

DRAFT

AGREEMENT ON THE ECONOMIC POLICY, THE REFORMS OF THE PERIOD 7/2015-

31/3/2016

AND THE COMPLETION OF THE CURRENT PROGRAM

STAFF LEVEL AGREEMENT

MAY 2015

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CHAPTER ONE

Economic Policy

1. Long-term fiscal targets

	GDP	PRIMARY SURPLUS	PUBLIC DEBT / GDP
a. 2015		0.6	
b. 2016		1.5	
c. 2017		2.5	
d. 2018		3.5	
e. 2019		3.5	
f. 2020		3.5	
g. 2021		3.5	
h. 2022		3.5a	

2. Fiscal measures 2015-2016

a. VAT

aa) Rates

The current rates of 6.5%, 13%, 23% to be changed to 6%, 11%, 23%. The 6% rate to cover: medicine, books, theatres. The 11% rate to cover: newspapers and magazines, basic and fresh food stuff, energy, water, hotels and restaurants. The 23% rate to cover: all other goods and services, including processed and other food stuff (approx 28% of the food category, e.g. seafood (not fish), readymade sweets and jams, mixed or processed bread or pasta, sandwiches, precooked food, prepared meat products, tinned food, chocolates, ready sauces etc).

The necessary legislative amendment (of the VAT code) will be ratified by and will be implemented immediately in all the categories mentioned above for each rate, with the exception of the changes provided in the case of hotels, rooms to rent, as well as the cases under section 4, article 21, of L. 2859/2000, which will be implemented from 1.10.2015 onward.

bb) Point system

Introduction of a system of reward points for the registration of receipts with the purpose of increasing the efficiency with which VAT and income taxes are collected.

The relevant decree will be ratified by ... 2015.

b. Other fiscal measures

aa) Immediate measures (solidarity contribution...)

i) Solidarity contribution

The implementation of decree ... (solidarity contributions) is to be suspended from 1.1.2015 pertaining to the fiscal years 2015-2016.

The relevant decree will be ratified by ... 2015.

Article 52 of law 4305/2014 in combination with article 29 of L. 3986/2011 will be amended so as to result in new scales for the solidarity contribution:

- Between 12.000 – 20.000 euro: 0.7%
- Between 20.001- 30.000 euro 1.4%
- Between 30.001 – 50.000 euro: 2%
- Between 50.001 – 100.000 euro: 4%
- Between 100.001 – 500.000 euro: 6%
- >500.000 euro: 8%

ii) Extra-ordinary levy on large companies

An extra-ordinary contribution to be levied on the profits of the (largest) companies, through the implementation of the rate from article 2 of L. 3808/2009 for the fiscal year 2014.

The relevant decree will be ratified by ... 2015.

iii) Tax on television advertisements

The tax on television advertisements provided for by article 5, section 12 of L. 3845/2010 will be implemented from ... 2015. In addition, any decision, arrangement, or decree which has suspended its implementation will be recalled.

iv) Luxury tax

The implementation of a luxury tax, provided for by article 44 of L. 4111/2013, will be extended to recreational vessels in excess of 10 metres. The rates which apply to 2,500 cc automobiles, planes, helicopters, gliders, recreational vessels and swimming pools will be increased to 13% from 10%. The relevant legislation will be ratified by ... and will come into effect from the collection of 2014 income taxes and beyond.

v) Television licenses

An international public tender will be announced for the acquisition of television licenses in return for a fee for the acquisition and use of the relevant frequencies.

vi) Collection of other tax revenue

All appropriate and necessary measures will also be taken, legislative or administrative, towards the collection of several categories of public

revenue, like automobile 'KTEO' fines, uninsured vehicles and levies for the use of frequencies.

