ratio of public debt to GDP.

The three pillars of the fiscal strategy are: **tax reform and more effective tax administration**; a **more efficient and effective public sector**; and **investments in *traded goods and services* sectors** that will improve the trade balance of the country. The scale of investments is tailored to the difference between growth of tax revenue and that of general government expenditure, and can be augmented by external public resources and foreign direct investment.

We begin here with a brief summary of the macro-fiscal rationale.

Taxes: Greece suffers from ineffective tax administration and a resulting unfair distribution of the tax burden. Tax evasion is rampant, thanks to informal labor markets, cash-based transactions, easy concealment of incomes and wealth, the political influence of oligarchs and the international structure of major sectors of the Greek economy. There are also major arrears due to the economic crisis.

We do not expect these problems to yield easily to reform. Given the scale of economic contraction, bankruptcies and capital flight, only a fraction of tax arrears will be collectible. Accurate and effective administration of land taxation remains a work in progress, as does fully effective income reporting. However, improvements can be made on a host of particular measures, each of which will yield additional resources for the Greek state. In particular, major inequities in tax administration can be cured by reducing informal labor, increasing the scope of social security contributions, and promoting electronic transactions that can be effectively monitored for VAT compliance. Decreasing VAT evasion can in turn make it possible to reduce the VAT rate on compliant transactions.

The goal of tax reform in economic terms is to increase the elasticity of tax revenue so that it approaches a value of unity with respect to growth of **nominal** *GDP.*

Public Spending: The Greek public sector has undergone major downsizing under the previous programs. While the previous scale of the Greek public sector was too large and unsustainable, poorly designed cuts have diminished the capacity of the Greek state in critical areas, including management of public, cultural and natural assets, and tax collection. A smaller state is not necessarily a more efficient or effective one.

With respect to some public assets, privatization or joint public-private management is a suitable solution and the Greek state will continue to pursue privatizations that can foster investment and yield better results while bringing revenue to the state. Privatization at fire sale prices and those that are likely to establish private monopolies with few or no efficiency gains are to be avoided.

The government's medium-term spending objective is slow growth augmented by efficiency gains, many of them made possible by the introduction of digital technologies.

The goal of public spending reform in economic terms is to establish an elasticity of current public spending that approaches a value of unity with respect to growth of ***real*** *GDP.*

Investment Strategy. The gap between projected growth of tax revenue and projected growth of general government expenditure, in the context of a manageable debt-service burden and a declining debt/GDP ratio, is the primary source of resources for investment in the reforming structure and growth of the Greek economy. Secondary sources that can be tapped include European investment funds and foreign direct investment.

With a sustained primary surplus in the government budget, the Greek economy must run a sustained current account surplus in order to maintain fiscal balance and to avoid having to rely on boom-bust cycles in the domestic private sector. For this reason an investment strategy must foster growth in the *traded goods and services sectors.* While infrastructure investments remain important, an investment strategy cannot simply or primarily build infrastructure to support or enhance domestic consumption. Instead, Greece needs to focus on providing advanced tradable services, suited to Greek conditions, and able to combine trade competitiveness with the ability to create jobs, absorb labor and reduce unemployment. As European integration continues, the Greek advantage lies in the following areas: high-end niche agricultural products, renewable and decarbonized energy, retirement communities and health and care services, world universities and colleges, arts and culture, **s**cience and research and of course tourism.

Shipping and transshipment is also a major priority for future economic growth. These have been discussed in the body of the document above.

The goal of the investment strategy is to foster a sustainable balance between the Greek public sector surplus and steady debt reduction on one side, and economic growth, development and employment on the other.

Summary:

Greece has a small economy, a distinctive geography, an inviting climate, a vibrant tradition of small-scale agriculture and enterprise, and a rich heritage. It can combine these traits into a successful economic model that will complement fiscal and external sustainability. The key to success in these areas is to innovate sensibly and to emphasize the *differences* and *complementarities* of the Greek condition with that of her European and global partners. With the benefit of a fiscal surplus and the help of her European partners, Greece proposes to place herself on a new and sustainable path of growth, investment and development.

Macro-economic assumptions

The implementation of the economic reform, recovery and development program aims to place Greece in a path of steady and sustainable growth. This strategy maps out a forward-looking plan based on reasonable assumptions about the primary surpluses consistent with the rates of output growth, net investment, and export expansion that can stabilize Greece's economy and debt ratio.[7] If this means that the debt-to-GDP ratio will be higher than 120% by 2023, and if that goal remains primary, then such an outcome requires an open and honest discussion on the ways to rationalize, re-profile, or restructure the debt – keeping in mind that the aim of such a process is to maximize the effective present value that will be returned to Greece's creditors, as will be discussed in a further section.

In this context, the MTFS strategy is based on the assumption of a steady recovery of the economy in the medium term in such a way that it allows to close the massive output gap present in the economy. For 2014, the output gap for Greece was estimated to reach a range between -9.4%[8] and -12.7%[9]. This wide range in the estimations for potential output can be explained by the inherent difficulties in calculating the TFP in a post financial crisis environment. This is an issue that naturally extends to the medium

7 Consistency of macroeconomic assumptions is a prerequisite for credible projections. For example, high rates of economic growth are unlikely to be consistent with ever-rising primary surplus targets. Private consumption and investment should not be projected to support economic growth in a context of low aggregate demand, high unemployment and significant credit constraints. A current account surplus cannot be expected to support reduction in reliance on foreign credit through further import compression, while the country is projected to close the output gap in a relatively short period of time.

8 IMF (2014). *GREECE FIFTH REVIEW UNDER THE EXTENDED ARRANGEMENT UNDER THE EXTENDED FUND FACILITY*. IMF Country Report No. 14/151. Retrieved from https://www.imf.org/external/pubs/ft/scr/2014/cr14151.pdf

9 OECD (2014). *Economic Outlook No 96 - November 2014 - OECD Annual Projections*. Retrieved from http://stats.oecd.org/Index.aspx?QueryId=51655

term projections of output growth. For example, whereas the IMF estimates a rate of growth for potential output of 1.4%, the OECD estimates this to be 2.2%[10].

With these reservations, we project that potential output will grow at a rate of 1.5% per year, steadily growing until it reaches 1.9% in the medium term (Table 1)[11]. The increase in potential output will come as a result of two factors. First, the implementation of the economic reform program will have a positive effect on productivity growth through efficiency gains in both the public and private sectors. Second, the projected increase in investment, to be achieved through the several initiatives outlined in this document, will provide an additional support to potential. It is important to note that the reduction in primary surplus targets vis-a-vis the goals set in the Final Review will be directed to support the growth of investment. The increase in investment is designed to work both as a buffer against deviations of actual GDP growth in the short run and to support higher rates of potential growth in the medium term. High, sustainable and consistent growth rates of actual and potential output are fundamental to achieve fiscal sustainability, affecting both the growth of tax revenues and reduction of the debt/GDP ratio.

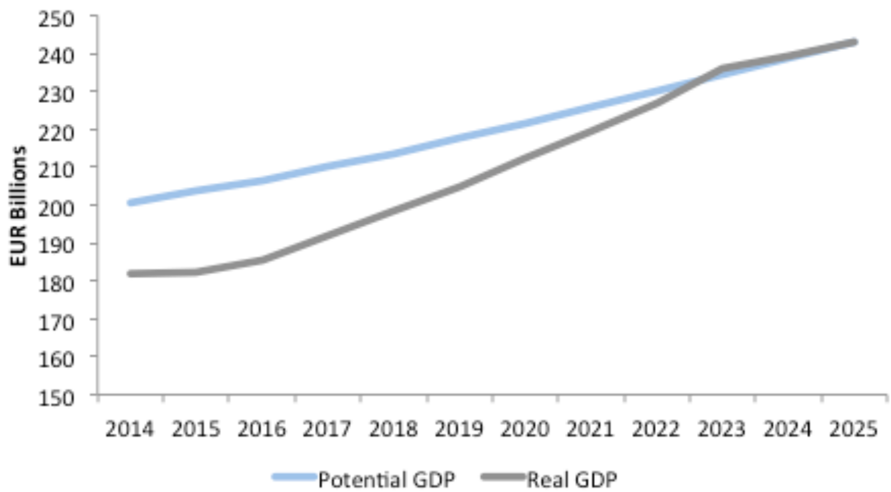
Over the next decade, real GDP growth is expected to average 2.7% per year closing the output gap by 2023 (Table 4.1). In this context of steady growth, Greece is expected to overcome deflationary pressures in the medium term. Given stable inflation, this real growth translates into an average nominal GDP growth of 3.8% for the period. The reduction in the rate of growth observed in the back-end of the projections is a result of the stabilization of the economy at its long run rate of growth.