The following revenues are expected from the above measures:

Intervention	2015	2016
VAT rates
Other fiscal measures		
a) Solidarity contribution	220 mn euro	250 mn euro
b) Extra-ordinary contribution from profits	1064 mn euro	-
c) Television advertisements tax	100 mn euro	100 mn euro
d) Luxury tax	30 mn euro	30 mn euro
e) Television licenses	120 mn euro	-
f) 'KTEO', uninsured vehicles	120 mn euro	90 mn euro
g) Television Stations	220 mn euro	
Total		

bb) Administrative measures (tax evasion, collection)

For the purpose of combatting tax evasion and increasing the revenue from VAT, customs and excise duties and other tax categories, measures will be taken to reform and restructure the tax administration and the existing legal framework for carrying out tax audits.

i) Criminal legislation – tax evasion

More strict criminal legislation provisions for tax evasion through the widening of the objective status of what constitutes a tax evasion crime. (There will be an amendment to article 55 of law 4174/2013 relating to tax evasion on withheld and accrued taxes, excise duties and contributions).

The relevant decree will be ratified by ... 2015 and will be effective immediately.

ii) Tax audits priority

The relevant legislation will be amended (article 48 of law 4174/2013 and article 9 of legislation 356/1974) to provide the tax administration with the ability to plan their tax audit priorities on the basis of risk analysis and not, as is now the case, year of seniority (year of write-off).

The option of a write-off of uncollectable old debts will be put into place through legislation amending article 82 of legislation 356/1974 so as to facilitate control over those cases more likely to produce revenue.

iii) Administrative settlement of disputes

There will be a legal regulation allowing the possibility of an administrative settlement of cases that have not been discussed in first instance courts and are pending at different stages of administrative or judicial proceedings in order to irrevocably finalize the amount of the debt and for it to become immediately certified and collectable.

The relevant decree will be adopted through a proposal from the GSPR by ... and will be implemented during 2015 for the reform that will prioritise the oldest tax cases pending. This procedure aims to reduce the strain on the administrative and judicial authorities in order to enable them to manage more effectively the control and collection of revenue.

iv) Combating fuel smuggling

In the overall effort to combat fuel smuggling, arrangements for locating storage tanks (fixed or mobile), which are used to move contraband fuel around the country, will be enacted via legislative measures. The relevant provisions and secondary legislation to be issued by ... and will be subject to immediate implementation.

v) Intensifying checks on bank transactions

The Financial Crime Agency, the GSPR, the Authority for Money Laundering and Counterfeiting are implementing a combined plan in cooperation in order to detect deposits stemming from undeclared income of Greek citizens for the period 2000-2014 in banking institutions in Greece or abroad, for which there exist specific data in the hands of the competent authorities. By 9/2015, it is expected that the process will have advanced to the level of certification of unpaid taxes and the beginning of their recovery.

vi) Hidden assets, domestic or foreign

Immediate provisions will be promoted to impose and collect taxes owed on hidden assets which will be revealed to the Greek Authorities in liaison and in agreement with the authorities of the countries where these amounts are deposited by Greek citizens.

The relevant legislation will be ratified by... and will be implemented immediately.

vii) Modification of the institutional framework on the debt restructuring program

The government will proceed by the end of June 2015 with the amendment of the debt restructuring program with the aim of tightening the relevant provisions.

Although these measures will have a direct positive impact on tax revenues in 2015 and 2016, the estimated contribution to the improvement of public revenue is expected to be reflected in an increase in collectability (expressed as a percentage) of the above categories, taxes, excise duties, etc., which will be recorded annually compared with the results of last year. They constitute, in this sense, permanent structural changes to the tax administration and public revenue control and collection mechanisms.

c. Privatizations

The government's privatization programme is re-adjusted according to the table below. The provision for amendment of Law 4263/2014 will be passed by ... and will be immediately applicable.