---

[10] OECD (2014). *OECD Economic Outlook (Volume 2014/1)*. Retrieved from http://www.oecd.org/eco/outlook/Long-term-growth-prospects-and-fiscal-requirements.pdf

11 Preliminary projections subject to further revisions.

Table 4.1: Output Gap



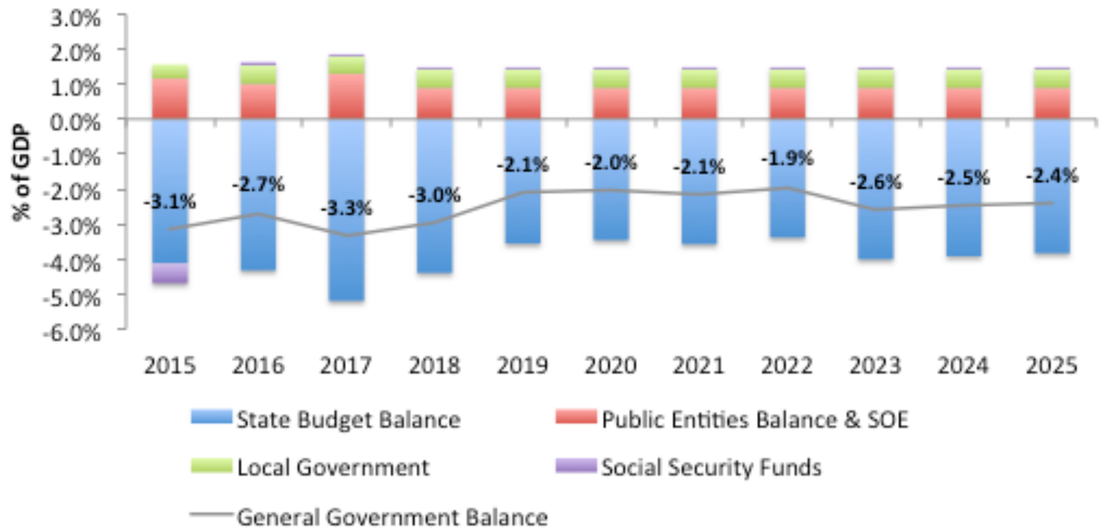
Source: Hellenic Ministry of Finance. Preliminary projections.

General Government Balance for 2015 - 2025

Over the medium term, the sustainability of Greek public finances depends on the integrated management of the different components of the General Government to ensure that the process of fiscal consolidation remains consistent with economic growth. This process will continue under a different logic to that pursued so far. Instead of relying on short term measures with adverse impact on the Greek population, such as tax rate hikes or pension cuts, the government will rely on a steady strategy to combat vested interest, corruption and to reduce the shadow economy. This will allow the mobilizing of untapped resources in the economy, and as efficiency gains materialize, to reduce the tax burden on the formal sector of the economy.

In consequence, the overall balance of the General Government is expected to improve from a projected deficit of 3.1% of GDP in 2015 to 1.9% in 2022 (Table 4.2). This balance is consistent with the primary surplus targets, according to the Economic Policy Program (EPP), that are set forth in Table 4.3. Overall, the improvement will be achieved through a reduction in the State Budget deficit and a balanced budget at the level of Social Security Funds. SOEs and Local Governments are expected to maintain a small surplus throughout the period.

Table 4.2: General Government Balance 2015 - 2025 (% of GDP)



Source: Hellenic Ministry of Finance. Preliminary projections.

Deviations observed in the projected evolution of the general government balance are a result of exogenous factors. In the case of 2017, the increase in the balance is a result of accrual accounting adjustments at the level of the State Budget. The main factor, as explained in detail in the previous MTFS 2015-2018 document, is a projected increase of 0.5% of GDP in accrued interest payments in 2017 with respect to 2016. This change therefore does not reflect deterioration in the underlying fiscal position. Likewise, the increase in the deficit observed after 2023 is a result of a projected increase in interest rates that would take place in a market access environment[12].

The projected general government balance is consistent with a stable medium term primary balance, according to the EPP, of 2% (Table 4.3)[13]. For 2015, the target of primary surplus is set at 0.8% of GDP. As explained in more detail in the Debt Sustainability Analysis section, these targets of primary surplus will generate a large reduction in the public debt to GDP ratio, from a projected 182% of GDP in 2015 to 128% in 2025[14]. Despite this favorable evolution, the debt to GDP ratio would remain at relatively high levels, which makes the debt profile of the country vulnerable to short

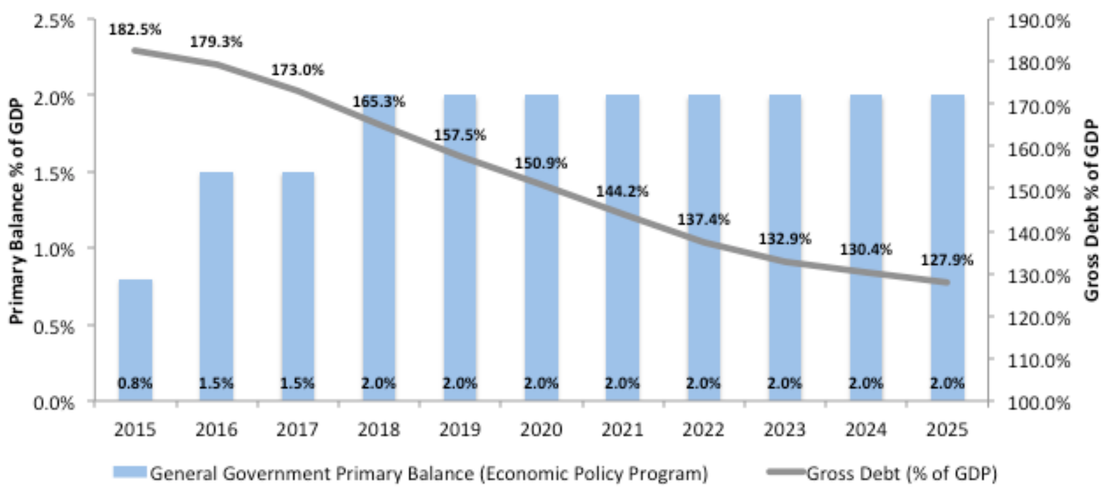
12 Note that this scenario doesn't take into account the use of any of the tools available to rationalize and re-profile public debt as discussed in the next section.

13 The main adjustment to achieve correspondence between the General Government primary balance and the primary balance according to the EPP is the revenue transfer from the ANFA & SMP on an accrued basis. This transfer is set to expire in 2020.

14 Note that this is an illustrative pathway of debt reduction based on preliminary projections. These projections are subject to change and will be finalized in the context of the new program to be concluded in the coming weeks.

term shocks in terms of either growth or interest rates. Hence the importance of safeguarding the accomplishment of fiscal targets through an investment and sustainable growth strategy, to be complemented by additional debt management measures.

Table 4.3: General Government Primary Balance (Economic Policy Program) and Gross Debt 2015 - 2025 (% of GDP)



Source: Hellenic Ministry of Finance. Preliminary projections.

State Budget Balance for 2015 – 2025

The central component of the fiscal strategy is the State Budget, which covers most of the Central Government, excluding SOEs and other public entities. The projections use as a baseline the State Budget of 2015 and include the implementation of the reform measures, which will be explained in detail at the end of the present section. On a modified cash basis, the State Budget for 2015 is set to achieve a primary surplus of 1.2 billion Euros (0.7% of GDP). Once adjusted on an accrual basis, the primary surplus is set to further increase to 1.5 billion Euros (0.9% of GDP) (Table 4.4). This result is explained by revenues expected to reach 56.4 billion Euros (31.6% of GDP) and primary expenditures expected to reach 55.1 billion Euros (30.9 % of GDP).