Table 2. Greece: Privatization Plan								
(projections, in € millions)								
	2015	2016	2017	2018	2019	2020	2021	2022
2 Airbuses	10							
Mobile Telephony	31	23	22					
Digital Dividend	189	23	23	23				
Buildings abroad	22	3						
State Lotteries	60	60	60	60	60	60	60	60
OPAP	3	3	3	3	3	3	3	3
e-auctions	9	16	30	30	30	30	30	30
Cassiopi	10	3	2	2	2	2	2	
Paliouri	3	2	2					

Agios Ioannis	9							
Xenia Skiathos	3							
Afantou	21	21						
Real Estate - other tenders	35	60	342	350	350	322	290	280
Regional airports	1.234	23	23	23	24	24	25	25
Regional Airports EBITDA sharing					40	62	69	69
Small ports and marinas	14	15			24	24	24	24
ODIE	20	20						
TRAI NOSE / ROSCO		50						
Egnatia Odos		50	10	10	10	10	10	15
OLTH, OLP, 10 large regional ports		500	20	20	20	10	20	20
AIA		250	15	15	15	15	15	20
Astir Vouliagmenis		95						
DESFA		188						
Hellinikon*								
Real Estate monetisation		100	125	150	175	200	200	200
Corporate & Infrastructure	1.561	1.205	176	154	196	209	225	236
Cum. Corp & Infrastr (starting 2013)	2.683	3.888	4.064	4.218	4.414	4.623	4.849	5.085
Land Development	112	300	501	532	557	554	522	510
Cum. Land Dev. (starting 2013)	509	809	1.310	1.842	2.399	2.953	3.475	3.985

Revenue projections	2015 - 2016	2017-2019	2020 onwards
Corporate & Infrastructure	2.766	526	9.029
Land Development	412	1.590	1.786
Total	3.178	2.116	10.815

The policy of privatizations and utilization of public and private property are subject to the following conditions:

- 1) a minimum level of investment for each privatization,
- 2) protecting labour rights,
- 3) commitments to ensure benefits to local social economies
- 4) the public holding of a significant (probably a minority) stake in the share capital.
- 5) protection of the natural environment and cultural heritage
- 6) a portion of the proceeds will be used to recapitalize the social insurance funds, while the percentage held by the State will be used to strengthen the Development Bank.

i) Development Bank

3. General Secretariat of Public Revenue (GSPR) reform - Financial Institutions

a) GSPR

The GSPR will be transformed into an independent Administrative Authority based on a plan to be prepared in cooperation with the Greek Government Task Force. The purpose of this reform will be the introduction in Greece of, with the help of the expertise of the Task Force, an institution operating according to the best practices of the EU and thus ensuring a more efficient tax administration with respect to the audit and tax collection institutions of the State, under a unified management with the supervision of the competent Committee of the Greek Parliament.

The provision will be passed by ... and will be implemented during the transition to the operation of the new independent Administrative Authority, which will be completed by 30.11.2016.

b) Fiscal Council

The implementation of the Fiscal Council, in accordance with the regulations of L. 4270/2014, will be completed and become functional within two months. By a regulation to be added to Article 28 of L. 4270/2014, the cooperation of the Fiscal Council and the Office of the State Budget will be regulated to increase the credibility of monitoring data on the execution of the State Budget.

The screening required by the ECA will be limited to amounts above EUR 25,000 per payment order.

The provision will be ratified by ... and will be immediately implemented.

CHAPTER B

Structural Changes

1. Settling social security issues

a) Consolidation of social insurance funds

Within 2015, in two phases and over a period of three years, the process will be activated in order to consolidate the social insurance funds into three (3). By 31.12.2016 the first phase of their operational consolidation will have been completed.

The reduced total and wage costs already realized (reduction 30%) will be maintained. In addition, it will be sought to further reduce the operating costs combined with a more effective management of fund resources including balancing the needs between better-off and poorer-off funds.

b) Codification

The codification of the insurance law will be completed in the immediate future and will correspond to the new organization of the new and more integrated social security system.

c) Zero deficit clause

The zero deficit clause of the Auxiliary Social Security Funds will be suspended for the years 2015-2016, and in any case until the new pension system in the country is established.