The main factors that explain the behavior of revenues are related to the dynamic of tax and ANFA & SMP receipts, as well as the projected effect of the reforms program. Tax receipts have underperformed with respect to the initial goal set for Q1 by 748 million Euros (0.4% of GDP), as a result of the fall of economic activity in Q1 resulting from delay in a successful conclusion of the Final Review. Nonetheless, as economic activity picks up in the second half of the year, it is expected that tax receipts will recover. Further, the short-term reduction in tax revenue has been compensated by over-performances of non-tax revenues and non-recurring revenues. The ability of the government to reach its overall revenue target in Q1 of 2015, in context of extreme uncertainty and liquidity constraints, gives reason to expect that once an agreement is achieved it will be possible to strengthen tax collection on the second half of the year.

Table 4.4: State Budget Balance 2015 – 2017 (Including Reforms)

	State Budget Balance (Modified Cash & Accrual Adjustments)	Millions of Euros 2015	2016	2017	% of GDP 2015	2016	2017
	State Budget Primary Balance ESA 95	1,620	1,514	777	0.9%	0.8%	0.4%
	State Budget Balance ESA 95	(7,380)	(7,886)	(9,823)	-4.1%	-4.3%	-5.2%
	ESA 95 Primary Balance Adjustments	369	1,397	831	0.2%	0.8%	0.4%
	ESA 95 Adjustments	(2,731)	(1,403)	(2,869)	-1.5%	-0.8%	-1.5%
	State Budget Primary Balance	1,251	117	(54)	0.7%	0.1%	0.0%
	State Budget Balance	(4,649)	(6,483)	(6,954)	-2.6%	-3.6%	-3.7%
(1+2)	**Total State Budget Revenue**	56,444	56,265	59,216	31.6%	30.9%	31.3%
1	Ordinary Bugdet Net Revenue	51,712	53,415	55,068	28.9%	29.3%	29.1%
1.1	Net Tax Revenue	45,357	47,481	49,368	25.4%	26.0%	26.1%
1.2	Non-Tax Revenue	3,508	3,451	3,530	2.0%	1.9%	1.9%
1.3	Non - Recurring Revenue	2,847	2,483	2,170	1.6%	1.4%	1.1%
2	Public Investment Budget Revenues	4,732	2,850	4,148	2.6%	1.6%	2.2%
(1+2)	**Total State Budget Expenditure**	61,092	62,748	66,170	34.2%	34.4%	35.0%
(1+2-1.6)	Total State Budget Expenditure (Exc. Interest)	55,192	56,148	59,270	30.9%	30.8%	31.3%
1	Ordinary Budget Expenditure	54,692	53,414	57,204	30.6%	29.3%	30.3%
1.1	Ordinary Budget Primary Expenditure	42,964	45,663	48,806	24.0%	25.0%	25.8%
1.1.1	Salaries and Pensions	19,844	19,918	20,694	11.1%	10.9%	10.9%
1.1.2	Grants to Social Security Sector	13,931	16,281	18,545	7.8%	8.9%	9.8%
1.1.3	Operational and other expenditure	5,393	5,306	5,441	3.0%	2.9%	2.9%
1.1.4	Earmarked Revenues	2,796	3,158	3,126	1.6%	1.7%	1.7%
1.1.5	Contingency Reserve	1,000	1,000	1,000	0.6%	0.5%	0.5%
1.2	Payments for military equipment procurement	700	598	457	0.4%	0.3%	0.2%
1.3	Guarantees	818	548	1,041	0.5%	0.3%	0.6%
1.4	Loan disbursement fee to EFSF	-	5	-	0.0%	0.0%	0.0%
1.5	Financing of Arrears	4,310	-	-	2.4%	0.0%	0.0%
1.6	Net Interest Expenditure	5,900	6,600	6,900	3.3%	3.6%	3.6%
2	Public Investment Budget Expenditure	6,400	9,334	8,965	3.6%	5.1%	4.7%

Source: Hellenic Ministry of Finance. Preliminary projections.

The ANFA & SMP revenues are set to reach a total of 2.0 billion Euros (1.1% of GDP) in 2015. This represents an increase of over 1.5 billion euros with respect to 2014. Finally, it is expected that the projected reforms will provide an additional 1.4 billion Euros (0.8% of GDP) in 2015 (Table 2). This is a conservative estimate that takes into account the delay in the successful conclusion of the current negotiations, which in turn reduced the potential gains to be obtained in 2015. Even using a conservative approach, the reform program is projected, once expenditures are taken into account, to have a net positive impact on the State Budget for 2015 of 339 million Euros (0.2% of GDP).

Key factors that explain the performance of public expenditures are the financing of arrears and the implementation of the reform program. The liquidity constraints faced by the Hellenic Republic have forced the Government to implement measures that create distortions in the process of budget management. As such, arrears on the State Budget are set to increase, having a negative effect on the fiscal balance for 2015, and they have the potential to have a negative impact on 2016. As for the effect of reforms, the Government has already financed the implementation of the Humanitarian Crisis Law (4320/2015) through savings in other areas of expenditure, rendering this measure fiscally neutral for the current year. As for pensions, projections show that measures to protect low-income pensioners will increase expenditures by a total of 1.0 billion Euros (0.6% of GDP). As highlighted previously, this additional expenditure would be offset by revenue-generating measures included in the same reform package.

For 2016 and 2017, the fiscal targets are set on the assumption of a steady recovery of the economy along with the gradual implementation of the reform program, which will have significant effects on both revenue and expenditures. The cornerstone of strategy for this period is a gradual and continuous strengthening of tax collection, which will simultaneously allow the Government to reduce the economic distortions associated with the shadow economy and corruption as well as to provide the required resources to fund in a sustainable way the humanitarian and investment programs of the Government. The strategy aims to increase the elasticity of tax revenue with respect to economic activity, which has been reduced by the crisis and by the consequent increase in the size of the shadow economy.

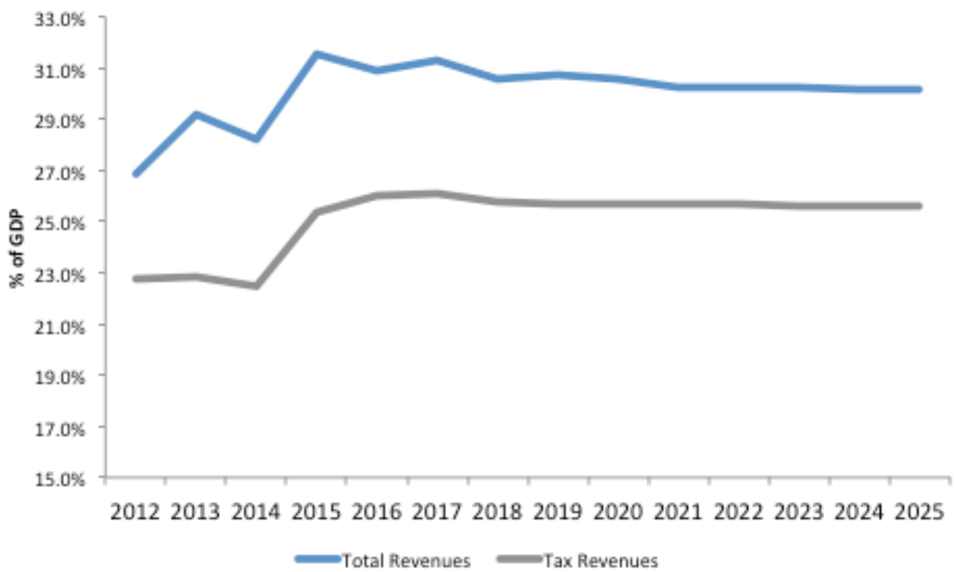
Over the medium term, total revenue of the State Budget is set to increase in nominal terms, but to decrease in relative terms, from 56.4 billion (31.6% of GDP) in 2015 to 59.2 billion (31.3% of GDP) in 2017. This includes gains associated with the reform program of 3.7 billion (2.0% of GDP) and 4.8 billion (2.5% of GDP) in 2016 and 2017, respectively. The biggest shares of the gains are associated with the strengthening of tax audits, measures designed to fight VAT evasion and fraud, and with the full implementation of an electronic payments system in the country.