The provision will be passed by ... and will be implemented immediately.

d) Early retirements¹

Through a decree to be ratified by ... and which will be implemented immediately, there will be provision for the progressive adaptation of the early retirement rules to the limit of 62 years. From this change none of the vested pension rights are affected, as well as the special categories of early retirement (BAE, mothers with minors, mothers with children with disabilities and their respective categories for which at present it is envisaged). The adjustment will be made gradually for the period 1/1 /2016 to 2025 and particularly during the period 01/02/2016 – 2022 and one semester will be added per year to the present specified age limits. After 2022, a year will be added annually to the respective age limits. The possibility of withdrawal shall have its provision within the limits specified currently with a penalty for the retirement age extension period equivalent to 10 percentage points on top of the penalty of 6% proposed currently in favour of the social insurance fund granting the pension. From the above changes, the following financial impact and the corresponding number of pensioners affected is expected to be:

PS Δημόσιο	expected savings 2016- 2022	expected savings 2016- 2040	New expected average retirement age	IKA- ETAM	expected savings 2016- 2022	expected savings 2016- 2040	New expected average retirement age
2016	32	32	56.3	2016	39	39	60.6
2017	52	52	56.7	2017	86	86	61.5
2018	81	81	57.6	2018	161	161	62.3
2019	101	101	58.4	2019	255	255	62.6
2020	115	115	58.5	2020	363	363	63.1

¹ The above amounts are the financial implications of restrictions on early retirement only from primary pensions. The measure also has a positive financial impact on the auxiliary funds since, after the suspension of the zero deficit clause, auxiliary pensions are subsidized by the state budget. Consequently, the necessary amount for the funding of auxiliary pensions will be reduced by the amount not provided by auxiliary pension funds since whoever does not receive an early basic pension is also not benefiting from a subsidiary one.

2021	113	113	59.1	2021	449	449	64.1
2022	100	100	60.7	2022	549	549	64.3
2023		78	62.3	2023		633	64.6
2024		73	63.4	2024		700	64.8
2025		74	64.4	2025		751	65.1
2026		83	65.7	2026		787	65.3
2027		81	65.5	2027		807	65.5
2028		62	65.3	2028		826	65.6
2029		37	64.9	2029		801	65.8
2030		13	65.4	2030		808	66.5
2031		-4	65.1	2031		729	66.8
2032		-11	65.1	2032		641	66.8
2033		-14	65.0	2033		568	66.8
2034		-14	65.0	2034		501	66.8
2035		-15	65.0	2035		431	66.9
2036		-15	64.8	2036		380	67.0
2037		-15	64.5	2037		318	67.1
2038		-15	64.4	2038		251	67.0
2039		-15	64.6	2039		173	67.0
2040		-14	64.4	2040		91	67.0

TOTAL	expected savings 2016-2022	expected savings 2016-2060
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2016	71	71
2017	138	138
2018	242	242
2019	355	355
2020	478	478
2021	563	563
2022	650	650
2023		711
2024		773
2025		824
2026		870
2027		888
2028		888
2029		839
2030		821
2031		725
2032		630

2033	554
2034	487
2035	417
2036	365
2037	303
2038	236
2039	158
2040	77

e) L. 3863/2010 New method of calculating pensions

Application of Article ... of n. 3863/2010 concerning the new method of calculating main pensions to be suspended for the year 2015.

The provision will be ratified by ...and will be immediately implemented.

f) Measures against contribution evasion and uninsured work

g) New actuarial study 2015-2050

The country is already completing a new actuarial study of the social security system 2015-2016 designed for the overall reform of social insurance legal framework.

Basic Assumptions of the actuarial study of the Social Security System.

- The sustainability of the social security system is being examined for cash flow projections 2015-2050.
- Demographic projections (fertility rates, mortality, life expectancy, migration) are based on the AWG Ageing Report 2012.
- The assumptions about the workforce and migration are based on the AWG Ageing Report 2012.
- In the projections about cash flow five scenarios are examined for the average long-term growth rate of GDP (0.85%, 1.5%, 2%, 2.5% and 3%).
- In the projections of cash flow, the amounts refer to 31/12 of each year.