Regarding expenditures, the implementation of public administration reforms, as well as the improvement in the quality of public finances, will provide efficiency gains in terms of both enhanced budget planning as well outlay controls. In turn, this will allow the Government to closely monitor the evolution of current expenditures. Thus, in the context of the fulfillment of the established primary surplus targets, all of the efficiency gains on both revenues and expenditures will be directly translated into higher levels of investment, which support the growth and debt reduction strategy.

Overall, primary expenditures are projected to increase from 55.1 billion (30.9% of GDP) in 2015 to 59.2 billion (31.3% of GDP) on 2017. Besides the impact of the reforms, which will be analyzed later on, three factors explain this behavior. First, a speedy resolution to the current negotiations that will allow putting a limit on the growth of arrears. Second, adequate budget controls to ensure the stabilization of current expenditures in their current levels. Third, an increase in the resources devoted to investment to kick-start the economy, which subject to the fulfillment of fiscal targets, will increase from 6.4 billion in 2015 (3.6% of GDP) to 8.9 billion (4.7% of GDP) in 2017.

The Government plans the gradual implementation of its health care and guaranteed minimum income policy proposals. The objective is to ensure consistency between the execution of these policies and the steady increase of resources product of the implementation of revenue generating measures. In total it is expected that the implementation of the economic reforms will increase expenditures by 2.9 billion (1.6% of GDP) in 2016 and 4.8 billion (2.5% of GDP) in 2017. Once the revenue measures are taken into account, the net impact of the economic reforms is expected to be 773 million (0.4% of GDP) in 2016 and 5 million (0.0% of GDP) in 2017.

Table 4.5: State Budget Revenues 2015 – 2025 as % of GDP (Modified Cash)

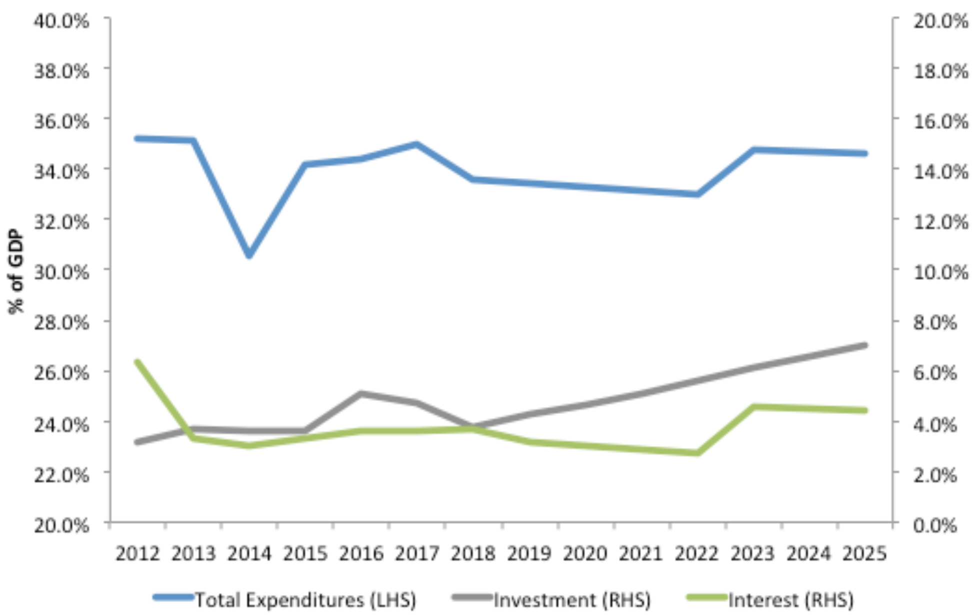


Source: Hellenic Ministry of Finance. Preliminary projections.

For the medium term, in relation to GDP, total revenues are expected to decline marginally while tax revenues will remain steady in their current levels (Table 4.5). The behavior of total revenue is explained by the expiration of the ANFA & SMP revenues, which currently represent 2 billion Euros (1.1% of GDP), by 2021. In the case of tax revenues, the implementation of the economic reforms is expected to re-establish a direct link between economic activity and tax revenue. As such, tax revenues are expected to grow in line with nominal GDP over the medium term.

Expenditures in relation to GDP are expected to remain steady at current levels over the medium term (Table 4.6). However, as a result of the economic reforms there will be an important shift in the composition of expenditure. Investment will increase its share in total expenditures from 10.5% in the Budget for 2015 to 20.3% by 2025. This translates into an average level of investment for the 2015 – 2025 period of 5.2% of GDP. The efficient use of these resources will provide the Government with additional fiscal flexibility as well as a powerful macro prudential tool to counter short-term economic shocks. Rather than considering these resources as a subtraction from higher primary surplus targets, they need to be recognized as the key mechanism to ensure that no significant deviation from macro and fiscal targets takes place.

Table 4.6: State Budget Expenditures 2015 - 2025 as % of GDP (Modified Cash)



Source: Hellenic Ministry of Finance. Preliminary projections.

The increase in expenditures observed at the end of the period is a result of the expected rise in interest outlays that would take place in 2023. In this regard, the Government is confident that the steady implementation of the economic reform, recovery and development program, including its public debt management strategy, will put the country on sound fiscal footing to return to the markets on a sustainable way.

To conclude this section, table 4.7 provides with an overview of the evolution of both revenues and expenditures over the medium term.

Table 4.7: State Budget MTFS 2015 – 2025 (% of GDP)

	State Budget MTFS % of GDP (2015-2015)	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
	State Budget Primary Balance ESA 95	0.9%	0.8%	0.4%	1.2%	1.0%	0.9%	0.6%	0.6%	0.6%	0.6%	0.6%
	State Budget Balance ESA 95	-4.1%	-4.3%	-5.2%	-4.4%	-3.6%	-3.5%	-3.6%	-3.4%	-4.0%	-3.9%	-3.8%
	ESA 95 Primary Balance Adjustments	0.2%	0.8%	0.4%	0.4%	0.6%	0.6%	0.6%	0.6%	0.6%	0.6%	0.6%
	ESA 95 Adjustments	-1.5%	-0.8%	-1.5%	-1.4%	-0.8%	-0.7%	-0.7%	-0.6%	0.6%	0.6%	0.6%
	State Budget Primary Balance	0.7%	0.1%	0.0%	0.7%	0.4%	0.3%	0.0%	0.0%	0.0%	0.0%	0.0%
	State Budget Balance	-2.6%	-3.6%	-3.7%	-3.0%	-2.7%	-2.7%	-2.9%	-2.7%	-4.6%	-4.5%	-4.4%
(1+2)	**Total State Budget Revenue**	31.6%	30.9%	31.3%	30.6%	30.7%	30.6%	30.2%	30.2%	30.2%	30.2%	30.2%
1	Ordinary Bugdet Net Revenue	28.9%	29.3%	29.1%	28.7%	28.5%	28.4%	28.0%	28.0%	28.0%	28.0%	28.0%
1.1	Net Tax Revenue	25.4%	26.0%	26.1%	25.7%	25.7%	25.7%	25.7%	25.6%	25.6%	25.6%	25.6%
1.2	Non-Tax Revenue	2.0%	1.9%	1.9%	1.9%	1.9%	1.9%	1.9%	1.9%	1.9%	1.9%	1.9%
1.3	Non - Recurring Revenue	1.6%	1.4%	1.1%	1.0%	0.9%	0.7%	0.4%	0.4%	0.4%	0.4%	0.4%
1.4	Privatization Proceeds	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
2	Public Investment Budget Revenues	2.6%	1.6%	2.2%	1.9%	2.2%	2.2%	2.2%	2.2%	2.2%	2.2%	2.2%
(1+2)	**Total State Budget Expenditure**	34.2%	34.4%	35.0%	33.6%	33.5%	33.3%	33.1%	33.0%	34.8%	34.7%	34.6%
	Total State Budget Expenditure (Exc. Interest)	30.9%	30.8%	31.3%	29.9%	30.3%	30.3%	30.3%	30.2%	30.2%	30.2%	30.2%
1	Ordinary Budget Expenditure	30.6%	29.3%	30.3%	29.8%	29.1%	28.6%	28.0%	27.3%	28.7%	28.1%	27.6%
1.1	Ordinary Budget Primary Expenditure	24.0%	25.0%	25.8%	25.8%	25.4%	25.0%	24.6%	24.1%	23.6%	23.1%	22.7%
1.1.1	Salaries and Pensions	11.1%	10.9%	10.9%	10.8%	10.7%	10.6%	10.4%	10.2%	10.0%	9.8%	9.6%
1.1.2	Grants to Social Security Sector	7.8%	8.9%	9.8%	10.0%	9.8%	9.7%	9.5%	9.3%	9.1%	8.9%	8.8%
1.1.3	Operational and other expenditure	3.0%	2.9%	2.9%	2.8%	2.8%	2.8%	2.7%	2.7%	2.6%	2.6%	2.5%
1.1.4	Earmarked Revenues	1.6%	1.7%	1.7%	1.6%	1.6%	1.5%	1.5%	1.5%	1.5%	1.4%	1.4%
1.1.5	Contingency Reserve	0.6%	0.5%	0.5%	0.5%	0.5%	0.5%	0.5%	0.4%	0.4%	0.4%	0.4%
1.2	Payments for military equipment procurement (ca	0.4%	0.3%	0.2%	0.3%	0.2%	0.2%	0.2%	0.2%	0.2%	0.2%	0.2%
1.3	Guarantees	0.5%	0.3%	0.6%	0.1%	0.3%	0.3%	0.3%	0.3%	0.3%	0.3%	0.3%
1.4	Loan disbursement fee to EFSF	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
1.5	Financing of Arrears	2.4%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
1.6	Net Interest Expenditure	3.3%	3.6%	3.6%	3.7%	3.2%	3.0%	2.9%	2.7%	4.6%	4.5%	4.4%
2	Public Investment Budget Expenditure	3.6%	5.1%	4.7%	3.8%	4.3%	4.7%	5.1%	5.6%	6.1%	6.6%	7.0%

Source: Hellenic Ministry of Finance. Preliminary projections.

Appendix 5: Provisional Debt Sustainability Analysis (DSA)

The Government recognizes the importance of having a credible and consistent macroeconomic, fiscal, and debt reduction strategy. A transparent and efficient management of the fiscal policy of the country is a key to re-establish the credibility of the government and the confidence of consumers and investors, both at home and abroad. This MTFS maps out an illustrative plan based on reasonable assumptions about the primary surpluses consistent with the rates of output growth, net investment, and export expansion that can stabilize Greece's economy and debt ratio.

The baseline DSA for this MTFS projects a steady reduction of the debt to GDP ratio over the 2015 – 2025. Debt/GDP is projected to decline from 182.5% in 2015 to 127.9% in 2025. The projection uses the macroeconomic and fiscal assumptions previously explained. Other relevant assumptions used are shown in Table 5.1. We note that our interest rate assumptions are conservative in relation to current market conditions. By locking in the very low long-term interest rates available today on various tranches of the debt, it should be possible to obtain even better results and a more rapid reduction of the debt/GDP ratio.

Table 5.1: State Budget Expenditures 2015 - 2025 as % of GDP (Modified Cash)

	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
Gross Debt (% of GDP)	182.5%	179.3%	173.0%	165.3%	157.5%	150.9%	144.2%	137.4%	132.9%	130.4%	127.9%

Key assumptions	Period	Quantity
Privatizations	2015-2019	7.5 billion
ANFA & SMP	2015-2020	7.7 billion
Average Interest Rate (Cash)	2015-2022	1.9%
Average Interest Rate	2023-2025	3.5%

Source: Hellenic Ministry of Finance. Preliminary projections under constant revision

This projection presents both upside and downside risks. On the upside, the projection doesn't include the potential revenues derived from selling bank shares currently in possession of the government. Assuming the recovery of the economy, it would be possible to expect revenues of 10 billion Euros from this operation. If included in the projection, the debt/GDP ratio would decrease to 123% by 2025. The baseline also doesn't take into account that the implementation of the economic program combined with the different initiatives designed to increase investment, such as the public investment program, the development bank and the establishment of a bad bank, have the potential to simultaneously increase potential and nominal GDP over the medium term. This in turn would accelerate the process of debt reduction. For example, an increase of 1 percentage point in GDP growth over the 2020-2025 period has the potential to reduce the debt to GDP ratio to 120% of GDP by 2025. Moreover, if instruments such as GDP linked bonds are introduced, such a development has the additional benefit of increasing the present value returned to creditors.

Downside risks include lower than expected growth or higher than expected interest rates after 2023. A weaker than expected recovery, associated for example with higher primary surplus targets that are inconsistent with sustainable growth, would have a negative impact on the debt reduction path. A reduction of 1 percentage point of GDP growth in the 2016 – 2020 period would increase the debt to GDP ratio to 135% of GDP by 2025. In the case of interest rates, an increase of 100 basis points in the interest rate for 2023-2025 would increase the debt to GDP ratio to 131% of GDP by 2025.

These scenarios, which are presented in an illustrative way and are subject to further modifications, don’t include the use of debt management tools designed to reduce the impact of exogenous shocks on the debt reduction path as well as to increase the present value returned to creditors. The character, impact and importance of these tools will be covered in a later document.

In the present DSA, the government adopts a conservative approach toward macro-economic assumptions and also toward fiscal commitments. The effect is to place the debt-GDP ratio on a sustainable downward track, in a realistic time frame.

Appendix 6. Outline of Economic Reforms with Fiscal Impact

Tax and other revenue measures

1. Intensification of audits on lists of bank transfers and offshore entities

a. Current situation: The government is in the process of finalizing the auditing of transfers. This audit will make it possible to home in on un-taxed incomes, potentially representing a source of significant tax revenues. The same is true of lists of Greek citizens with deposits in foreign banking institutions. Moreover, there are 500 pending cases that refer to audits that have been completed since 2013, but corresponding tax obligations have yet to be assessed given the legal requirement determining that existing cases are audited again by the respective tax offices.

b. Proposed measures: The GSPR (General Secretariat of Public Revenues) will combine bank transfer and tax return databases in cooperation with SDOE (the financial crime squad) anti-corruption prosecutors.

- Strengthen banking sector data mining techniques and improve current risk analysis system under the guidance of the Greek government's OECD experts.
- GSPR has identified a set of complementary measures to accomplish this policy goal.

c. Responsible authority: GSPR, SDOE.

d. Timetable: June of 2015.

e. Fiscal impacts: As shown in Table 2.

2. Combating illegal trade on oil

a. Current situation: According to rough estimates by independent private sector organizations (e.g. Federation of Gas Station Owners) the revenue loss per annum due to fuel smuggling is 350-500 million euros. Until now, the actions that have been taken to tackle this issue are fragmented and not aligned to the best practices. This is despite the fact that legislative actions during the last years made the installation of computerized inflow-outflow system obligatory to the full length of the fuel distribution chain. Nevertheless, these laws were partly or not at all applied.

b. Proposed measures: Staffing and operation of Customs Mobile Control Units with auditors, in order to carry out 24/7 checks on a daily basis.

- Establish an SGPR specialized team with the participation of Customs and IT staff which will process all data received through the existing IT systems (Taxisnet, Icisnet, Elenxis, inflow – outflow system, GPS tankers, AIS etc) thus efficiently targeting the inspections carried to combat anti-smuggling of petroleum by Marine and Mobile Control Units.
- GSPR has identified a set of 9 complementary reforms to accomplish this policy goal.

c. Responsible authority: GSPR, SDOE.

d. Timetable: June of 2015.

e. Fiscal impacts: As shown in Table 2.

3. Introduction of a VAT lottery scheme

a. Current situation: VAT evasion takes the form of non-issuance of receipts concealing the actual value of the transaction. Consumers often collude with sellers to receive goods and services without the issuance of receipts so as to avoid being charged with VAT. To give costumers an incentive to abstain from this practice, a VAT lottery scheme is considered.

b. Proposed measures: Implementation of a lottery system rewarding costumers for demanding a receipt, as implemented recently in Portugal, Slovakia and Malta.

- GSPR has already prepared a proposal for a pilot application of the VAT lottery using own technical resources.
- Close cooperation and assistance from tax authorities in this countries, as well as other European partners will be requested to accelerate this process.

c. Responsible authority: GSPR.

d. Timetable: June of 2015.

e. Fiscal impacts: As shown in Table 2.

4. Fight against VAT fraud

a. Current situation: The GSPR is committed to combat VAT fraud. In particular, both Belgian and Greek tax authorities are working together on identifying the VAT fraud in Greece through the use of a special social network analysis software (SNA by SAS Institute). Based on a study by the Belgian tax authorities, the Greek State could "save" approximately €1 billion from the fight against VAT fraud.

b. Proposed measures: Strengthening of the special VAT fraud unit within YEDDE.

- The GSPR intends to actively seek funds for the purchase of the SNA software, possibly through the Siemens Settlement Fund. With the SNA, the special VAT fraud unit will be able to identify almost in real-time both large and small fraud networks.
- Close cooperation with Belgian Tax authorities to ensure the prompt implementation and use of the SNA software.

c. Responsible authority: GSPR.

d. Timetable: June of 2015.

e. Quantification of fiscal impacts: As shown in Table 2.

5. Improvement of the state revenue collection mechanism

a. Current situation: Almost 85% of arrears is considered to be non-collectable, due to the time that has elapsed since its assessment, the likely bankruptcy of the taxpayer, instances of debt owed by state owned or non active companies and in certain cases, the unreasonably large accumulated amount of assessed tax, surcharges, fines and penalties.

b. Proposed measures: Review of the Code of Public Collection (KEDE) as well as the Code of Civil Procedures on which KEDE rests, alongside write-off rules for debts. This will help to clear the stock of old non-collectable debts, mainly the cases handled by the Large Debtor Unit.

- Focus on collectable debt in parallel to the implementation of new collection tools (gradual extension of the e-garnishment system, e-garnishment of salaries above a certain threshold, review of legislation for garnishing bank safes, among others).
- GSPR has identified a set of 7 complementary reforms to accomplish this policy goal. The details of these initiatives are readily available for discussion with the institutions. Of special importance is the necessity to ensure the full staffing of the Large Debtor Unit.

c. Responsible authority: GSPR.

d. Timetable: Progressive implementation between 2015 and 2017.

e. Fiscal impacts: As shown in Table 2.

6. Installment scheme

a. Current situation: The ability to collect the new tax liabilities is weak (only 13%) and so arrears have been increasing during the past 2 years, at a rate of more than €1 billion per month. More than 3.5 million taxpayers are no longer able to meet their tax obligations.

b. Proposed measures: Amend the legislation for repayments of tax and social security arrears. Also, to de-criminalize lower income debtors with small liabilities in order to avoid their marginalization from the formal economy.

- Close cooperation with the OECD, to establish best practices adapted to the realities of the country following the Working Smarter in Tax Debt Management report on strengthening enforcement methods and procedures.

c. Responsible authority: GSPR.

d. Timetable: Already legislated and to be implemented throughout the year.

e. Fiscal impacts: As shown in Table 2.

7. Luxury tax

a. Current situation: This tax already affects those in possession of luxury goods (or assets such as cars, swimming pools, yachts).

b. Proposed measures: Increase the relevant tax rates.

c. Responsible authority: GSPR.

d. Timetable: June 2015.

e. Fiscal impacts: As shown in Table 2.

8. Incentives for the payment of taxes assessed upon an audit.

a. Current situation: The backlog of court cases in the judicial system is a serious problem. By June 2014, there were 63999 pending court cases.

b. Proposed measures: Amend of prevailing legislation so as to remove legal impediments to administrative settlements.

- Establishment of Committees for administrative settlements at a regional level and transfer to them of cases that have not yet passed a first hearing in court.
- Reduction of penalties and surcharges at a rate between 33% and 50% when the taxpayer pays the full sum and does not pursue further legal action. This measure requires the passing of legislation with a view to covering cases of tax years up to 31.12.2013.

c. Responsible authority: GSPR, Ministry of Finance.

d. Timetable: June 2015.

e. Fiscal impacts: As shown in Table 2.

9. Electronic Payments

a. Current situation: According to available statistics, Greece's shadow economy exceeded 24% of GDP in 2013. Although B2B transactions above €500 and B2C transactions above €1500 must currently be paid via bank or payment accounts held in Payment Service Providers, the current legislative framework is not deemed fully successful in battling the shadow economy. Best practices across Europe have yet to be adopted.

b. Proposed measures: The Greek Government will utilize ERDF funds in order to finance the widespread adoption of POS across all business sectors and professionals. The aim will be to make electronic payments through POS compulsory, especially at the professional services sector.

- No taxes, fines, or any other sort of payment to the Government (central or regional) or DEKO will be allowed to be paid in cash. Cash payments will only be accepted at Representatives of Payment Services Providers and Bank branches, and will therefore be registered.
- The Ministry of Finance has identified a set of 4 complementary measures to accomplish this policy goal. **c. Responsible authority:** Ministry of Finance, GSPR.

d. Timetable: June 2015.

e. Fiscal impacts: As shown in Table 2.

10. Improved Regulation for arrears settlements of Social Security contributions

a. Current situation: Since 2009 there has been an over-accumulation of arrears in social security contributions, coinciding with a weak credit market and liquidity problems.

b. Proposed measures: Enactment of new legislation with respect to the settlement of debts to Social Security Institutions.

- Interest rate set at 3% per annum for debts exceeding €5,000 while no interest charged for debts up to 5,000.
- Discount on surcharges reaching 100% for immediate repayment, smaller discounts apply according to the number of installments agreed upon.

c. Responsible authority: Deputy Minister for Social Security (Ministry of Labor).
d. Timetable: The reforms have been enacted by Law 4321/2015 (GG 32A /21-03-2015).
e. Fiscal impacts: As shown in Table 2.

11. Staffing and reinforcement of public control mechanisms

a. Current Situation: Reduced revenues of Social Security Institutions due to recessionary policies.
b. Proposed measures: Creation of a Single Debtors Registry to support debt collection management procedures.

- Monitoring and auditing of debt certifications issuing.
- Codification of legislation on social security.

c. Responsible authority: Deputy Minister for Social Security (Ministry of Labor).
d. Timetable: June 2015.
e. Fiscal impacts: As shown in Table 2.

12. Major administrative reform – Creation of an IRS-like, self-governing Hellenic Customs and Taxes Service (HECS) to replace the General Secretariat of Public Revenues currently quasi-autonomous within the Finance Ministry

a. Current situation: According to the provisions of law No. 4093/2012, some minimum conditions of autonomy of GSPR were set in 2012. After that, there were various legislative changes and functions' transfers as well as delegation of powers from the Minister and the Deputy Minister of Finance. The main problem with the current structure is that greater autonomy of GSPR would lead to the indefensible situation where the Minister has next to no authority over the actions of GSPR but retain political responsibility over it. To overcome this unacceptable combination of the Minister's responsibility-*sans*-authority, the government is proposing the creation of a fully self-governing and independent Hellenic Customs and Taxes Service (HECS) answerable directly to the Hellenic Republic's Parliament.

b. Proposed measures: The following administrative structure and procedures are proposed:

The Permanent Parliamentary Committee responsible for HECS – PPC-HECS

- Establishment of a Permanent Parliamentary Committee responsible of HECS - (PPC-HECS) that makes all decisions on the basis of enhanced majority (e.g. 2/3 of its members)

- PPC-HECS appoints HECS's Board of Governors, including the Governor General, as well as an Audit Advisory Committee (see below)
- At an annual open hearing members of PPC-HECS have an opportunity to interrogate the Governor General on any matter pertinent to her or his duties and to HECS's overall function.

Board of Governors and Governor General

- After an open and transparent professional recruitment process, PPC-HECS appoints, by 2/3 majority of its members, the Governor General of HECS who is given responsibility for appointing another four members of the Board of Governors. Members of the Board of Governors serve fixed, non-renewable terms.
- The Governor General and the Board of Governors are responsible for the administration of HECS, are answerable to PPC-HECS, report annually to Parliament and are subject to permanent audits, supervision and advisory circulars from the Audit Advisory Committee
- HECS's Board of Governors can draw upon Greek and foreign experts, including representatives of the European Commission and other member-states that have offered Greece help in revamping its tax collection mechanism.
- HECS has its stand alone budget as well as a capacity to retain a portion of tax revenues to be determined by Parliament following PPC-HESC's recommendations
- The Governor General and members of the Board of Governors shall be protected by the law for their acts during the exercise of his competences and be prosecuted in the cases that it is proven they have act inappropriately. This legislative protection should be similar to that which currently applies for the protection of Ministers, Board Chairpersons of Public Law Entities, etc. There will also be a provision for legal aid of the Board of Governors in case of litigation by taxpayers from actions committed in the line of Board's duties.

Audit Advisory Committee

- PPC-HESC also appoints a three member Audit Advisory Committee (AAC) whose remit is to subject the HECS's Board of Governors to professional scrutiny and to report regularly to PPC-HESC regarding propriety and efficiency issues related to the HECS's functioning
- AAC reports quarterly to PPC-HECS on all matters relating to the functioning of HECS

- AAC provides advice for the decision making as well as for monitoring or supervision topics (currently provided by the central entities of the government), human resources, the implementation of strategic and operational plans, performance of administration, organizational changes, and the implementation of the HECS's budget.
- It will monitor and report on the performance contract of the Governor General, and will submit final reports on her/his performance at the end of her/his contract.

Personnel

- All personnel are public servants, recruited and promoted through the normal channels of the Greek public service (e.g. ASEP, service councils). Special training courses and processes are the responsibility of the Board of Governors and their appointed committees
- The Board of Governors is responsible for setting up committees that select personnel from the pool of public sector employees and place them at their discretion. Personnel no longer required to serve HECS revert to the broader public sector
- Salaries of employees selected for serving within the HECS can be topped up at the discretion of the Board of Governors
- HECS is offered exemption from selected constraints regarding procurement.

Operational independence

- HECS shall not be commanded to carry audits from entities such as Inspector General of Public Administration, Inspectors-Controllers of Public Administration, Prosecutors, etc. Any requests for carrying controls shall be addressed to the Board which will deliver an opinion for the necessity and urgency of actions and depending on the availability of the existing human resources. In addition, the past cases of audit orders received by third parties could be reviewed from a risk analysis perspective in order to assess which cases are of interest and be audited.
- All existing auditing and investigative services (e.g. SDOE) will be incorporated within HECS.

d. Responsible authority: Ministry of Finance and GSPR

e. Timetable: September 2015

Expenditure Measures

1. Public Administration Reform & Quality of Public Finances

a. Current situation: A big reduction in ordinary staff took place in line with previous memoranda as well as a limited implementation of an ineffective mobility scheme [15]. Therefore, the drastic reduction in the size of public administration has dramatically worsened incipient imbalances in the allocation of resources throughout the administration. The non-replacement of retirees has depleted a number of services and agencies, especially in the sectors of first line services to the citizens, such as health and technical education. The limited planning regarding the hiring and lack of political decision regarding priority areas have not allowed a structured compensation of this phenomenon. Making the public administration more efficient and effective is the priority while advancing on public administration reform.

Furthermore, the Ministry of Administrative Reform and e-government intends to proceed to a full reallocation of resources within the Public Administration, taking into account the deficiencies of the previous system, as well as the comprehensive evaluation of the staffing needs of Public Services. In this regard, it intends to link its immediate measures (following the next month) with its medium-term strategy (reforms to be taken within the next six months), based on the following goals:

- To improve administrative efficiency and flexibility, to the benefit both of the economy and the amelioration of citizens' life and
- To improve administrative transparency as part of the general strategy of the authorities against corruption.

In accordance to the above-mentioned goals, actions that already appeared in the previous MoE will be further implemented. In this regard, the new administrative reform will promote a mobility scheme based on basically voluntary transfers, a comprehensive review of employment level, as well as the 100% accomplishment of the registration of all employees in the census database as well as a broad review of the remuneration structure.

15 Mobility scheme has been implemented in accordance with laws 4093/2012, 4172/2013, 4250/2014, a. 67 of law 4316/2014. A review of the mobility scheme has been implemented in accordance with a. 48 of law 4274/2014.

Moreover, the reallocation effort associated with the new mobility scheme aims to provide swift political response to the human resources issues of the State. For this reason, rehiring actions have been well planned and allocated within 2015 hiring plan as agreed in the MTFS and State Budget expenditures. Rehiring actions also aim to repair certain the injustice of potentially illegal dismissals from the public sector. It has to be stressed that a number of exits have been declared unconstitutional by the Greek Courts.

In addition to that, full digitisation on all services and procedures of the central government will be implemented.

b. Proposed measures:

1. Rehiring actions- Mobility scheme (first phase)

Rehiring dismissed workers is planned according to the State Budget. It concerns 3928 workers. Moreover, this rehired staff will participate in a limited mobility scheme.

According to the provisions of the new draft law, following a restricted mobility scheme, the Ministry of Interior will collect the needs of personnel from other services and then will announce the posts that will be fulfilled with employees included to the scope of the law. Applications of candidates will be examined from boards, special for this purpose and according to the results, the employees will be appointed to their new posts.

This process of rehiring will implement as a pilot some key elements of the future system of mobility scheme of civil servants. It will promote the use of job description, and a transparent allocation process based on the relevance of employees' skills to the positions.

2. Digitisation of public services

The new draft law promotes digitisation mainly by developing electronic identification, an electronic register kept at ASEP, a procedure of automatic search of supporting documents or certificates issued by the State and local authorities as well as an electronic system of handling of documents with a provision for horizontal linkage of Ministries and other public entities and major organizations.

3. Staff evaluation

The reform intends to make clear that the purpose of the evaluation is not punitive. The evaluation aims at the constant improvement of the skills of public servants, the cultivation of teamwork, opening to society and accountability and improvement of the quality of management of civil servants.

For this reason we intend to

- Fully implement a new more fair and efficient evaluation scheme and the establishment of new system of job descriptions, goal settings and criteria for evaluating efficiency.
- Take into account the results of the evaluation in order to improve skills, knowledge and experience of public servants. The internal evaluation will be horizontal (self-evaluation within all services) and vertical (evaluation of supervisors by supervisees and vice versa)
- Evaluation will be combined with social control, with the participation of all citizens, especially those using the services, as well as society in the broader sense.

4. New system for the selection of managers

- The system will be based on new evaluation indicators. It will foresee the objectivity of the interview process, psychometrical tests and take full account of the results of the evaluation.
- With the implementation of the new selection system, the service of the previous managers ceases. However, until that point, and excluding cases of proven inadequacy, they will remain in their positions.

5. Mobility scheme (second phase)

A mobility scheme will rationalize staffing across the general government following the review of structures and the implementations of new organigrams for all legal entities governed by public law and legal entities governed by private law.

A mobility scheme will take place in a more complete way and in accordance with the services' needs. Voluntary mobility scheme will also take place.

Moreover, public sector staff with a private law contract for indefinite term will also participate to the mobility scheme.

6. New hiring

Only new hiring which is already planned and allocated within the 2015 total hiring plan and State budget expenditures will take place in line with the existing commitments.

7. Census data base

Census data base will be completed following the current procedure. (To this date, it is 97% completed)

8. Public sector wage grid rationalization

We will undertake a broad review of the remuneration structure to ensure they are fair and motivating. Rationalization of public sector wage grid will be done in a fiscally neutral way in connection with the skill, performance and responsibility of the staff following best European practices. The ministry plans a review of the remuneration structure and a bill stating key principles and the calendar for the revision of the wage grid. Finally, the implementation of the new remuneration structure will be led in parallel with a reform of the 'branches' system, so as to ensure homogeneity and fairness.

9. Non-wage benefits rationalization

A comprehensive review of all non-wage benefits will be performed. The ministry has already registered a big number of non-wage benefits in order to align them with best practices in the EU. We will prepare a bill in order to ensure validation by the Ministry of administrative reform and by the Ministry of finance of any future non-wage benefits to ensure equity of their allocation throughout the public sector, along the same guiding principles of the wage reform.

10. Digitization of public services

A thorough, medium term, scheme of structural reorganization of procedures and staffing is under preparation, with the help of Greek and European experts which mainly promotes horizontal linkage of Ministries and other public entities and major organizations, homogenization and completion of horizontal e-connection (link) of public services.

Full implementation of e-governance and restriction of the personal contact between citizens and employees working in the ministries will be accomplished with the generalization of e-government tools and the institution of the centers for Citizen's service (KEP)

c. Responsible authority: Ministry of administrative reform and e-government.

d. Timetable: June of 2015.

2. Health Care Reform

a. Current situation: The Greek health system has accumulated a set of distortions that make it stand out among European and OECD countries. Greece spends 9.1% of the country's GDP on health, a proportion comparable to other OECD countries. In absolute terms, however, health spending has fallen; it is now considerably lower than the European average. In 2012 public health expenditure was 6.2% of GDP, below the EU average of 6.4%, and the OECD average of 6.5%. Further cuts were imposed in public health expenditure in the following years. The estimated public health expenditure for 2015 is around 5% of GDP.

Recent measures have reduced health expenditure as a percentage of a falling GDP. Moreover, the share of expenditure paid out-of-pocket at point of delivery is exceptionally high, while formal out-of-pocket payments – fees, co-payments, diagnostics, medicines – are compounded by a high prevalence of "informal payments". This has acted as a deterrent for timely uptake of care, particularly for the 2.2m uninsured Greeks, and contributed to the epidemic of impoverishment and the humanitarian crisis.Distorted modes of purchasing health care have induced an oversupply of heavy technology and specialists. Ambulatory care is fragmented and now essentially supply-driven by an unregulated commercial sector, with considerable perverse financial incentives towards irrational overconsumption. In the meantime primary health care has remained underdeveloped – not only in terms of health promotion and prevention, but also, importantly, in terms of quality curative care. This already distorted and fragile system has then been dismembered by austerity policies that have used particularly blunt and indiscriminate budget cuts, resulting in 'reforms' that have eroded, not enhanced access to quality care and crippled the Government's ability to protect the citizen against substandard care, over-medicalisation and financial exploitation.

As a consequence Greece is now lagging behind most European countries in terms of social health protection; the management of health problems is fragmented and lacks continuity; care is often ineffective and generally unnecessarily expensive. The direct cost to patients of taking up care contributes to financial hardship among a population already under severe strain, while the quality of care is suboptimal and increasingly perceived as not corresponding to the expectations of the population. The system as a whole has become even more inequitable, inefficient and unsustainable in economic and human terms, than it was before the onset of the financial crisis.

b. Proposed measures: The government intends to implement a set of reforms and carry out important investments aimed at producing better health and better health care for all Greek citizens and inhabitants of Greece. It wants to correct the longstanding distortions of the health care sector, aggravated by ill-advised austerity measures taken in response to the crisis of 2008. At the same time, the government intends to confront the challenges of a changing and ageing society, in a country that is at the crossroads of migration patterns.

Key for this is the revitalization of a broken and discouraged national health system: the Government wants to build a health system that is modernized and defragmented; forward looking, anticipating the challenges of a rapidly changing world; people-centered and accountable to citizens; providing universal coverage, quality health care and public health; and sustainable, stabilizing total health care expenditure in the medium term.

Greece will therefore embark on a set of universal coverage-enhancing reforms that will be gradually implemented, along 3 axes:

1. An effective right to universal access to quality health care and public health, with financial-risk protection.
2. Steered through transparent, inclusive and modernized health governance.
3. Implemented with fair and sustainable financing of the health sector.

The Government intends to:

1. Ensure universal access to quality care.
2. Establish a transparent, inclusive and modernized health governance through an efficient and effective public administration.
3. Guarantee a fair and sustainable financing.

c. Responsible authority: Ministry of Health. Cooperating international agent: WHO.

d. Timetable: June of 2015. Progressive roll out trough 2018.
e. Fiscal impacts: As shown in Table 2.

3. Humanitarian Crisis

a. Current situation: The deepening crisis had a huge social impact as poverty and especially childhood poverty as well as unemployment rose dramatically. According to the Greek Statistics Agency, in the second quarter of 2014, the unemployment rose to

26,6% making the absolute number of unemployed persons in the country 1.280.101. Youth unemployment ages 15-24 is up to 52%, and many households do not contain any working persons. Greece, according to Eurostat is in the worst position regarding the risk of poverty. It is among the countries with the largest percentage of poor (23,1% in 2013). Childhood poverty reached 28,8% in 2013 and many households can no longer meet basic needs.

Tackling food deprivation of households living at extreme poverty has been in the last years done by the social markets of the local authorities, NGOs, voluntary groups and the Church. No other form of material deprivation has been addressed. Most actions involve collective kitchens. But even in this framework, most actors involved have to deal with the irregularity of the food provision, the total draining of available resources, but also the lack of any fresh or quality food for the children. The problems the measures below address are: provision of other material goods, provision of fresh foods and meat at a regular basis, provision of supplementary services.

b. Proposed measures:

Law 4320/2015 – The whole program articles 1-3 which was voted as a law unanimously by the Greek Parliament in March 18 and was published as a national law on March 19 and consists of three provisions as follows:

1. Reconnecting electricity to homes**:** Reconnection of electrical power supply disconnected due to personal debt for households living without electricity and provision of free electricity supply up to 300 Kwh per month per household for an estimate of 150.000 households.
2. Rent Subsidy up to 30.000 households living at extreme poverty and do not have a home. Total budget for the 9 months of the 2015 and might be implemented in 2016.
3. Food subsidy of €100 per month per family for up to an estimated 153.000 families. The subsidy will be provided to beneficiaries through a citizens card.
4. FEAD (Fund for European Aid for the Most Deprived)
5. Provision of food and other material goods such as clothing, cleaning supplies, books as well as supplementary services for children. Focus is placed on single parent and multi children families at extreme poverty.

Methodology

Law 4320/2015

A joint ministerial decree has been signed specifying the following:

1. The criteria for the beneficiaries (income, property, family status)
2. The amount of subsidy for each category of beneficiaries
3. The authorities and agents involved
4. The process of submission of petitions and approvals

5. **FEAD**
6. Creation of Social Collaborative Schemes (with the participation of all actors – Local and regional authorities, church, NGOs and voluntary groups - dealing with poverty and vulnerable groups with the regional and local authorities as leaders) in order to set up a network at local level aiming at the maximum efficiency of financial and human resources as well as better coverage of the people in need.

c. Responsible authority: The Ministry of Labor, Social Insurance and Social Solidarity, specifically the Department of Social Welfare in collaboration with HDIKA SA.

d. Timetable: Already legislated.
e. Fiscal impacts: As shown in Table 2.

4. Guaranteed Minimum Income

a. Current situation: The applications period for the pilot GMI scheme, implemented in thirteen municipalities, started on 15/11/2015 and ends 30/04/2015 and estimated beneficiaries will reach 20.000. It is estimated that if the program (with the same preconditions) would to go nation-wide the number of beneficiaries will reach 700.000 persons approximately.

The evaluation of the GMI scheme will be realized as planned by the end 2015. Technical assistance is provided in the agreement with the World Bank for five of the pilot program municipalities and the results for 8 municipalities will be evaluated by the National Institute of Labor and Human Power in collaboration with the Competent Management Team. Decisions about the national rollout and redesign of GMI program will be taken according to the results of the above mentioned evaluation.

b. Proposed measures:

1. Evaluation of the GMI scheme implemented in the 13 pilot cities
2. Assess the possible roll out of the GMI on a nation wide basis

Methodology

In the following months the pilot GMI scheme implemented in 13 municipalities will be evaluated as to the problems incurred, the implementing mechanism and the impact of the program. The evaluation of the program will be carried out by the World Bank, the National Institute of Employment and Human Resources and the services of the Ministry of Labor.

c. Responsible authority: The Ministry of Labor, Social Insurance and Social Solidarity**.**

d. Timetable: Pilot program to be completed in 2015. Progressive roll out through 2017.

e. Fiscal impacts: As shown in Table 2.