- In the model, the average retirement age is estimated based on probabilistic distribution as average exit age due to old age. Similar estimates are made for pensions for disability and death.
- As a methodology of valuation of the actuarial liability, the Attained Age Method was used, on a group basis. This method was chosen because it addresses the entire pension system.
- Projections of cash flow have taken into account 400,000 pending applications for retirement.
- The recoverability of contributions in cash flow projections was considered throughout the period (2015-2050) to be equal to the current one.
- Projections of cash flows are in constant prices, i.e. inflation is assumed to be 0%.
- For the long-term actuarial deficit, the technical interest rate of 2.5% is used. Ditto for estimating present values of cash flows.
- The valuation period of cash refers to the first quarter of 2015.
- It is considered that for each percentage point of GDP growth 15,000 new jobs are created (INE GSEE estimates) and that for each one percentage point decline in GDP growth, 50,000 jobs are lost.
- The assets of the funds (liquid and non-liquid) have been evaluated in accordance with the table below at 31.12.2014:

Asset Class	Amount in billion €		Distributor
Common Capital	5.3		32.5%
Cash (Bank deposits and cash equivalents)	2.4		14.7%
Bonds (except common capital)	2.6		16.0%
Shares	1.5		9.2%
AKAGE	3.7		22.7%
		Common Capital	3.1
		Management Accounts with the Bank of Greece	0.6
Total moveable assets	15.5		

Real estate (objective values)	0.8		4.9%
Total moveable assets & Real Estate (Reserve Fund)	16.3		100%

- The projection of cash flows has taken into account a long-term average return on investment equal to 2.5% (the actuarial return on investment is set equal to the technical interest rate).
- Projections of the study examined the long-term ratio Pension Expenditure / GDP, according to the methodology of the ILO.
- In pension costs are included:
 - 1) the total benefits of the main pension of the social security system (IKA - ETAM, OAEE, EBRD, ETAP - media, government, OGA) except NAT and TAP – PPC, which incur expenditure of approximately 0.5% of GDP
 - 2) the total of supplementary pensions,
 - 3) benefits for EKAS. Finally, it is noted that the study does not refer to any lump sum benefits.

It should be noted that the above assumptions are the technical basis of actuarial projections of cash flow. By international standards, the technical basis should consist of realistic and rational assumptions that are to reflect in the short term the current economic situation and in the long term expectations about future economic and demographic conditions prevailing.

2. Labour relations

a) Collective Bargaining Agreements

The Greek government will reinstate collective bargaining procedures, similar to existing arrangements in other EU countries and under a plan to be approved by the ILO.

The draft law will be put out to consultation to the social partners and will incorporate modern practices of EU countries on the regulation of labour relations.

In particular, there will be a revocation, through a legislative intervention of the no. 6/2012 Act of the Cabinet, as well as Paragraph 7, Article 2 of Law 3845/2010, Article 15 of Law 3899/2000, para. 6, Article 37 of Law 4024/2011, Paragraphs 1 and 3 cases e and f and Paragraph 4 of Subparagraph IA II of the sole article of Law. 4093/2012, Article 31 of Law 3346/2010, Article 103 of Law 4172/2013 and Article 4 of Law 4303/2014.

b) Minimum wage

With the same law, the minimum wage levels and salaries of workers in the private sector (those with a dependent employment relationship under private law) will rise gradually until the end of 2016 to 2010 levels; thereafter will be freely negotiated within the context of collective bargaining.

The terms and conditions for the application of these decrees will be included in detail in the draft law to be submitted by and will be implemented according to its provisions.

4. Financial system, non-performing loans

a) Working Group - study of A.M.C, loans management

By a law provision, a working group will be set up, authorizing the Minister of Finance, Infrastructure, Shipping and Tourism with its establishment, involving the BoG, the HFSF, bank executives, independent experts and competent government

officials to study the issue and make proposals to the Minister for a comprehensive non-performing loans management strategy.

The working group may assign to specialist advisors from the private sector individual studies on specific aspects of its proposals, in order to register and implement techniques and solutions that will contribute in the most effective way to dealing with the issue concerning NPLs.

b) Amendment to L. 3869/2010 (Katseli law)

i) Outstanding cases

Special sections will be formed which will exclusively deal only with the differences under L. 3869/2010 thus on the one hand speeding up the administration of justice concerning the outstanding cases and on the other hand ensuring a speedier legal process for new applications.

At the same time, Article 4 of L. 3869/2010 will be amended so that the data that has to accompany the application on the income, family and financial status of the debtor can be considered as a part of the admissibility of the application and, therefore, applications that are not accompanied by a full dossier might not be accepted and not be assigned.

The two above measures are expected to significantly decongest the volume of pending cases and to speed up litigation concerning both past and new applications made.

ii) Suspension of enforcement

This decongestion will have a positive impact as well on the problem of the long-term validity of the decisions concerning suspension of enforcement since the cases will be tried very soon and the suspension will cover a reasonable period of time. During this time and in parallel with the suspension, monthly installments will be set which will be paid by the debtor. We will consider the possibility of establishing more specific criteria concerning the setting of these monthly installments so that the judicial approach can be formulated at this stage, by more specific rules.

iii) Inclusion of small businesses in Law 3869/2010

The government will amend Law 3869/2010 so that small businesses can be included in its spectrum of application. To this end, it will utilize the available technical support and the results of studies concerning this issue.

iv) Other issues

- Separation of cases

The government will amend Law no. 3869/2010 by introducing the separation of cases in order to protect the most vulnerable borrowers

- Setting priorities

The government will amend L. 3869/2010 by introducing a system of setting priorities concerning when cases are tried.

- Further simplification of the provisions

The government will amend L. 3869/2010 in relation to the rights and the obligations of the applicants and the interventions of the judges.

- Nonpayment of installments

The government will amend L. 3869/2010 in relation to the penalties incurred if installments are not paid.

- Concerning the possibility of reducing the loan to 80% of the objective value.

The government will amend L. 3869/2010 by abolishing the provision which provides the possibility for the amount of the loan to be reduced to 80% of the objective value.

The relevant amendments will be ratified by and will be implemented immediately.

c) Implementation of L. 4307/2014

Law 4307/2014 concerning the heavily indebted companies will be implemented and the necessary circulars and administrative measures will be issued for its proper implementation.

d) Reactivation of the Governing Council of Private Debt Management

The Governing Council of Private Debt Management (article 1, L. 4224/2013) will be activated. It will be responsible for monitoring the implementation of the strategy which will be prepared by the Working Group for the management of non-performing loans. To strengthen the work of the Governing Council of Private Debt Management a Special Secretariat will be created, which will be staffed by transferring to it specialized personnel of the Public and wider Public Sector.

e) Mediation Code – strengthening of settlements

Until the study is completed and its proposals concerning the overall NPL management strategy are implemented, the government will take concrete steps to intensify the mediation procedures under the Banking Code of Ethics in order to settle the largest possible number of such cases through a private agreement between bank - debtor.

For this reason an information campaign will take place in order to encourage the debtors to go to the banks and seek friendly settlements as well as to find out about their rights as they are laid down in the Banking Code of Ethics.

f) Temporary moratorium on auctions of primary residences or sole residences

The government will introduce a temporary suspension of auctions of primary or sole residences. The criteria for inclusion in the temporary status will be:

- The objective value of the property should not exceed 200,000 euro.
- The annual declared family income should not exceed 35,000 euro.
- The total value of movable and immovable assets should not exceed 270,000 euro, of which the total sum of bank deposits and other movable assets should not exceed 15,000 euro.
- At the same time, there will be an obligation to make proportional payments depending on the annual family income as follows: