European Commission

ISSN 2443-8014 (online)

Enhanced Surveillance Report

Greece, February 2020

INSTITUTIONAL PAPER 123 | FEBRUARY 2020

EUROPEAN ECONOMY

Economic and Financial Affairs

European Economy Institutional Papers are important reports analysing the economic situation and economic developments prepared by the European Commission's Directorate-General for Economic and Financial Affairs, which serve to underpin economic policy-making by the European Commission, the Council of the European Union and the European Parliament.

Luxembourg: Publications Office of the European Union, 2020

PDF ISBN 978-92-79-98870-7 ISSN 2443-8014 doi:10.2765/61613 KC-BC-19-030-EN-N

European Commission
Directorate-General for Economic and Financial Affairs

Enhanced Surveillance Report – Greece, February 2020

Communication from the Commission and accompanying Commission Staff Working Document

EUROPEAN ECONOMY

Institutional Paper 123

ABBREVIATIONS

AIA: Athens international airport
ANFA: Agreement on net financial assets

AROPE: at risk of poverty or social exclusion

CBD: Consolidated banking data

DEPA: Δημόσια επιχείρηση αερίου (public gas corporation of Greece)

ECB: European central bank

EFKA: Ενιαίος φορέας κοινωνικής ασφάλισης (unified social security fund)

ENFIA: Ενιαίος φόρος ιδιοκτησίας ακινήτων (unified property tax)

ETAD: Εταιρεία ακινήτων δημοσίου ΑΕ (public properties company)

ESM: European stability mechanism

EYATH A.E.: Εταιρεία ύδρευσης και αποχέτευσης Θεσσαλονίκης Α.Ε.(Thessaloniki water supply and sewerage company S.A.)

EYDAP A.E.: Εταιρεία ύδρευσης και αποχέτευσης Πρωτευούσης Α.Ε. (the Athens water supply and sewerage company S.A.)

HCAP: Hellenic corporation of assets and participations

IAPR: Independent authority for public revenue

ICT: Information and communication technologies

LEPETE: Λογαριασμός επικούρησης προσωπικού εθνικής τράπεζας της Ελλάδος (national bank of Greece supplementary pension fund)

NBG: National bank of Greece

NECP: National Energy and Climate Plan

NOME: Nouvelle organisation du marché de l'electricité (new organisation of the electricity market)

NPE: Non-performing exposure

NPL: Non-performing loan

OSDDY: Ολοκληρωμένο σύστημα διαχείρισης δικαστικών υποθέσεων (integrated management system for judicial cases)

OTC: Over-the-counter

PDMA: Public debt management agency

SEK: Σύνδεσμος Ελλήνων κτηματομεσιτών (Greek real estate agents association)

SMP: Securities markets programme

SSI: Social solidarity income

TOMY: Τοπική μονάδα υγείας (primary health care unit)

TSA: Treasury single account

UCoA: Unified chart of accounts

VAT: Value added tax

ACKNOWLEDGEMENTS

This report is prepared as accompanying document to the Commission's assessment pursuant Article 3(5) of Regulation (EU) 472/3013 published as Communication from the Commission – Enhanced Surveillance – Greece, February 2020. It was prepared in the Directorate General Economic and Financial Affairs, under the direction of Maarten Verwey, Director General, Declan Costello, Deputy Director General, and the coordination of Paul Kutos, Head of Unit and Milan Lisicky, Deputy Head of Unit.

Contributors:

Chris Allen, Giuseppe Carone, Fotini Dionyssopoulou, Matteo Duiella, Sotirios Giannoulis, Christos Gofas, Andras Hudecz, Alexander Ioannidis, Paul Kutos, Eloïse Lecouturier, Milan Lisicky, Vasileios Maroulis, Benedetta Martinelli, Vasilis Nikitas, Zoltan Petrov, Eleni Polemidiotou, Angelos Rammos, Marie-Luise Rud, Alexandros Tavoutsoglou, Andreas Trokkos, Vasiliki Vasilopoulou, Irene Vlachaki, Rainer Wichern, Alkistis Zavakou. Assistance was also provided by Fotini Louka.

The European Central Bank (ECB) Staff participated in the drafting of this report in accordance with the ECB's competences and thus provided expertise on financial sector policies and macro-critical issues, such as headline fiscal targets and sustainability and financing needs. Staff of the European Stability Mechanism (ESM) contributed to the preparation of this report in the context of the ESM's Early Warning System and in accordance with the Memorandum of Understanding of 27 April 2018 on working relations between the European Commission and ESM. IMF staff participated in the context of its Post Program Monitoring cycle.

Comments on the report would be gratefully received and should be sent, by mail or e-mail to:

Paul Kutos

European Commission

Unit ECFIN-F-2

CHAR 14/103

B-1049 Brussels

e-mail: ECFIN-GREECE-REQUESTS@ec.europa.eu

CONTENTS

LIST OF TABLES

LIST OF GRAPHS

Communication from the Commission

EUROPEAN
COMMISSION

Brussels, 26 February 2020
COM(2020) 100 final

COMMUNICATION FROM THE COMMISSION

Enhanced Surveillance update – Greece, February 2020

* Distribution only on a 'Need to know' basis - Do not read or carry openly in public places. Must be stored securely and encrypted in storage and transmission. Destroy copies by shredding or secure deletion. Full handling instructions https://europa.eu/!db43PX

BACKGROUND

Economic developments and policies in Greece are monitored under the European Semester for economic policy co-ordination and under the enhanced surveillance framework according to Regulation (EU) No 472/2013 ([1]). The implementation of enhanced surveillance for Greece ([2]) acknowledges the fact that over the medium term, Greece needs to continue adopting measures aimed at addressing the sources or potential sources of its economic and financial difficulties, while implementing structural reforms to support robust and sustainable economic growth.

Enhanced surveillance provides a comprehensive framework for monitoring economic developments and the pursuit of policies needed to ensure a sustainable economic recovery. It allows for a regular assessment of recent economic and financial developments in Greece, as well as for monitoring sovereign financing conditions and updates of the debt sustainability analysis. Enhanced surveillance also provides the framework for assessing the general commitment given by Greece to the Eurogroup of 22 June 2018 to continue and complete reforms adopted under the European Stability Mechanism programme and to ensure that the objectives of the important reforms adopted under the financial assistance programmes are safeguarded. In that context, enhanced surveillance monitors the implementation of specific commitments to complete key structural reforms started under the programme in six key areas by agreed deadlines up to mid-2022, namely: (i) fiscal and fiscal-structural policies, (ii) social welfare, (iii) financial stability, (iv) labour and product markets, (v) privatisation, and (vi) the modernisation of public administration ([3]). Ten specific commitments have a deadline of end-2019, progress on which is assessed in this report, while follow-up actions to previous commitments are also monitored.

This is the fifth enhanced surveillance report for Greece. It is issued alongside the 2020 Country Report for Greece under the European Semester. This report is based on the findings of a mission to Athens between 22 and 24 January 2020 conducted by the Commission in liaison with the European Central Bank ([4]). The International Monetary Fund participated in the context of its Post Program Monitoring cycle, while the European Stability Mechanism participated in the context of its Early Warning System

---

(1) Regulation (EU) No 472/2013 of the European Parliament and of the Council of 21 May 2013 on the strengthening of economic and budgetary surveillance of Member States in the euro area experiencing or threatened with serious difficulties with respect to their financial stability, OJ L 140, 27.5.2013, p. 1.

(2) Commission Implementing Decision (EU) 2018/1192 of 11 July 2018 on the activation of enhanced surveillance for Greece (OJ L 211, 22.8.2018, p. 1), Commission Implementing Decision (EU) 2019/338 of 20 February 2019 on the prolongation of enhanced surveillance for Greece (OJ L 60, 28.2.2019, p. 17), Commission Implementing Decision (EU) 2019/1287 of 26 July 2019 on the prolongation of enhanced surveillance for Greece (OJ L 202, 31.7.2019, p. 110), Commission Implementing Decision C(2020)901 of 19 February 2020.

(3) https://www.consilium.europa.eu/media/35749/z-councils-council-configurations-ecofin-eurogroup-2018-180621-specific-commitments-to-ensure-the-continuity-and-completion-of-reforms-adopted-under-the-esm-programme_2.pdf.

(4) ECB staff participated in the review mission in accordance with the ECB's competences and thus provided expertise on financial sector policies and macro-critical issues, such as headline fiscal targets and sustainability and financing needs. The review mission was preceded by a technical mission from 13 to 21 January 2020.

and in line with the Memorandum of Understanding of 27 April 2018 on working relations between the European Commission and European Stability Mechanism.

OVERALL ASSESSMENT OF PROGRESS WITH REFORM COMMITMENTS

This report concludes that Greece has progressed well in implementing its specific reform commitments for end-2019. The supplementary measures that are being implemented or announced by the government should allow for their completion in time for the sixth enhanced surveillance report scheduled for May 2020. This requires continuous engagement of the Greek authorities in particular in the financial sector, where significant further action is needed.

- The ten specific commitments due by end-2019 include important reforms aimed to increase the efficiency of the Greek public sector, strengthen the effectiveness of social policy, advance the privatisation agenda and further improve the quality of the business environment. The authorities have completed or are about to complete shortly some of the key commitments, including the capacity-enhancing reforms to the Independent Authority for Public Revenue, or the digital organigrams for the public sector, which are part of the Human Resources Management Strategy. The timelines for the delivery on other key specific commitments have been adjusted in view of the complexities of the projects or inherited delays. This was the case, for instance, for the roll-out of the labour-market pillar of the Social Solidarity Income scheme, which aims to promote long-term and sustainable employment growth, or the privatisation agenda, despite the momentum maintained from the last report. A full overview is provided in the Annex. The authorities are encouraged to present complementary measures with a view to ensuring adequate reform progress on the reforms where timelines were adjusted, such as in the areas of public finance management or the regulatory burden on businesses.

- Regarding their continuous commitments, the implementation of the Strategic Plan of the Hellenic Corporation of Assets and Participations is ongoing and there is progress on a number of transactions of the Asset Development Plan, while the implementation of the arrears clearance plan and collection of health care clawback need to accelerate. Regarding the financial sector commitments, some progress continues on reforms needed to clean up the stock of non-performing loans. However, there is still a need to significantly prioritise and speed up certain important actions. In particular, the clearance of the backlog of household insolvency cases is behind schedule and progress in addressing impediments to successful e-auctions remains limited.

- The authorities are simultaneously progressing on their mid-2020 commitments, which will be assessed in the second half of the year. They are undertaking their efforts in close cooperation with the institutions, and are pursuing measures beyond the Eurogroup commitments in the context of their broader reform agenda, for instance in the area of good law-making, digital governance and education.

ECONOMIC AND FISCAL OUTLOOK

The economic recovery continued in 2019 and is expected to strengthen going forward. Economic growth is expected to reach 2.2% for 2019, well above the euro area average of 1.2%, mainly on account of strong export performance. A strong tourism season boosted service exports but also goods exports remained resilient despite the lower growth in the euro area. Economic growth is expected to increase to 2.4% in 2020, with domestic demand gaining momentum, supported by positive expectations and the growth-friendly tax shift incorporated in the 2020 budget. The recovery of the labour market is expected to continue, and unemployment to fall to 15.2% in 2020, whereas inflation is forecast to remain muted in the near term.

The outlook remains subject to both upside and downside risks. Recent statistical revisions and indicators capturing business and consumer expectations point to upside risks for 2019 and 2020. The projection remains cautious regarding the contribution of the external sector to growth in 2020, also in view of the slowly increasing unit labour cost in Greece, but the gains in Greece's export market shares seen in 2019 and before could prove more durable, especially if coupled with productivity increases. Downside risks are mostly related to the uncertain geopolitical situation and lasting political tensions in the wider region, as well as the under execution of planned public investment projects and their effects on domestic demand. The projection is contingent upon maintaining the reform path agreed under enhanced surveillance. In particular, provision of investment financing though the banking sector will depend on a swift implementation of financial sector reforms, devised to support banks' intermediation capacity.

Based on the preliminary data for 2019, Greece is set to overachieve the primary surplus target of 3.5% of GDP, outperforming its fiscal targets for the fifth year in a row. The primary surplus is expected to reach around 4% in 2019, after taking into account the EUR 186 million 'social dividend' distributed to vulnerable households and the clearance of EUR 200 million of pending public service obligation at the end of the year. This corresponds to a headline surplus of about 1.6% of GDP, compared with a deficit of 0.8% of GDP projected for the euro area. Before the end-year payments, the over-performance vis-à-vis the 3.8% of GDP balance projected in the previous report would have reached about 4.2% of GDP. The difference can be attributed mainly to better-than-expected revenues from social contributions and taxes, and to the under-execution of the consumption expenditure. Part of the higher revenue outturn was due to one-off factors.

While having a broadly neutral impact on the balance, general government investment was by 1.1% of GDP lower than initially planned. To address the recurrent underspending in the Public Investment Budget, the authorities have started to implement an action plan to improve its monitoring. The action plan is currently on track with a delivery by end-2021. Plans to create a project preparation facility are at an early stage but are expected to help to a more targeted and increased execution of the Public Investment Budget. Under-execution of the Public Investment Budget is a growing concern also in the context of the technical work on the possible use of the SMP-ANFA income equivalent amounts for agreed investments (see also below).

The authorities have started to implement the 2020 budget, which was assessed as compliant with the fiscal target of 3.5% of GDP in the previous report, and they expect that fiscal space would emerge in spring to finance additional measures. The government is aiming to further reduce the ENFIA property tax while increasing its tax base, and to reduce the special solidarity levy and social security contributions. To that aim, the gradual reduction of the corporate income tax to 20%, announced in July 2019, risks being postponed. An assessment of these measures will be carried out in the context of the preparation of the Medium-term Fiscal Strategy, due in May 2020, together with a re-assessment of some of the minor fiscal measures included in the 2020 budget. The Medium-term Fiscal Strategy is also expected to reflect the upcoming pension reform, which is currently being designed with a view to responding to the 2019 Council of State ruling in a fiscally neutral manner, and the cost of clearing the stock of called state guarantees for bank loans, worth 1.1% of GDP within five years.

Given the accelerating migration flows, the authorities pointed out that the current migration adjustor does not capture fully the total costs of the migration crisis ([5]). The agreed migration adjuster allows to remove up to 0.2% of GDP of migration-related expenditure (net of EU funds) from the primary balance but based on the current methodology the actual amounts deducted from the primary balance are consistently well below this level. The authorities and the European institutions have started to assess the obstacles that prevent the authorities to account for the total costs in the adjustor and will report on the findings in the next report.

Overall, Greece's fiscal and economic outlook has improved. The continued solid fiscal performance and the growth-friendly policy agenda have made their impact on the economic climate as sentiment indicators approach pre-crisis levels. Greece has been successful at re-entering the sovereign bond markets achieving historically low yields. Yield spreads have considerably narrowed in the past year and the improved outlook for the Greek economy has led to gradual a upgrading of Greece's credit rating. Upholding reform commitments will be key to sustaining medium and long-term growth prospects.

Despite the positive outlook, Greece's public finances continue to face fiscal risks, which are difficult to quantify at this stage. First, notwithstanding the recent Council of State ruling regarding the past pension reforms, a large number of cases claiming retroactive payments to pensioners are still pending and will be addressed by the Council of State through a 'pilot trial' to ensure a harmonised approach in all courts. An additional fiscal risk stems from the litigation cases of Attikos Helios, a company operating in the tourism and hospitality industry, against the Public Real Estate Company. The case is currently pending before the Athens Court of Appeal. Additional fiscal pressures might be caused by the planned arrangements concerning the private supplementary pension fund of the National Bank of Greece (a private commercial bank). The fiscal impact will depend on the timing of statistical recording of the transfer of the pension liabilities to the general government as well as on the rulings of two pending court cases involving all parties concerned (the state, the bank and pensioners).

([5]) The definition of the migration adjustor currently in place can be found in the Commission Opinion on the Draft Budgetary Plan of Greece, SWD(2018) 516, footnote 5.
https://ec.europa.eu/info/sites/info/files/economy-finance/c_2018_8016_el_en.pdf

Technical discussions on the possible use of SMP-ANFA income equivalents for reducing gross financing needs or other agreed investments have started. Following up on the respective mandate given by the Eurogroup in December 2019 ([6]), the authorities shared their initial considerations regarding the use of SMP-ANFA income equivalents and related impact on the structural balance during the enhanced surveillance mission. The European institutions are engaging with the authorities at technical level, with a view to reporting back to the Eurogroup in June 2020. There is a general understanding that investments shall be growth-enhancing. The authorities also proposed to consider establishing a fiscal smoothing mechanism allowing to take into account the past over-performance of primary surplus targets in the following year, as well as reducing the primary surplus target up to 2022. Any proposal which alters the agreement reached with European partners in June 2018, would need to be discussed at the Eurogroup and take into account compliance with the EU fiscal framework and debt sustainability.

SOVEREIGN FINANCING AND DEBT SUSTAINABILITY

Greece strengthened its presence on the sovereign bond market, by issuing new bonds in January 2020. In particular, a 15-year bond was issued at the end of January with an amount of EUR 2.5 billion. Amidst strong investor interest, the final order book was close to EUR 19 billion, and the achieved yield of 1.9% came below the expectations. Some 84% of the auctioned bond was sold to foreign investors, mainly real money investors. It was the first time that Greece issued a bond with such a long maturity on an open auction since the crisis, and also the first time it issued a bond that matures after the end of the current deferral period of the European Financial Stability Facility loans, i.e. after 2032. This indicates that the investors see limited roll-over risk also on this horizon. Based on the funding strategy, further bond issuances can be expected this year, which might finance further early repayments of official and private sector debts. Sovereign yield spreads have further decreased, with 10-year spreads vis-à-vis Germany reaching levels of 140 basis points in mid-February, while Greece's credit rating improved further. Greece continues to maintain its significant cash buffer, with state cash reserves estimated at some EUR 23.5 billion at end-2019, sufficient to cover financing needs for more than two years if the primary balance targets are met.

A sequential update of the debt sustainability analysis has been carried out. The update of the macroeconomic assumptions and recent bond issuance data suggest that debt would remain on a downward trend (except for a level-shift due to the capitalisation of the deferred interest in 2033), but above 100% of GDP until 2040. A second scenario with an additional update of the interest rates as modelled under the current framework suggests that debt would remain above 100% of GDP until 2039. Greece's gross financing needs reach around 13.5% of GDP in the first scenario and 12% of GDP in the second scenario at the end of the forecast horizon. A comprehensive

([6]) The Eurogroup gave a mandate to the European institutions to initiate technical work on the possible use of ANFA and SMP income equivalents to reduce gross financing needs or to finance mutually agreed investments, in line with the agreed fiscal targets and the June 2018 Eurogroup statement. Eurogroup statement on Greece of 4 December 2019: https://www.consilium.europa.eu/en/press/press-releases/2019/12/04/eurogroup-statement-on-greece-of-4-december-2019/.

revision of the framework of assumptions underlying the Debt Sustainability Analysis used by the European institutions is ongoing and will be completed by the time of 6th enhanced surveillance report.

TAXATION AND PUBLIC FINANCIAL MANAGEMENT

Important progress has been made towards the broadening of the tax base for the 2020 ENFIA property tax exercise, widening the share of population covered by the zonal system from 85% to 98%. A new nationwide revaluation exercise is expected to finish in spring 2020, with a view to aligning the property tax values to market prices by mid-2020, which is a specific commitment. The 2020 budget implies an almost fiscally-neutral property tax exercise based on the new values, with a small increase of EUR 140 million in ENFIA revenues compared to 2019. The base widening might give scope to restructure property tax rates and thresholds.

The number of staff at the Independent Authority for Public Revenue increased during 2019 but fell short of the end-2019 target (an end-2019 specific commitment, replaced by equivalent measures). The number of staff increased in 2019 to 11,902, up by 264 compared to the beginning of the year. However, given the accumulation of previous delays, the actual staffing level remained lower than the initial target of 12,500. The renewal of the mandate of the Governor of the Independent Authority provides for continuity and will facilitate its transformation into an efficient and effective tax authority in line with best practices.

The complementary measures agreed in view of the undershooting of the staffing target have seen overall good progress, in particular as concerns human resources reform and housing issues, and are expected to advance further until end-April 2020. The supplementary grading legislation, which is a pre-requisite for human resources reform, has been adopted, and the follow-up legislation defining the remuneration framework in relation to the grading system is due to be adopted by the end of April. Regarding the IT framework, the key areas have been identified where competencies and resources between the Authority and the relevant services of the Ministry of Digital Governance will need to be clarified by April 2020, which should allow for a Service Level Agreement to be agreed by mid-2020. Finally, a detailed roadmap for the relocation of the Authority into one location has been defined with the decision for the public entity currently occupying the premises to move out as well the offer for the Authority to secure its lease expected by March 2020. According to the roadmap the Authority is expected to move into its new premises by April 2021.

The authorities are making progress on a number of key projects enhancing the capacity of the Authority and are preparing a more ambitious plan to combat smuggling. Work is ongoing on an IT system for an end-to-end collection system (a mid-2021 specific commitment) and the ‘model collection office’, while plans for introducing electronic invoicing in 2020 are advancing. The authorities are also planning to strengthen the Operational Coordination Centre, which was established as a programme commitment with the mission to fight smuggling and to coordinate the relevant services. The Centre has recently seen its capacity reduced as the staff secondments have not been renewed and primary legislation to address this issue is expected to be adopted shortly. The authorities plan to raise the membership of the

Centre's steering committee to the level of deputy ministers and the Governor of the Authority, which would result in a more efficient coordination. The Centre will operationally remain integrated into the structure of the Authority and will see its overall capacity being enhanced.

The authorities re-opened the 120 instalment scheme for social security contributions for those who dropped from the scheme, which has raised some concerns as regards the credibility of the authorities' commitment to terminate the practice of providing lengthy ad hoc instalment schemes. The authorities argued that many debtors had involuntarily dropped out from the scheme due to errors in the IT system. However, the adopted legal provision that made re-entry possible by end-May 2020 appears disproportionately generous, both as regards the length of the period for re-entry and eligibility, as it allowed to re-enter also debtors who genuinely failed to comply with the rules. It is therefore welcomed that the authorities submitted an amendment to this law that will shorten the period to the end of March 2020 and will also limit the eligibility to re-enter.

The stock of net arrears reached EUR 1.2 billion at end-2019, which was EUR 220 million above the target of the October 2019 clearance plan (a continuous commitment). Compared to August 2019, the stock of net arrears decreased by EUR 50 million. Inefficiencies in the clearance of pension claims and mistakes in computing accurately the net stock of pension claims arrears account for most of the slippages. Some gaps compared to the target have been observed also in arrears of the state and local governments. Additional measures, focusing in particular on pension arrears, are being prepared and some have already started to be implemented. The measures include a number of legislative amendments to regulate payments of certain arrears, closer monitoring, additional training and exchange of best practices. The authorities remain committed to the October 2019 clearance plan and expect the target of clearing the pending pension claims by mid-2021 to be achieved.

While the net stock decreases, new arrears continue to be created, which points to weaknesses in the payment chain and internal control functions. In the context of establishing timely payment chains, the lack of effective internal control mechanisms is still a cause of concern and a factor slowing down the processing of payments, especially in entities where the ex-ante audits performed by the Court of Audit have recently been phased out. The Court is conducting a broad survey on the matter across the public administration with a view to accelerating the establishment of effective internal control systems by the end of the current year, and providing further guidance if necessary. The General Accounting Office committed to examine the recommendations on streamlining the payment chain through a recent technical support project provided by the International Monetary Fund and to adopt mitigation actions when necessary.

The framework for the cash monitoring of the general government Treasury account system has been put in place, while a pilot project on cash forecasting is being implemented (both are end-2019 specific commitments). All significant general government entities have opened accounts at the Bank of Greece and use it to receive state grants or subsidies. Some small entities have not joined the scheme yet but the General Accounting Office foresees to take steps shortly to ensure full coverage. A pilot project on cash forecasting started at the end of 2019 and will result in the development of a strategy for its roll-out to the rest of the entities by October 2020. In view of its complexity, the project will be assessed based on an interim report due by end-March and a draft roll-out strategy by end-April.

The overall implementation of the Unified Chart of Accounts, a mid-2021 specific commitment for central administration, is progressing but its implementation across the entire central government, including in the Public Investment Budget, remains a challenge. The governance structure of the Chart of Accounts project has been considerably reinforced and it is now regarded as a broad public finance management tool, encompassing procurement and e-invoicing. However, the full implementation of the Chart of Account in the Public Investment Budget is not showing sufficient progress. The revised plan of the authorities' will require further work, in particular regarding the implementation of the Chart of Accounts in the budget planning phase, while fully respecting the accrual accounting principle.

SOCIAL WELFARE

Although the social situation is still difficult, it is expected to continue improving, thanks to the combined effect of the economic recovery and the social welfare reforms that have taken place in the last years. Major steps have been taken to improve the efficiency, effectiveness and adequacy of the social welfare system: the introduction of a guaranteed minimum income scheme and the housing benefit. According to the latest available data, between 2017 and 2018, the share of people at risk of poverty or social exclusion declined from 34.8% to 31.8%, while the percentage of severe material deprivation decreased from 21.1% to 16.7%. While the housing benefit provides support towards rental costs for vulnerable households, there is no similar, permanent support for vulnerable home-owners with a mortgage ([7]). The completion of the reform of the disability benefit system and the review of the system of subsidies for local public transport could further improve the efficiency of the welfare system.

The authorities are preparing adjustments to pension legislation to comply with the 2019 Council of State decision. The adjustments will include higher accrual rates for careers above 30 years, a new system of social contributions for the self-employed, and a return to the pre-2014 levels of supplementary pensions, the cut of which was judged unconstitutional. The increase in the accrual rates will further increase the generosity of the system for persons with longer careers leading to high average replacement rates by European standards. Regarding social contributions, the authorities plan to de-link the contributions paid by the self-employed from their declared income, while increasing the minimum amount paid. The projected impact of the new measures is below 0.5% of GDP, which the authorities plan to finance by redirecting (part of) the resources from the 13th pension re-introduced in 2019. The remaining part of the budget previously allocated to the 13th pension will be used to cover the costs of health policies and social welfare, where it could for instance support an increase in the guaranteed

([7]) There is currently a system of protection of primary residences under the Household Insolvency (Katseli) law and therefore covering only non-performing mortgages, which however will expire at the end of April 2020.

minimum income under the Social Solidarity Income scheme or an introduction of a permanent benefit for vulnerable home-owners with a mortgage.

The authorities have developed an action plan to remedy the delays in setting up the Single Social Security Fund, a mid-2020 specific commitment. An ambitious action plan for the digitalisation of the Single Social Security Fund will start to be implemented in the coming months, aiming at unifying the IT systems of all the previous funds and the digitalisation of services with timelines by end-2020 and mid-2021. The authorities have also announced the decision to merge the Supplementary Pension Fund into the Single Social Security Fund in order to improve efficiency.

Administrative procedures for the clawback collection (a continuous commitment) have resumed, and measures are being prepared to limit the size of the clawback amounts. The collection of the clawback for pharmaceuticals is in progress (through the 120 instalments scheme introduced in 2019) and for private clinics and other providers will start shortly. The ever-increasing clawback amounts, especially for pharmaceuticals, are a source of concern. The authorities are planning to strengthen the efforts on the implementation of compulsory prescription/treatment protocols, which aim to curb inappropriate prescribing behaviours, and to strengthen their capacity in pharmaceuticals price negotiation especially for high-cost drugs. The European institutions have encouraged the authorities to consider including an element of risk sharing in the clawback system and to ensure the adequacy of the hospital budgets in relation to the healthcare needs of the population.

Progress in setting up a comprehensive network of primary health care units, a mid-2020 specific commitment, has resumed following the announced redesign of the system. According to a revised strategy, the remaining 120 Local Health Units (the 'TOMYs') will become operational within the premises of existing Health Centres. Nonetheless, the full rollout of the primary care network continues to face important bottlenecks, including in hiring the required number of family doctors, and incomplete compulsory registration and gatekeeping. The completion of the network with full population coverage by mid-2020 will not be possible, but the new strategy addresses some of the key sources of delay thus far and the authorities are confident to be able to finalise the full roll-out including gatekeeping and referral functions by end-2020.

Reaching the target of a 30% share of centralised procurement, a mid-2020 specific commitment, will be challenging but the planned launch of decentralised procurement at regional level has the potential to speed up the process. The authorities have submitted a revised strategy for centralised procurement, while in parallel transforming the new central body for health procurement to a private-law legal entity. The new strategy envisages decentralised procurement at regional level, which should make procedures administratively less cumbersome, speed up the tendering process and offer more opportunities to apply. The authorities plan to make better use of the Price Observatory to ensure that all avoidable inefficient spending is rectified as swiftly as possible.

The reform of the disability benefits framework, a mid-2019 specific commitment, is advancing but with significant delays outside the control of the authorities. The new methodology should have been developed on the basis of the evaluation of a pilot project, the final version of which is still pending. The authorities have agreed to provide a new revised timeline for its national rollout by April 2020, which will take into account issues identified from the draft evaluation report. The authorities have announced their intention to review the whole set of benefits and services for the disabled, with a view to strengthening the provision of in-kind benefits and services.

The evaluation of the system of subsidies for local public transport, an end-2019 specific commitment, is expected to be completed by end April 2020. The delay is due to the many distinct beneficiaries (ten different population groups receive these types of subsidies) and the involvement of a number of different ministries.

FINANCIAL POLICY

Following the abolition of capital controls in September 2019, the banking sector continued to strengthen, but legacy risks and challenges remain high. Domestic deposits continued their upward trend, further reinforcing the liquidity situation of Greek banks. Banks' profitability is showing signs of recovery, but remains low. The banks are compliant with their capital requirements but the capital structure is largely dependent on state-related assets, specifically due to the high amount of deferred tax credits. In 2019, net bank lending to non-financial corporations has further improved, while credit growth to households remained negative, against the background of a further decrease in lending rates.

The pace of reduction of non-performing loans accelerated in 2019 but non-performing loan ratios remain very high. The stock of non-performing loans fell to EUR 71.2 billion at end-September 2019, down by EUR 36 billion from its peak in March 2016, representing a ratio of 42.1% of total customer loans. Sales and write-offs have been the main drivers behind the reduction of non-performing loans so far, while the internal capacity of banks to work out non-performing loans continues to be very low.

The successful and speedy implementation of the Hercules asset protection scheme could accelerate the reduction of non-performing loans of the four systemic banks. The scheme will run over an 18-month period with a planned envelope of maximum EUR 12 billion of state guarantees. All four systemic banks have expressed interest to participate in the scheme and are in the process of updating their strategies for the reduction of non-performing loans accordingly. The focus now falls on the successful and timely implementation of the scheme.

The authorities are working on reforming the fragmented insolvency framework currently in place, in a way that contributes to a viable reduction in private and public debt in the near term, while accelerating the pace of implementation of the existing tools for the resolution of non-performing loans and improving their effectiveness. The actions outlined below are monitored and assessed under enhanced surveillance as part of the **continuous commitment** to *"continue to implement reforms aimed at restoring the health of the banking system, including resolution efforts for the non-performing loans":*

- **Harmonisation of the insolvency framework**: Preparatory work on the harmonisation and integration of the corporate and personal insolvency regimes is proceeding, and the new framework is expected to be adopted by the end of April 2020. Independently of the implementation of the new framework, the Primary Residence Protection scheme will also expire by end April. The new system is expected, among others, to tackle current statutory obstacles to dealing with excessive indebtedness, procedural complexity of the existing frameworks, and foster cooperation among creditors. The authorities are contemplating the design of a framework, which would initially rely on pre-judicial settlement, supported by electronic means, in an attempt to reach an amicable debt restructuring. The successful implementation of the new framework will crucially hinge on effective acceleration and optimisation of judicial insolvency processes. A preliminary outline of the draft law has been prepared by the authorities. It is currently under assessment and consultation with the institutions, pending further elaboration.

- **Clearing of the household insolvency backlog**: The number of pending household insolvency cases exceeded 86,000 at end-December 2019, which is by about 50% above the end-year target, which will therefore be very likely missed. A comprehensive action plan for accelerating the clearance of the household insolvency backlog was expected by end-December 2019. The authorities have now committed to present it by end-March 2020. It is expected to make use of different techniques in order to realistically cut the period between the filing of a case and its hearing by the court, and facilitate the eligibility control of presented evidence. In this context, it is relevant to note that the authorities also submitted a draft legislative proposal for the provision of training to magistrate court judges, who are the ones dealing with household insolvency cases.

- **Clearing the backlog of called state guarantees**: The authorities have increased their efforts and committed to accelerate the implementation of the action plan for the clearance of the backlog of called guarantees, which remains considerable. The updated plan foresees the processing of all currently called guarantees for corporate loans by end 2022 and loans for natural persons by end-2023. The payment of claims is expected to follow immediately after the examination of each claim has been finalised, except for (i) claims that are subject to litigation and cannot be paid before the court cases are completed and (ii) cases where additional documentation needs to be provided by the creditors. For such cases, the payments are expected to be made within one additional year after the processing of the claim, and to be fully concluded by end-2025. The fiscal cost of the envisaged clearance path is expected to be incorporated in the 2020 update of the Medium-term Fiscal Strategy. Ensuring considerable payments already in 2020, with visible results by mid-year, and further exploring ways to process the guarantees scheduled for 2024 still in 2023, would enhance the effectiveness of the action plan and send the right signal vis-à-vis future payments from the state towards the financial system.

- **Primary residence protection**: The primary residence protection scheme with a state subsidy put in place to help debtors start repaying their mortgages remains little used and the authorities reiterated their commitment that the protection would expire at end-April 2020.

- **E-auctions**: A comprehensive analysis of the reasons, which currently impede a high success ratio of e-auctions, including a proposal with possible legislative remedies, has not been conducted so far. The authorities are aware of the existence of impediments leading to the frequent failures of e-auctions conducted by banks to liquidate their collateral, and commit to implement actions to prevent cases of procedural abuse, notably through designing an effective procedural mechanism for dealing with price adjustment requests.

- **Other initiatives**: The European institutions welcome that the favourable tax treatment of loan write-offs that had expired at the end of 2018 has been reinstated, as it will increase the incentives to undertake debt restructurings. The authorities completed their assessment of the implementation of the reformed Code of Civil Procedure, which aims to increase the effectiveness of court proceedings and accelerate the processing of cases by civil instances, and are expected to finalise the formulation and eventual proposals for the adoption of legislation for future improvements by mid-July 2020.

The Hellenic Financial Stability Fund continued exercising its shareholding rights in the four systemic banks. In the last reporting period, it focused on improving the banks' governance, assessing their business models, and progressing with the implementation of its Exit Strategy. The discussions between the Fund and the Ministry of Finance on the potential involvement of the authorities in the final stage of the divestment and the legal protection for the Fund's governing bodies and staff have not yet been finalised. Preserving the Fund's independence remains a cornerstone in the process toward restoring the health of the banking sector.

LABOUR AND PRODUCT MARKETS AND COMPETITIVENESS

The authorities are preparing a new National Growth Strategy. The new strategy will benefit from the input of a high-level expert group ([8]) and is due to be completed by mid-2020. It is expected to set out comprehensive and actionable medium-term reform priorities, with a view to boosting exports and investment. Following the adoption of the Development Law in October 2019, the authorities are also preparing secondary legislation, which is a pre-condition to making the new framework fully operational.

The authorities committed to safeguard competitiveness when carrying out an annual update of the minimum wage, mindful of the requirement of the Greek legislation to also safeguard purchasing power. An ex post assessment of the last minimum wage increase and the abolition of the youth sub-minimum wage, which took

([8]) This is composed of renowned experts and is chaired by Nobel Prize economist Christopher Pissarides.

place in February 2019, is under preparation with the help of a European Commission technical support project implemented by the World Bank. Following this ex post assessment, consultations with social partners and recommendations by an independent expert committee, the government is expected to determine the new level of the minimum wage in June 2020. In line with the legal framework, this should be based on an analysis of economic fundamentals and a genuine dialogue with social partners.

The authorities have completed the implementation of the 2017-2019 action plan to fight undeclared work, an end-2019 specific commitment, and are now in the process of preparing a follow up. The previous action plan promoted an integrated approach to undeclared work, including measures to reinforce the cooperation among different institutions and improve the capacity to detect undeclared work. The authorities are now designing a follow-up to this action plan.

The authorities have prepared an action plan for the nationwide expansion of a new delivery model for active labour market policies, thus progressing towards completing the rollout of the Social Solidarity Income scheme, which is an end-2019 specific commitment. The updated action plan aims to gives a strategic focus on promoting long-term and sustainable employment growth by pursuing an integrated and targeted approach. Following an initial pilot project, the new delivery model is set to be expanded to three other regions in view of an eventual national rollout.

The authorities have embarked on an ambitious agenda for a comprehensive education reform. This goes beyond Eurogroup commitments, and is macro and social policy relevant as it addresses skill mismatches, enhances growth and helps to reduce poverty and improve the social situation. The reforms focus on challenges such as enhancing the quality of public schools, upgrading vocational education and training and improving the quality of higher education institutions to address the skills gap ([9]). A new law on higher education aims at upgrading the evaluation and accreditation of higher education institutions and linking university funding with performance, while a number of changes to compulsory education are in the pipeline, including the implementation of a mandatory two-year pre-school programme.

Progress on areas of economic diplomacy and trade facilitation, which are expected to contribute to strengthening Greece's export performance, has been hampered due to incomplete institutional arrangements. Legislation enlarging the mandate and responsibilities of the Ministry of Foreign Affairs on economic diplomacy has been delayed, and is expected to be completed in March 2020, while the strategy itself is due by April 2020. The establishment of a solid legal footing for the single authority and the adjustment of inter-institutional structures are pre-requisites for the authorities to achieve synergies and policy cohesiveness in this area.

([9]) Greece ranks as one of the bottom of EU countries on the skills matching dimension of the European Skills Index, with one of the highest over-qualification rates of tertiary graduates (31.6%) and qualification mismatches among the EU countries. This is also corroborated by the latest PISA results, according to which Greece ranks significantly below the OECD average in literacy, mathematics and science. With regards to digital education, only 46% of people aged 16-74 appear to have at least basic digital skills, while 31% have no digital skills at all (EU average: 17%). These challenges are also highlighted in the Commission's 2020 Country Report on Greece, adopted on 26 February 2020 in parallel to this report (COM(2020) 507).

Despite some delays mostly caused by factors outside the authorities' control, work on investment licensing is largely on track and the authorities remain committed to completing the reform within the agreed deadlines. The authorities enhanced the administrative capacity of the relevant service coordinating the reform and have secured further technical support through the European Commission on the remaining work. The signature of the contract for the procurement of the IT system, which is the first step towards the full deployment of the IT system (an end-2019 specific commitment), has been delayed given a complication that arose within the tendering procedure outside the control of the authorities. Work on the implementation of the inspections framework law (a mid-2020 specific commitment) is progressing, save for few delays. The authorities also remain committed to meeting the mid-2020 specific commitment deadline for the simplification of licencing procedures in the remaining sectors of the economy, despite some delays.

The authorities aim at concluding the revision of the nuisance classification by mid-2020, well ahead of the mid-2021 specific commitment, and are also working on further measures to improve the environmental licensing and inspection frameworks. The authorities signed a contract with a technical advisor to support them in the alignment of nuisance classification with the environmental classification system, with a view to issuing relevant secondary legislation by mid-2020. Additional steps in the pipeline to improve the licensing framework include the simplification of the process for renewing and amending environmental permits, the certification of external environmental assessors, the re-organisation of the administrative framework for inspections, and the certification of external inspectors. The latter would be an important step towards addressing current weaknesses of the enforcement framework. The authorities are also reviewing certain provisions legislated by the previous administration to identify any potential deviations with the principles of the investment licensing reform, with a view to legislating any necessary amendments by September 2020. The ongoing engagement and enhanced role of the relevant service coordinating this reform in the scrutiny of future legislation would safeguard the continuity of this reform.

The cadastre project is progressing well overall, but deadlines had to be adjusted in view of previously accumulated delays. The problem of delayed property declarations, which had slowed down the cadastral mapping process, has largely been overcome, and in most areas the next phase of the mapping can be launched. That said, in view of previously accumulated delays it has been warranted to revise the road map for the cadastral project in order to update the timelines and intermediate steps in a credible manner. In this respect, the deadline for completion of the cadastral mapping has been moved from mid-2021 to May 2022, with intermediate milestones. There is overall momentum in the project and the authorities are showing strong ownership, providing a sound basis for the eventual completion of the project. On the institutional side, in order to accelerate progress towards the full establishment of the cadastral agency (a mid-2020 specific commitment) the authorities plan to immediately open regional offices across Greece and give them the authority to open the envisaged local sub-offices.

Progress towards the completion of Greece's energy market commitments continued with the initial submission of revised proposals to attempt to remedy the

anti-trust concerns until the full phase out of lignite, along with the formulation of an overall strategy for energy and climate. This is a step towards addressing the outstanding competition concerns related to the privileged access to lignite-fired generation by the Public Power Company and to finally complying with the Commission's decision and Court's judgements. Addressing the longstanding distortions on the wholesale market (including remedies to the anti-trust commitment, which will now cover the **end-2019 specific commitment** by including additional measures in the energy sector) will increase the degree of competition in the Greek electricity market, setting the basis for further investments and helping Greece reform its energy sector. In this context, it is relevant to note that Greece adopted its National Energy and Climate Plan in December 2019 in accordance with Regulation (EU) 2018/1999 on the Governance of the Energy Union and Climate Action, ahead of some other Member States. The plan outlines Greece's 2030 energy strategy, based on the early decommissioning of lignite plants, and signals ambition with an increase in renewable energy generation, energy efficiency and a decrease in CO_2 emissions. In order to manage the social challenges of the transition, close cooperation with the Commission, including under the Green Deal Investment Plan and Just Transition Mechanism, is encouraged.

The implementation of the target model for the electricity market, a specific commitment rescheduled for mid-2020, is progressing largely according to the schedule. Since the last report, Greece has made steps forward, such as the approval of the spot markets clearing rulebook. Almost all of the remaining technical rules have been submitted to the regulatory authority for approval. Further work has taken place to ensure that the local market will be coupled with the Bulgarian and Italian markets without undue delays after the spot market go-live.

HELLENIC CORPORATION OF ASSETS AND PARTICIPATIONS

The work of the Hellenic Corporation of Assets and Participations on the key areas covered by the commitments to the Eurogroup is continuing. Since the publication of the fourth enhanced surveillance report in November 2019, progress has been made in improving corporate governance in state-owned enterprises (including board reviews and remuneration policies). In addition, the Corporation is increasing its focus on operational improvements in state-owned enterprises. A key challenge in this respect will be to effectively address the significant operational and financial issues in the Hellenic Post and co-operate with the authorities for the funding of the restructuring plan, in line with the EU state aid framework. The authorities have exhibited strong engagement and support to the important work of the Corporation. The coordination mechanism between the authorities and the Corporation has meanwhile been launched for all enterprises, the mandates for eight enterprises were finalised and submitted to the Cabinet Committee, and work is underway in updating the ministerial guidance. The Corporation is continuing with the implementation of its strategic plan (**a continuous commitment**), and is monitoring the key performance indicators it has set for its subsidiaries. Achieving the full potential of the real estate portfolio under the Public Properties Company remains a key challenge, while the screening for the transfer of additional real estate assets should be completed soon. The transfer of the Olympic

Athletic Centre (OAKA), which was an end-2018 specific commitment, will be delayed due to practical complexities, which are unavoidable due to the status of the asset.

The authorities maintained momentum in the privatisation process as reflected in the good progress on several transactions. It will be key to keep up the efforts to bring the projects to fruition. As mentioned in previous reports, the timeline of the flagship projects below has been affected by delays or factors largely outside the control of the authorities. Overall, the authorities are making continued progress in the implementation of the Asset Development Plan (**a continuous commitment**). In particular:

- **Hellinikon (an end-2018 specific commitment):** While the tender process for the award of the casino licence may be delayed due to factors outside the control of the government, the authorities are working to finalise the other conditions precedent for the transaction. They have adopted secondary legislation on the metropolitan park and on development and urbanisation zoning areas, and an agreement has been reached between all involved parties on the partition of the Hellinikon site, whereas the authorities are in the process of taking steps to complete the few pending issues regarding the relocation of remaining public and private users and the legalisation and demolition process of buildings.

- **Marina of Alimos (a mid-2019 specific commitment):** the Court of Audit approved the tender procedure on 26 June 2019. The delay in the financial closing of the transaction is primarily due to the time taken for the due diligence process by banks required in financing the transaction.

- **Hellenic Petroleum (a mid-2019 specific commitment):** Following the failure of the planned sale of a majority stake, the financial closure is inevitably subject to significant delays. The revised structure and timing should be determined on the basis of what provides the best commercial and strategic value for Greece. The authorities are yet to decide on the approach and a tentative timetable is now expected by March 2020.

- **Sale of 30% of Athens International Airport (an end-2019 specific commitment):** The tendering process is proceeding well. On 31 January 2020, the Board of Directors of the Hellenic Republic Asset Development Fund (TAIPED) decided that nine investment parties are qualified to proceed to the Binding Offers Phase, thus effectively launching this phase. The financial closing of the transaction is expected before the end of the year.

- **Public Gas Corporation (an end-2019 specific commitment):** The necessary legislation for the partial demerger of the company and the sale of the full stake of the Asset Development Fund in the company (i.e. 65%) was adopted in November 2019. The international tender process for DEPA Infrastructure was launched on 9 December 2019, whereby the Fund and Hellenic Petroleum are acting as co-sellers (offering 100% of the share capital of DEPA Infrastructure). The international tender process for the sale of 65% of the share capital of DEPA Commercial was launched on 23 January 2020.

- **Egnatia (an end-2019 specific commitment):** The long-term concession for the Egnatia motorway has been characterised by systematic delays and problems, showing a lack of ownership. The authorities have stressed their strong commitment to proceed with the transaction. Since the last enhanced surveillance report, three frontal toll stations were put into operation, while a detailed roadmap was provided to the institutions, with a specific timetable for the implementation of all required pending actions by May 2020. The implementation of the roadmap has started, and it will be key to build on the progress and take all necessary steps well in time before the revised deadline for the submission of binding offers on 26 June 2020.

- **Regional Ports (an end-2019 specific commitment):** The authorities are positive with respect to providing flexibility of choice on the privatisation transaction structure (i.e. sub-concession, sale of equity) so as to allow the best privatisation transaction structure to be chosen for each port. The relevant legal amendment was adopted by Parliament on 12 February, whereas the Asset Development Fund has started the process for recruiting external consultants for the sale of equity for four ports.

PUBLIC ADMINISTRATION

The authorities are taking steps to advance on digital governance, which is one of the least advanced in the EU. Despite some delays, a new 'Digital Bible' is expected to be completed by March 2020, setting out projects for the public administration as well as measures to enhance overall digital performance. Clarity on the roles and responsibilities within the administration will be key for its effective implementation. Progress is being made on important projects, such as the creation of a unified platform (gov.gr) for electronic services, increasing the interoperability of public systems, and the simplification and digitalisation of processes affecting citizens. Further simplifying processes that pose a burden to businesses would also be a priority for Greece.

The appointment of Permanent Secretaries in the public administration is progressing and the selection process for Directors has resumed. According to the authorities, the appointments for the Permanent Secretaries posts should be completed by March 2020, while director posts are expected to be completed by August 2020. It will be key to ensure that planned legal amendments for future appointments of directors and heads of division safeguard the role of the Supreme Council for Civil Personnel Selection (ASEP) in the process.

The authorities have made some progress in setting up an open selection process for senior management posts at public sector entities ([10]), expected to be in place by May 2020. Implementing an open selection process as a standard framework for these legal entities will be instrumental in strengthening their professional management and sending a clear message for further depoliticisation of the public administration. In case some entities are not made subject to the standard framework, in view of specific

([10]) In the Greek context, these public sector bodies are referred to as legal entities of public law and legal entities of private law.

public policy roles, it would be warranted to keep exceptions to a minimum, based on clear criteria, and to ensure that the framework provides for effective management of these entities.

The authorities have made continued progress in developing a Human Resources Management Strategy, whereas a majority of the digital organigrams and job descriptions, an end-2019 specific commitment, have been completed. That said, some large entities (incl. the Social Security Fund (EFKA) and the Employment Fund (OAED)) still need to be fully included in the exercise, which constitutes a priority for the authorities with a view to completing the rollout by end-April 2020. The mobility system and performance assessment have been firmly established across the public administration and adjustments to further improve their efficiency are planned. In October 2019, the authorities put in place a framework enabling public sector entities to link each job holder with a specific job description, thus creating the link with the Single Payment Authority. The authorities to expected to verify full compliance with this framework by April 2020.

The authorities are planning to proceed to improve the personnel selection system and establish a coherent approach to streamline the job classification system. A committee has been established to review the enabling law of the Supreme Council for Civil Personnel Selection (ASEP) with the aim to simplify and accelerate the recruitment processes. In this context, it would be important that the planned reorganisation of the Supreme Council would also enhance its capacity to efficiently undertake the new responsibilities it has been allocated, such as overseeing the selection of managers in the public administration.

The authorities have confirmed their intention to adopt a new codification law for the Labour Law Code and Code of Labour Regulatory Provisions by mid-2020, in line with the specific commitment. The authorities are highly committed to the initiative as they see the codification process as an opportunity to carry out a thorough review of the current legal framework. A number of legal provisions of the Executive State Law will help in this respect, including the reestablishment of the Central Codification Committee, while it will be important to devote sufficient resources to the task given its complexity.

The new provisions of the Executive State Law on good law-making came into effect in January 2020 and are expected to improve the quality of laws and to significantly reduce unrelated and last-minute amendments. The new framework involves comprehensive impact assessments, standard public consultations and enhanced quality control, while relevant training to selected staff will be provided. The initiative has the potential to greatly enhance the clarity and coherence of law-making, with positive effects on the investment climate, and thorough implementation will be critical. The Law also includes provisions for the delegation of signature powers to the non-political level that came into effect in February 2020. Once enforced, it is estimated that approximately 80% of all decisions taken in each ministry will now be signed off at Director-General level.

Hiring of permanent staff is proceeding in compliance with the staffing plan, while the increasing trend of temporary staff has slowed down and the level is expected

to be reduced further during 2020. According to preliminary data, the number of permanent officials hired during 2019 was significantly below exits, mainly due to retirement. The number of temporary staff is expected to be reduced in 2020, following the planned conversion of temporary teachers and home assistance posts into permanent posts in line with the hiring plan. At operational level, the authorities are planning steps to enhance monitoring and steering capabilities related to temporary staff.

While new salary provisions raise concerns about the integrity of the unified wage grid, progress has been made to strengthen central control over the wage grid and hiring procedures. A number of legal amendments have introduced further exceptions to the unified wage grid, notably with regard to allowances. In order to manage risks to the integrity of the wage grid, the authorities decided as a first step to establish an inter-ministerial committee with a mandate to ensure overall coherence and reinforce control, while additional measures are being contemplated and would further help to contain risks. On the upside, recent primary legislation to allow for the reorganisation of the Single Payment Authority has enabled the implementation of a long-delayed IT project, aiming to establish an integrated and fully digitised payroll system for all general government employees. The authorities are considering how to proceed with implementing the final phase of this reform, which would entail mandating the Single Payment Authority to also carry out the clearing of all salaries.

JUSTICE

The gradual switching to the mandatory electronic filing and processing of legal documents is progressing, starting from the administrative jurisdictions, an end-2019 specific commitment. Given the complexity of the project, it was previously agreed that full rollout throughout all courts by end-2019 is not technically achievable and that the commitment would be assessed on the basis of progress in the second phase of the Integrated Judicial Case Management System for the full rollout to be implemented over a 36-month period from the activation of the relevant contract.

The authorities are moving forward, with some delay, with the call for bids for the second phase of the Integrated Judicial Case Management System, a mid-2020 specific commitment. Following some delays due to internal governance changes, the authorities committed to publish it shortly. Given accumulated past delays, full implementation of the second phase of the Integrated Judicial Case Management System is not technically achievable within the original mid-2020 deadline. It is therefore warranted to assess the commitment on the basis of the conclusion of the relevant tendering procedure, by end-2020, and of a 36-month implementation plan for the completion of the project, which is also stipulated in the draft tender documentation.

Following the adoption of a number of legal amendments, the mandatory mediation framework, whose entry into force had been twice postponed, is being phased in. Legislation adopted in November 2019 introduced a reformed mediation framework that redefined the categories of disputes subjected to mandatory mediation, the minimum cost of mediation, and a number of procedural and technical aspects. The implementation of the first stage of compulsory mediation started on 15 January 2020 covering certain categories of family law disputes, and the second phase will follow in March 2020, extending it on ordinary proceedings in first instance.

The newly created National Authority for Transparency is being built up gradually, while implementation of the National Anti-corruption Action Plan is proceeding. The Authority is planned to be fully operational in November 2020. Implementation of the Action Plan is broadly on track, though some crucial decisions remain to be adopted. For instance, the legislative frameworks for the asset recovery office and asset management offices are still in the drafting stage, implying further delays before this crucial instrument in the fight against corruption is put in place. Close monitoring on the implementation of the framework, including on political party financing, combating of financial crimes and internal audit, will be critical.

The amendment of the law modifying the Criminal Code and the Criminal Procedure Code is welcome, though some concerns remain. An amendment in June 2019 had downgraded the main active bribery offence from a felony into a misdemeanour. While this downgrading was phased out in November 2019, it will affect a number of ongoing cases (see the 2020 Country Report for additional details). The authorities have established a committee with a view to implementing the remaining recommendations of the Group of States against Corruption in the area of the criminal codes by end-2020. The National Transparency Authority will be given an observer status in the committee.

Staff Working Document

1. INTRODUCTION

Economic developments and policies in Greece are monitored under the regular economic surveillance framework for euro-area Member States under the European Semester for economic policy co-ordination and under the enhanced surveillance framework according to Regulation (EU) No 472/2013 ([11]). Following its third prolongation, enhanced surveillance for Greece is currently in place for six months as from 21 February 2020 ([12]). The implementation of enhanced surveillance for Greece acknowledges the fact that over the medium term, Greece needs to continue implementing measures to address the sources or potential sources of economic and financial difficulties, while implementing structural reforms to support a robust and sustainable economic growth.

Greece made a general commitment at the Eurogroup of 22 June 2018 to continue and complete reforms adopted under the European Stability Mechanism programme and to ensure that the objectives of the important reforms adopted under the financial assistance programmes are safeguarded. In addition, Greece made specific commitments to complete key structural reforms started under the programme in six key areas by agreed deadlines up to mid-2022, namely (i) fiscal and fiscal-structural policies, (ii) social welfare, (iii) financial stability, (iv) labour and product markets, (v) privatisation and (vi) the modernisation of public administration ([13]). In this context, 10 specific commitments were made with a deadline of end-2019, progress on which is assessed in this report, while follow-up actions to previous commitments are also monitored.

This report is based on the findings of a mission to Athens between 22 and 24 January 2020 and regular dialogue with the authorities. The mission was conducted by the Commission in liaison with the European Central Bank ([14]); the International Monetary Fund participated in the context of its Post Program Monitoring cycle, while the European Stability Mechanism participated in the context of its Early Warning System and in line with the Memorandum of Understanding of 27 April 2018 on working relations between the European Commission and European Stability Mechanism.

([11]) Regulation (EU) No 472/2013 of the European Parliament and of the Council of 21 May 2013 on the strengthening of economic and budgetary surveillance of Member States in the euro area experiencing or threatened with serious difficulties with respect to their financial stability, OJ L 140, 27.5.2013, p. 1.

([12]) Commission Implementing Decision (EU) 2020, C(2020)901, of 19 February 2020 on the prolongation of enhanced surveillance for Greece.

([13]) https://www.consilium.europa.eu/media/35749/z-councils-council-configurations-ecofin-eurogroup-2018-180621-specific-commitments-to-ensure-the-continuity-and-completion-of-reforms-adopted-under-the-esm-programme_2.pdf.

([14]) ECB staff participated in the review mission in accordance with the ECB's competences and thus provided expertise on financial sector policies and macro-critical issues, such as headline fiscal targets and sustainability and financing needs. The review mission was preceded by a technical mission from 13 to 21 January 2020.

Enhanced surveillance provides a comprehensive framework for monitoring economic developments and the pursuit of policies needed to ensure a sustainable economic recovery. To this end, this report includes an assessment of economic conditions in Greece (chapter 2); an assessment of implementation of reform commitments given by Greece to the European partners (chapters 3-8); and an update on sovereign financing conditions and debt repayment capacity (chapter 9). This report is issued alongside the Country Report for Greece, prepared in the context of the European Semester of economic and social policy coordination.

The Eurogroup on 22 June 2018 agreed that the package of debt relief measures for Greece should include incentives to ensure a strong and continuous implementation of the reform measures agreed in the programme. To this end, the implementation of some of the agreed debt measures – the abolition of the step-up interest rate margin related to the debt buy-back tranche of the European Financial Stability Facility (EFSF) programme as of 2018 and the restoration of the transfer of equivalent amounts to the income earned by euro-area national central banks on Greek government bonds held under the Agreement on Net Financial Assets (ANFA) and the Securities Market Programme (SMP) – will be made available to Greece subject to compliance with its commitments on reform continuity and completion, based on positive reports under enhanced surveillance. The return of these income equivalent amounts would be made available to Greece in semi-annual tranches of some €640 m up to mid-2022. The waiver of the step-up interest rate margin, for part of the loans extended by the European Financial Stability Facility, would reduce interest payments by some €220 m annually. It would be waived on a semi-annual basis until 2022 and permanently after 2022. Following the Eurogroup on 4 December 2019, the second tranche of policy-contingent debt measures has been completed, inter alia based on the assessment of the implementation of Greece's commitments for mid-2019 in the enhanced surveillance report adopted by the Commission on 20 November 2019 ([15]). The current report assesses the implementation of Greece's specific reform completion commitments for end-2019, the continuous commitments and its general reform continuity commitment.

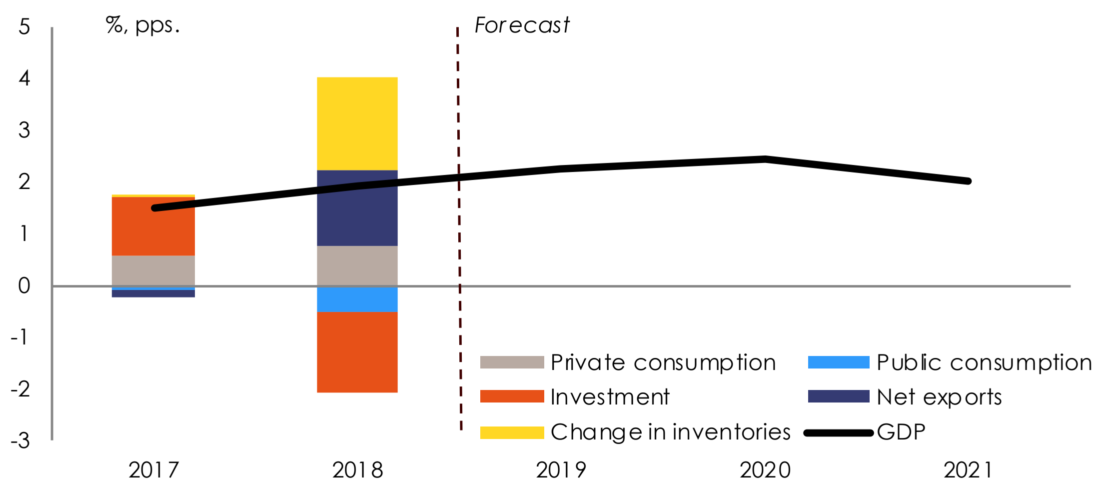
([15]) https://ec.europa.eu/info/sites/info/files/economy-finance/ip116_en.pdf.

2. MACROECONOMIC DEVELOPMENTS

The economic recovery continued in 2019 and is expected to strengthen going forward. With an average 0.7% quarter-on-quarter growth in the first three quarters of 2019, economic growth strengthened somewhat in 2019 and is expected to reach 2.2% for the year overall, well above the euro area average of 1.2%. GDP growth was mainly driven by exports, with a strong contribution of government consumption in the second quarter of 2019. A particularly positive tourism season boosted service exports but also goods exports remained resilient despite the lower growth in the euro area, which is the main export market for Greek products. Despite increases in disposable income, consumption growth remained low in the first three quarters of 2019, indicating that households continued to deleverage. Investment growth remained lower than expected in 2019, despite the sizable investment gap compared to the euro area average and the high economic sentiment indicators in the second half of 2019. Public investment is expected to have supported growth to a lesser extent than forecast given that the Public Investment Budget was not executed fully in 2019.

For 2020 and 2021, the main drivers of growth are likely to be investment and private consumption, while exports are expected to grow at a slower pace. Positive expectations, on both producer and consumer side, and the tax reform package that reduces the corporate income tax in 2020 suggest that investment should be one of the main drivers of GDP growth in 2020 and 2021. Private consumption is likely to be supported by increasing wages and disposable incomes, and the steadily improving situation on the labour market. Export growth is likely to remain below the rates reached in 2018 and 2019 given the slower growth of Greece's main export markets.

Graph 2.1: **Real GDP and growth contributions**



Source: European Commission

The recovery of the labour market is expected to continue whereas inflation is forecast to remain muted in the short term. In line with the domestic driven economic recovery, employment is expected to increase steadily. Unemployment, while still the highest in the EU, decreased to 16.5% in November 2019 (national data), substantially down from its peak of 27.5% in 2013, and is expected to decrease further to 14% in 2021. Employment growth remained stable at 2.1% average quarterly year on year growth in the first three quarters of 2019 despite the minimum wage increase in February 2019. Inflation reached 0.5% in 2019, mostly on account of subdued growth of energy prices and the decreases in value added tax rates on certain goods in May 2019. For 2020 and 2021, inflation is forecast to gradually increase up to 0.9%, as wages increase.

The forecast remains subject to both upside and downside risks. Latest developments in leading indicators together with recent statistical revisions point to upside risks for 2019 and 2020**.** Depending on the development of the tourism and transport industries, service exports could surprise with strong growth again. Greece's export market shares continued to strengthen in 2019 and the forecast assumes that the trend will remain modest given the slowly increasing unit labour cost. Keeping wage growth in line with productivity developments would be instrumental in supporting the investment recovery and export growth. Other downside risks are related to the uncertain geopolitical situation and lasting political tensions in the wider region as well as the under-execution of the Public Investment Budget and the related negative effects on the recovery of domestic demand. The projection is contingent upon maintaining the reform path agreed under enhanced surveillance. In particular, provision of investment financing though the banking sector will depend on a swift implementation of financial sector reforms, devised to support banks' intermediation capacity.

Table 2.1: **Summary of the main macroeconomic variables**

	Annual percentage change			
	2018	**2019**	**2020**	**2021**
Real GDP	1.9	2.2	2.4	2.0
Harmonised index of consumer prices	0.8	0.5	0.7	0.9

Source: European Commission

3. FISCAL AND FISCAL-STRUCTURAL POLICIES

3.1. FISCAL DEVELOPMENTS AND OUTLOOK

Based on the preliminary data for 2019, Greece is set to overachieve the primary surplus target of 3.5% of GDP, outperforming its fiscal targets for the fifth year in a row. In view of the emerging fiscal space based on updated revenue and expenditure estimates towards the end of 2019, and following consultation with the European institutions, the authorities distributed €186 million of social benefits to vulnerable households and cleared a pending public service obligation to the Public Power Corporation with an amount of close to €200 million from the ordinary budget rather than from the contingency reserves. The amount of the social dividend was calibrated to safeguard a distance of 0.2% of GDP compared to the fiscal target to cater for possible statistical revisions. The primary surplus is expected to reach around 4% of GDP in 2019 including these payments, above the 3.8% of GDP projected in the 4th enhanced surveillance report, which had not included these measures. The headline surplus is expected to have reached around 1.6% of GDP ([16]) in 2019, compared with the euro area average deficit of 0.8% of GDP expected in the Commission 2019 autumn forecast.

The expected over-performance can be attributed mainly to a better revenue outturn at the end of the year, which is partly due to one-off factors. General government revenues turned out stronger than expected in the previous report, primarily due to higher receipts from social contributions by around 0.2% of GDP, which are partly linked to the start of the 120 instalment scheme, and higher tax revenues by around 0.1% of GDP, after deducting tax refunds. In addition, some one-off repayments contributed to the revenues in December by 0.1% of GDP, inter alia from the European Investment Bank. Net of the end-year payments, expenditure would have been lower by 0.2% of GDP compared to the forecast in November 2019, mainly on account of lower consumption expenditure, which comes on top of the sizeable reduction in spending ceilings in 2019 implemented together with the 2020 budget.

While having a broadly neutral impact on the balance, general government investment was by 1.1% of GDP lower than initially planned, marking 2019 as yet another year of very sizeable underspending. Based on preliminary data, general government investment expenditure is estimated to be lower by 0.6% of GDP compared to the authorities' latest projection from November 2019. However, the observed under-execution comes on top of the downward revision of 0.5% of GDP implemented in November 2019, which raises the overall underspending on investment to 1.1% of GDP (€2.2 billion) compared to the initial plan. The lower execution was accompanied by lower drawing of EU funds, which broadly neutralised the impact on the general government balance.

([16]) This includes the disbursement of the second tranche of the ANFA-SMP income equivalents worth 0.3% of GDP, which could not be taken into account in the 2019 autumn forecast, as at the time it was conditional on a future decision at the Eurogroup.

Continued undershooting of investment expenditure weighs on growth and is a growing concern. Efforts to remedy the situation are in early stages of implementation. From a fiscal perspective, the low capacity to monitor and forecast investment spending hinders effective management of fiscal policy and results in significant deviations between execution and forecasts, which impairs an efficient budget allocation. To address this problem, the authorities have started to implement a detailed action plan adopted in November 2019, as discussed in the 4th enhanced surveillance report. According to the progress report shared with the European institutions in January 2020, the actions that were scheduled to be completed by end-2019 have been implemented and detailed time-plans were shared regarding the future actions. From a structural perspective, the persistent underspending points to operational and administrative issues and a lack of a pipeline of mature projects. According to the National Development Plan, which is currently being drafted and would apply from 2021, government entities will be expected to set-up a programme of investments, including strategic goals and medium-term policy targets. Additionally, the authorities plan to create an investment project preparation facility as a fast track mechanism to prepare major bankable investment projects, whether nationally funded or co-funded with EU funds. This is expected to help to a more targeted and increased execution of the public investment budget, also in relation to the technical work on the possible use of the SMP-ANFA income equivalent amounts for agreed investments (see also below).

The measures included in the 2020 Budget are being implemented and will be re-assessed in the next enhanced surveillance report. A quantitative re-assessment will be necessary for the increase in municipality levies. Since its adoption in autumn, the government amended ([17]) this measure, waiving the retroactive billings for those who declare the correct surface area of their real estate by the end of March 2020. This change raises concerns from a structural perspective, as it could be considered as a tax amnesty and thus eroding payment discipline. It also disadvantages those who had already submitted correct declarations and hence had to pay the retroactive amounts in the past. Moreover, the retroactive payments were an important part of the fiscal revenues expected from the measure and cancelling them reduces the fiscal space. At the end of November 2019, the government also adopted a measure on the tax-deductibility of 40% of service costs relating to building upgrades from the personal income tax as long as they were paid through electronic means of payment. This measure is consistent with Greece's strategy in its National Energy and Climate Plan to promote energy efficiency, which could possibly help investments under the European Green Deal. It is expected to have a fiscal impact only from 2021. The European institutions will provide an updated fiscal projection in the 6th enhanced surveillance report, along with the assessment of Greece's Stability Programme.

While potential further growth-friendly fiscal measures for 2021 are yet to be fleshed out, the Greek authorities announced their intention to adopt a set of additional measures for 2020 subject to fiscal space. Since the adoption of the 2020 budget, the government has announced a number of possible further tax reduction measures, conditional on emerging fiscal space. Among others, the government is aiming to further reduce the ENFIA property tax while increasing its base, aiming for a

([17]) Law 4626/2019, article 51, paragraph 2.

fiscally neutral rebalancing. In addition, the authorities are planning a gradual reduction of the special solidarity levy, a further reduction of social security contributions, which would probably lead to the postponement of the reduction of the corporate income tax to 20%, announced in July 2019. A quantitative and qualitative assessment of such measures will be carried out when the exact timing and parameters will become known.

Given the accelerating migration flows, the authorities pointed out that the current migration adjustor ([18]) does not capture fully the total costs of the migration crisis. Based on a report shared by the authorities, the actual expenditure related to the management of the migration flows is much higher than the expenditure currently included in the programme adjustor. The ceiling of the adjustor was set at 0.2% of GDP during the programme, but based on the current methodology the actual amounts deducted from the primary balance are consistently well below this level. The issues that have hindered the use of the migration adjustor are currently investigated, with a view to clarifying the eligible costs that adequately reflect the current situation. The authorities also committed to identifying and addressing factors that obstruct the full use of the available EU funding, bearing in mind that the adjustor is designed to cover domestic costs and hence defined in net terms (after deducting EU migration funds).

The authorities are planning to address the aspects of the 2016 pension reform that were found unconstitutional by the Council of State in a fiscally neutral manner. Sustaining the cost within the spending ceiling of the Ministry of Labour is in line with the commitment given by the authorities in the 2020 budget. The authorities are currently legislating accordingly to replace the current 13th pension with an annual social budget reserve. The fiscal neutrality is achieved by using part of the fiscal cost currently budgeted for the 13th pension. The remaining part will cover the cost of other social welfare and health policies in view of high poverty rates among non-pensioners and the compressed health care budget. Section 4 provides an overall assessment of the pension reform.

The 2020 Medium-Term Fiscal Strategy will need to accommodate the cost of clearing the stock of already called state guarantees for bank loans worth 1.1% of GDP within five years. The stock may increase further in the future, given that the total stock of outstanding state guarantees in question is estimated at €3.4 billion (1.8% of GDP). As discussed in section 5.2, the authorities have provided a plan, which includes the necessary actions to shorten the examination period of the called guarantees to less than four years. Additionally, a detailed time-plan of payments was prepared which comprises a small payment of €77 million by end of the year, while for the next years an average clearance of €480 million is planned. Given that the length of the payment period is partly a function of external factors outside the control of the authorities, i.e. court cases, the authorities also shared data on the amount of claims under litigation that are prone to delays, and thus might affect the fiscal impact and/or its timing. A proper risk management based on data on the not-yet-called guarantees would facilitate assessment of fiscal risks for the coming years. Finally, the timely implementation of

([18]) The definition of the migration adjustor currently in place can be found in the Commission Opinion on the Draft Budgetary Plan of Greece SWD(2018) 516, footnote 5. https://ec.europa.eu/info/sites/info/files/economy-finance/c_2018_8016_el_en.pdf the plan depends on the banks' cooperation regarding the upload of necessary documentation to the e-repository (see Section 5.2 for further analysis).

Greece's fiscal and economic outlook has improved overall. The continued solid fiscal performance and the growth-friendly policy agenda have made their impact on the economic climate as sentiment indicators approach pre-crisis levels. Greece has been successful at re-entering the sovereign bond markets achieving historically low yields. Yield spreads have substantially narrowed in the past year and the improved outlook for the Greek economy has led to gradual upgrading of Greece's credit rating. Upholding reform commitments will be key to sustaining medium and long-term growth prospects.

Despite the positive outlook, Greece's public finances continue to face fiscal risks with respect to ongoing court cases, which are difficult to quantify at this stage. Notwithstanding the Council of State rulings of 2015 ([19]) and 2019 ([20]) regarding the 2012 pension cuts and 2016 pension reform respectively, a large number of cases claiming retroactive payments to pensioners are still pending in courts, while some lower courts have ruled against these decisions. To solve this problem, the Council of State decided to rule on all retroactive claims in a so-called pilot trial. This will ensure a harmonised approach and prevent contradictory court decisions. The Plenary session of the Council of State will have to address three key issues related to retroactivity (see also graph 3.1):

1. *Could the 2016 pension law apply retrospectively?* The pension reform kept the existing pensions at the levels existing on 31 December 2014, i.e. after the pension cuts implemented in 2012. However, according to a June 2015 Court of State's ruling, the 2012 pension cuts became unconstitutional from the date of the ruling's publication, creating a window between the June 2015 ruling and May 2016, when the pension reform came to effect, for which the pilot trial will need to clarify whether possible retroactive amounts can be awarded.

2. *Was it legal that the 2016 pension law indirectly re-enacted the 2012 cuts?* As mentioned, the May 2016 pension reform kept existing pensions at levels following the cuts implemented in 2012, while putting in place a new pension formula for new pensions and a notional recalculation of old pensions (the freeze of pension indexation will result to the elimination of positive differences to actual pensions over time via inflation, or repaid if the actual pension was lower than under the new formula). The pilot trial will clarify possible retroactive amounts from the period of May 2016 to the January 2019 recalculation of pensions.

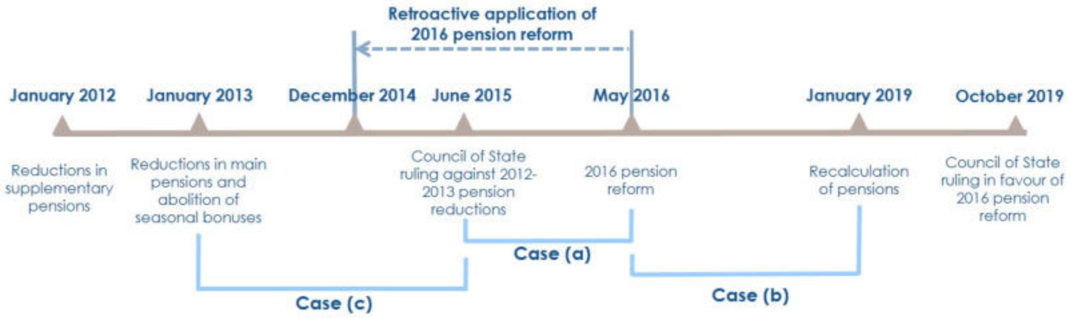
3. *Is it consistent with the European Convention of Human Rights that pensioners who had not filed a petition before the 2015 Council of State ruling were excluded from*

([19]) In 2015, the Council of State ruled against the reductions of main and supplementary pensions and the abolition of seasonal bonuses which came into effect in 2012 and 2013 respectively. However, it decided that the unconstitutionality comes into effect from the date of the ruling's publication in June 2015 and only claims submitted before that date are eligible for a refund. Finally, the period of refund starts from the date of reduction and goes up until to the end of 2014, as the following period is covered by 2016 pension reform.

([20]) In 2019, the Council of State confirmed the main pillars of 2016 pension reform and granted no rights for retroactive compensation of benefits for the parts of the reform that were found unconstitutional.

receiving the retroactive amounts? Based on the 2015 Court of State's ruling, only claims submitted before the date of its publication are eligible for a refund and the period of refund starts from the date of the reduction. This decision will clarify possible retroactive amounts for the period January 2013 until June 2015.

Graph 3.1: **Pensions timeline**



Source: European Commission

An additional fiscal risk stems from the litigation cases of Attikos Helios, a company operating in the tourism and hospitality industry, against the Public Real Estate Company (ETAD). The case is ongoing, as the Public Real Estate Company has filed petitions for the annulment of recent arbitration awards, currently pending before the Athens Court of Appeal.

Additional fiscal pressures might be caused by the planned arrangements concerning the private supplementary pension fund (LEPETE) of the National Bank of Greece (a private commercial bank). According to the plan that is under negotiation between the government and the National Bank of Greece, the cost of future pensions would be shared between the two parties. The plan foresees that some €40 million would be borne by the National Bank of Greece annually until 2030. The remaining cost will be taken over by the State. The risk to public finances lies in the fact that if and when the State formally would take over the pension obligations of the supplementary pension fund of National Bank of Greece, this would be recorded as capital transfer in the year of the decision, with a negative impact on the general government balance equal to the net present value of future pension obligations. The final impact will also depend on the rulings in two pending court cases, one concerning pensioners' claims against the bank and the other concerning the bank's claims against the state.

Technical discussions on the possible use of SMP-ANFA income equivalents for reducing gross financing needs or other agreed investments have started. This follows up on the respective mandate given by the Eurogroup in December 2019 ([21]). The authorities shared their initial considerations regarding the use of SMP-ANFA

([21]) The Eurogroup gave a mandate to the European institutions to initiate technical work on the possible use of ANFA and SMP income equivalents to reduce gross financing needs or to finance mutually agreed investments, in line with the agreed fiscal targets and the June 2018 Eurogroup statement. Eurogroup statement on Greece of 4 December 2019:https://www.consilium.europa.eu/en/press/press-releases/2019/12/04/eurogroup-statement-on-greece-of-4-december-2019/.

income equivalents and related impact on the structural balance during the enhanced surveillance mission, and the European institutions are engaging with the authorities at technical level, with a view to reporting back to the Eurogroup in June 2020. The authorities also proposed to consider establishing a fiscal smoothing mechanism allowing to take into account the past over-performance of primary surplus targets in the following year, as well as reducing the primary surplus target up to 2022. Any proposal which alters the agreement reached with European partners in June 2018, would need to be discussed at the Eurogroup and take into account the constraints on the structural balance in the context of compliance with the EU fiscal framework and debt sustainability.

3.2. TAX POLICY

Important progress has been made towards the broadening of the tax base for the 2020 ENFIA Property tax exercise, widening the inclusion of the national population covered by the zonal system from 85% to 98%. The existing 10 200 objective property tax value zones have been digitised and an additional 3 600 new property tax zones have been defined covering the remainder of the urban planned areas. A new nationwide revaluation exercise using certified valuers is planned to be completed by March 2020. The new objective tax values including those for the new zones are planned to be finalised by May and are expected to align the objective tax values to market prices, which is a mid-2020 specific commitment. In parallel, a detailed tax policy assessment will be made of the impact of the new valuations on property tax revenues. The 2020 budget implies an almost fiscally-neutral property tax exercise based on the new values, with a small increase of €140 million in ENFIA revenues compared to 2019. The base widening might give scope to restructure property tax rates and thresholds. The property tax reforms will benefit from technical support by the European Commission. The key objectives are to expand the objective value zone system to the rest of the country, digitally link the property value system to the cadastre, and improve valuation methods particularly of commercial properties.

The Authorities adopted a Tax Law in December 2019, including the agreed 2020 budget tax measures and a number of other welcome tax reforms. Key non-budget tax reform measures included stronger regulations on digital short-term rental platforms, the abolition of withholding tax on corporate bonds to open up the domestic bond market, and some tax concessions to encourage the development of share option schemes, employer funding of annual passes for public transport, and the take-up of electronic vehicles. Concerning the 3-year time-limited value-added tax exemption for construction, the authorities adopted the secondary legislation by the end of January 2020 for the applicable procedure and the required documentation that must be submitted by the applicants. Overall, some 60 pieces of secondary legislation are required for the implementation of the Tax Law and these will be provided by April 2020.

3.3. REVENUE ADMINISTRATION

Staffing numbers increased at the Independent Authority for Public Revenue during 2019 but fell short of the end-2019 target (a specific commitment). The number of staff at the Authority increased in 2019 to 11 902 compared to 11 487 at the start of 2019. However, given the accumulation of previous delays, the actual staffing level remained lower than the intermediate target set for end-2019 at 12 500. The new permanent staff recruited in 2019 (540 in total) are currently undertaking a nine-month induction training and are expected to take up their respective job assignments by August 2020. Technical support is provided through the European Commission to tailor the training in accordance to the needs of the core functions and integrating best practices.

The complementary measures agreed in view of the undershooting of the staffing target, have seen overall good progress, in particular as concerns the human resources reform and housing issues, while more limited progress has been achieved on the IT-related issues. All three measures are expected to advance further until the end of April 2020. On human resources reform, the supplementary grading legislation has been adopted ([22]). The supplementary wage grid legislation, which will define the remuneration framework depending on the official's grading, is expected to be adopted by the end of April, which should allow for the new system to be implemented as of 1 July 2020. Regarding the IT framework, although five key areas ([23]) have been identified where competencies and resources between the Authority and the General Secretariat for Information Services of the Public Administration (Ministry of Digital Governance) will need to be clarified, a timeline has not yet been shared by the authorities. It is expected that the competencies and resource allocation will have been confirmed by April 2020, which should allow for the Service Level Agreement to be agreed by mid-2020. Finally, regarding the move of the Authority's headquarter services into one location, a detailed roadmap has been defined with the decision for the public entity currently occupying the premises to move out as well the offer for the Authority to secure its lease expected by March 2020. According to the roadmap, the Authority is expected to move into its new premises by April 2021. A swift implementation of these complementary measures would be instrumental in getting the staffing target back on track and underpinning the effectiveness of the Authority.

The authorities are planning to adopt a more ambitious plan to combat smuggling, including strengthening the operational capacity of the Operational Coordination Centre (SEK), which has seen its capacity reduced as the secondments have not been renewed and primary legislation to address this issue remains pending. The Centre, which was established as a programme commitment, has the mission to fight the smuggling of excisable products, through the coordination of the services involved in prosecution, and to collect and analyse intelligence in order to optimise the effectiveness of controls carried out by law enforcement authorities in the context of joint actions. The ambitious plan being developed by the authorities would see the

([22]) OJ A 32/2020.02.14 (Article 36).

([23]) 1. Computing and storage/software licenses; 2. Applications for core public revenues; 3. Database management and administration; 4. Computer peripherals and PCs ; and 5. Web services.

membership of the steering committee governing the Centre at the level of deputy ministers of the relevant service ([24]) and with the participation of the Authority at the Governor level. This more high-level buy-in is expected to result in a more efficient coordination. The Centre will operationally remain integrated into the structure of the Authority and will see its overall capacity being enhanced. As a first step, legislation to extend the secondments periods allowed and upgrading the Centre's top management position is expected to be adopted shortly. The authorities are also committed to review the intelligence legislation with technical support provided through the European Commission, in order to bring it closer to best practices.

Work is ongoing on a number of key projects, including an IT system for an end-to-end collection system (a mid-2021 specific commitment) and the 'model collection office', while plans for introducing electronic invoicing in 2020 are advancing. The model collection office has been launched as a pilot office for introducing modern collection tools with technical support provided through the European Commission. Secondary legislation on indirect audit methods is expected to be adopted by March 2020. In addition, a successful roll-out of the model collection office by mid-2020 will require appropriate premises to be identified and the needed staff to be transferred. As concerns indirect audit methods, a guideline manual has been finalised, which should allow for the integration of these methods to complement and support the overall audit function. The Independent Authority is also advancing in its digital transformation through the introduction of the Digital Accounting and Tax Application 'myDATA' and the implementation of electronic bookkeeping, while electronic invoicing is expected to be introduced during 2020. In addition to developing a robust software, it is important that the analytical capacity of the Independent Authority to process the collected data is further strengthened. Finally, plans are being developed to move towards a system of online cash registers, and primary legislation has been drafted to further strengthen the relevant legal framework, including the legal sanctions foreseen for tampering with the software.

The renewal of the mandate of the Governor of the Independent Authority provides for continuity and will facilitate its transformation into an efficient and effective tax authority in line with best practices. Most of the key performance indicators (see table 3.1) of the Independent Authority were met for 2019, in particular targets were met or exceeded on areas linked to the application of modern collection tools, for example prioritising that no new debt is created. Further, while the target for proportion of fresh tax audit cases compared to the overall number of completed audits (see Key Performance Indicator 4) was not met, significant progress was still made compared to the situation in 2018, although important work remains to be done in this area, such as establishing proper IT systems to facilitate the analytical work.

([24]) The Independent Authority for Public Revenues, National Authority for Transparency, Police, General Secretariat of Commerce, Hellenic Coast Guard and the Economic Crime Unit.

Table 3.1: **Key Performance Indicators of the Independent Authority (fourth quarter of 2019)**

			Q4 2019 Target	Q4 2019 Result	Q4 2018 Results
Debt collection	KPI 1	Collection of tax debts as of the end of the previous year (€ millions)	2 900	2 788	2 878
	KPI 2	Collection of new debts in the current year (percent of new debt in the year)	27%	34.2%	28.8%
	KPI 3	Collection of debts by Large Debtor Unit (€ millions)	675	746	852
Audits of fresh tax cases by the whole Authority	KPI 4	Percent of fresh tax audit cases in total completed audits	70%	46.7%	28.4%
Tax audits and collection of large tax payers	KPI 5	Collection after audits in the year (percent of assessed tax and penalties)	40%	101.7%	40.9%
Tax audits and collection of high wealth individuals	KPI 6	Collection after audits in the year (percent of assessed tax and penalties)	40%	33.6%	52.2%
Tax refunds	KPI 7	Percent of value added tax tax refund claims processed within 90 days	95%	84.7%	86.7%
Compliance and enforcement	KPI 8	Percentage of total tax paid on time for value added tax, income and property taxes	84%	81.1%	80.8%
Percentage of total tax paid on time for value added tax, income and property taxes	KPI 9	Percentage of debtors under enforcement measures	66%	70.7%	64.1%
Pre-litigation phase	KPI 10	Percentage of cases closed by explicit decision of the Dispute Resolution Unit	85%	95.7%	96.2%
Prosecution audits by Mobile Units	KPI 11	Prosecution audits by Mobile Units (Customs Administration)	20 000	23 666	20 248

Source: Independent Authority for Public Revenue

The Joint Centre for the Collection of Social Security Debt met its debt collection target for 2019. The actual collection exceeded the target by 7.6%, as €1 471 million were collected compared to a target of €1 367 million. New debt was slightly reduced in 2019, but since a significant contributing factor may have been the new 120 instalment scheme, it remains to be seen if this trend reversal will be maintained in 2020. The Joint Centre has also set a more ambitious target for 2020 as it aims to collect €1.38 billion of debt. However, the secondary legislation that would allow the Joint Centre to directly apply the classification of ‘uncollectable’ debt used by the Independent Authority remains pending.

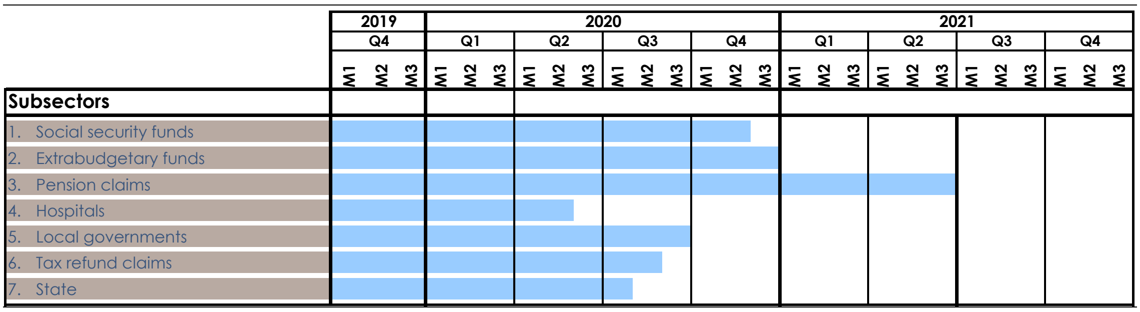
The revised basic instalment scheme came into effect on 1 January 2020, while the decision to reopen the 120 instalment scheme for social security contributions has raised serious concerns about further abetting the already weak payment discipline in Greece. In autumn 2019, the Greek government had signalled that the 120 instalment scheme for tax and social security debt would be the final opportunity for debt settlement under such favourable terms. The schemes, which follow a number of similar ad hoc schemes adopted in the past decade, were closed as planned by early October, but the instalment scheme for social security contributions was then re-opened, with the authorities arguing that many debtors had involuntarily dropped out due to an error in the IT system. However, the adopted legal provision that made re-entering possible did not limit the eligibility to debtors that had experienced IT issues, which meant that debtors who genuinely failed to comply with the rules could also re-enter. This implicitly represents an extension of the instalment scheme. The adopted legal provision allows for re-entry up to end-May 2020, which appears disproportionately long to address the underlying technical issues. It is therefore welcomed that the authorities have submitted an amendment to this law that will shorten the window for re-entry from the end of May to the end of March 2020 and will also limit the eligibility to re-enter to those who dropped out due the IT issues mentioned above. The revised basic instalment scheme – assessed in the 4th enhanced surveillance report – is expected to become operational at end-February 2020. The scheme will provide an opportunity, under specific conditions, for tax and social security debt to be repaid in up to 24 monthly instalments, and up to 48 instalments for specific categories of taxes (e.g. the inheritance tax).

3.4. PUBLIC FINANCE MANAGEMENT

3.4.1. Arrears

The stock of net arrears reached €1.2 billion at end-2019, €220 million above the targets set in the October 2019 clearance plan. Compared to August 2019, the stock of net arrears decreased by €50 million. On the one hand, some subsectors show encouraging results. The Independent Authority for Public Revenue paid its tax refunds in line with the targets set in the plan. Hospitals fully cleared their net arrears already in October 2019 and they have been decreasing their gross stock since July. Clearance in Social security funds and extra-budgetary funds is broadly on track. On the other hand, problems remain with pension claims, local governments and state arrears. More than half of the €220 million slippage can be attributed to pension claims, which have been increasing between May and December 2019, contrary to the plan. This deviation is due to inefficiencies and complexities in the clearance process and in computing accurately the net stock of arrears ([25]); the authorities also report an unforeseen increase in the number of applications due to the instalments scheme ([26]). Slippages in local governments and the state account for the other half of the underperformance. The authorities expect part of the local governments' arrears to be written-off as their limitation period has elapsed. This would reduce the stock, but without injecting liquidity to the private sector through actual clearance.

Table 3.2: **Arrears clearance plan**



Source: European Commission

The authorities have prepared additional measures to remedy the observed slippages against the clearance targets, focusing in particular on pension arrears, and have already started implementing some of them. In this regard, the recently

([25]) For the purpose of enhanced surveillance, the gross stock of domestic arrears and other payment claims is defined in continuity with the European Stability Mechanism programme.

([26]) The settlement of obligations through the instalment scheme allowed applicants to file for a pension claim.

established Steering Committee, which oversees the implementation of the clearance plan, proved helpful to facilitate the exchange of information and best practises among the subsectors. In addition, the General Accounting Office passed a number of legislative amendments to regulate payments of certain arrears, and implemented a new electronic platform with a view to improving the monitoring and reporting of arrears across general government entities. Moreover, hospital procurement is being redesigned within a medium-term framework that involves a centralisation of procurements through the seven regional health organisations ([27]). Finally, new actions are being prepared to speed up processing of pension claims, including additional training, setting quantitative targets per employee, sharing of experience between the Health Fund and the Pension Fund, and reallocating personnel. In addition, an increase in the temporary pensions is being considered.

With a view to abiding by the clearance targets set in the October 2019 clearance plan, the authorities expect to deploy the new IT system as of June 2020 and that the measures would be sufficient to fully clear the old pension claims by mid-2021. The deployment of the IT system would free up resources to work with the old pension claims. Accelerating the increase or reallocation of personnel before June 2020 would be instrumental in clearing the long outstanding pension claims. Overall, the authorities remain committed to the October 2019 clearance plan, despite the temporary slippage. To achieve this, further mitigations actions may help the subsectors that are lagging behind.

While the net stock decreased in 2019, new arrears continue to be created, which points to weaknesses in the payment chain and internal control functions. The steering committee oversees the full implementation of the remaining recommendations suggested by the Hellenic Court of Auditors and monitors the whole clearance process. Additional streamlining of the payment chain would improve the timeliness of payments. Specific recommendations to this effect were provided through a European Commission technical support project delivered by the International Monetary Fund in January 2020. The General Accounting Office committed to carefully examine the recommendations and to adopt mitigation actions when necessary. In the context of establishing timely payment chains, the lack of effective internal control mechanisms is still a cause of concern and a factor slowing down the processing of payments, especially in entities where the ex-ante audits performed by the Court of Auditors have recently been phased out. The Court is conducting a broad survey on internal controls across the government and any other public entity with a view to accelerating the establishment of effective internal control systems in the public sector until the end of the current year, providing guidance if necessary ([28]) .

([27]) See section 4.2. According to the authorities, this new procurement design would allow Greece to comply with its post programme commitment to achieve a share of centralised procurement in total hospital expenditure of 30% by mid-2020 and 40% by mid-2022.

([28]) See section 8.3. The National Authority for Transparency plans to work together with the Hellenic Court of Auditors to design and implement effective internal control mechanisms.

3.4.2. Treasury Single Account

The framework for the cash monitoring of the general government Treasury account system has been put in place, while a pilot project on cash forecasting is being implemented (both are end-2019 specific commitments). All significant general government entities have opened accounts at the Bank of Greece, which administers the Treasury account system, and use it to receive state grants or subsidies. However, some small entities have not joined the scheme yet. Even if these entities do not have significant cash reserves, the General Accounting Office is aware of the importance of including them in the scheme and foresee to take steps shortly to ensure full compliance. Excess liquidity of general government entities is being transferred to the Treasury Single Account under the supervision of the Public Debt Management Agency, which is closely monitoring the entities' accounts in commercial banks. A pilot project on cash forecasting for the entities with a budget of more than €50 million started at the end of 2019. By October 2020, the authorities plan to develop a strategy for rolling out the cash forecasting project to the rest of the entities. In view of its complexity, the project would be assessed based on an interim report due by end-March and a draft roll-out strategy by end-April. In addition, the authorities are progressing with the rationalisation of cash accounts, including the reduction of payment orders in paper form.

3.4.3. Chart of Accounts

The overall implementation of the Unified Chart of Accounts is progressing, but its implementation in the Public Investment Budget remains a challenge. The governance structure of the Chart of Accounts project has been considerably reinforced and benefitted from a high-level political commitment. The Chart of Accounts is now regarded as a broad public finance management tool, encompassing procurement and e-invoicing. Steps are underway to ensure proper staffing of the implementing entity and to enhance the Chart with functional classifications with a view to designing an efficient new budgetary framework that could also be used as a performance budgeting tool. The implementation of the Chart of Accounts in the Public Investment Budget is not showing sufficient progress. The revised plan prepared by the authorities only partially addresses the issues, as it focuses mostly on the execution phase of investment budget, with little attention paid to the budget planning phase and the implementation of accrual accounting principle.

4. SOCIAL WELFARE

4.1. PENSIONS

In order to comply with the Council of State decision on the 2016 pension reform, new (increased) accrual rates for careers above 30 years are set to be introduced retroactively as from 1 October 2019. This adjustment is to ensure that the replacement rates for long insurance periods will be slightly higher than 50% as requested by the Council of State. According to the actuarial projections by the authorities, expenditure should remain virtually unchanged as a share of GDP until 2047 compared with the trajectory before this adjustment. This is because the projected impact of the new measures is below 0.5% of GDP and the authorities plan to finance this by eliminating the annual one-off benefit (i.e. the 13th payment to pensioners introduced in 2019) to finance the additional costs. The measure will lead to very high average replacement rates by European standards. This is especially the case for those with long careers with pensionable earnings at or below the average wage.

In order to comply with the Council of State decision, the authorities are also planning to replace the current system of contributions for the self-employed. The authorities plan to introduce a new system, which will give the self-employed the freedom to choose amongst six levels of contributions unrelated to their actual income. Currently 80% of self-employed are paying the minimum contribution of €130 per month, which is less than the envisaged lowest contribution level (€155 per month). The authorities expect that around 80% of the self-employed will chose the lowest level of contributions, and thus the fiscal impact is likely to be broadly neutral in the short-term.

The Council of State also ruled unconstitutional the cut of supplementary pensions introduced in 2014 for persons whose combined supplementary and main pension exceeded €1 300, and the authorities are planning to reinstate the pre-2014 supplementary pension rules. The fiscal cost is estimated at €290 million annually, plus €72 million for retroactive payments for the three last months of 2019. The measure will lead to an overall deficit of the supplementary pension system of some €1.1 billion over the period 2020-2024, which the authorities plan to cover through the sale of a part of the assets of the Supplementary Pension Fund (ETEAEP).

The authorities have developed an action plan to remedy the delays with the completion of the setup of the Single Social Security Fund (EFKA), a mid-2020 specific commitment. An ambitious action plan for the digitalisation of the Single Social Security Fund will start to be implemented in the coming months. The authorities' action plan envisages the unification of the IT systems of all the previous funds and the digitalisation of all services provided by the end of 2020. The digitalisation of pension awards should be completed by June 2021. As for the progress of pending pension applications, the authorities stated that they have missed their end-2019 target, and they committed to taking corrective measures (see also section 3.2.1 on arrears). The authorities have also announced the decision to merge the Supplementary Pension Fund into the Single Social Security Fund in order to improve the efficiency of the pension system also through reduced administrative costs.

4.2. HEALTHCARE

Administrative procedures for the clawback collection (a continuous commitment) have resumed, but the process will take longer to be finalised, also due to the introduction of a new instalment scheme in 2019. Concerning pharmaceuticals, typically the largest source of clawbacks, for the first semester of 2019 the largest part was collected (€330 million out of €410 million). The second semester of 2019 will have to be collected by June 2020. For providers (private clinics, as well as providers of diagnostic and other health care services), collection has not started for the years 2018 and 2019, but the relevant Ministerial Decision to introduce the 120 instalments scheme should be published soon. The delay is due to a late (end-2019) definition of the expenditure ceilings for 2019 by item of spending. The definition of 2020 spending ceilings for each category of private providers is also still outstanding.

The authorities are planning to take structural measures to limit the size of the clawback amounts. The clawback amounts, especially as concerns pharmaceuticals, are still increasing. The estimated amount to be collected for 2019 stands at €1.3 billion, which represents an increase of €200 million (18%) from 2018. For providers, a clawback of €300 million is expected for 2019, in line with the level of 2018. With a view to correcting this trend, the authorities are planning to strengthen the efforts on the implementation of compulsory prescription/treatment protocols, which aim to curb inappropriate prescribing behaviours, and to strengthen their capacity in pharmaceuticals price negotiation. The latter is expected to yield substantial savings considering the current sizeable share of the budget going to high-cost drugs, which is expected to increase in the future due to the arrival of new innovative drugs. To further promote the reduction of the clawback, the European institutions have encouraged the authorities to consider a revision/redesign of the clawback mechanism to strengthen all stakeholder engagement, such as, for instance, by including an element of risk-sharing.

Progress in setting up a comprehensive network of primary health care units (a mid-2020 specific commitment) has resumed following the announced redesign of the system. The authorities submitted a new action plan, where the provision of primary health care is based on a network of existing Health Centres and private contracted doctors. According to the new project, the remaining 120 Local Health Units (the 'TOMYs') can become operational within the premises of existing Health Centres, which would then offer an expanded set of services. Overcoming the infrastructural issues previously due to the need to find new suitable premises for the Local Health Units, progress may accelerate over the coming months, so the revised strategy is a welcome step that should speed up the achievement of the Eurogroup commitment. However, the recruitment of additional family doctors is still lagging behind schedule, and an adequate number of family doctors to achieve full population coverage is not yet available. This gap still acts as a bottleneck to the full rollout of the primary care network. Fundamental features of the commitment such as compulsory registration and gatekeeping are still only partially implemented. As only 1.6 million citizens have been able to register with a family doctor so far, the completion of the network with full population coverage by mid-2020 will not be possible, but the new strategy addresses some of the key sources of delay thus far and the authorities are confident to be able to finalise the full roll-out of the primary health care system and to fully implement gatekeeping and referral by the end of the year.

Reaching the target of a 30% share of centralised procurement (a mid-2020 specific commitment) will be challenging in view of accumulated delays, but the planned launching of decentralised procurement at regional level has the potential to speed up the process. The authorities have submitted a revised strategy for centralised procurement, while in parallel transforming the new central body for health procurement to a private-law legal entity. The new strategy envisages decentralised procurement at regional level, which should make procedures administratively less cumbersome, speed up the tendering process and offer more opportunities to apply. With this new strategy, the commitment to achieve a substantial (30%) share of goods procured by centralised procurement by mid-2020 appears ambitious but authorities are confident to be able to achieve it. It seems that the Price Observatory, a key element of efficient procurement at decentralised level, has not been used consistently in the last years. However, the authorities plan to re-operationalise it to ensure that all avoidable inefficient spending is rectified as swiftly as possible.

Having declined over the course of the last decade, health care spending has fallen below the EU average. Careful monitoring of the needs and an increase of the financing of the sector need to be considered by the authorities to ensure that sufficient resources are available. Measured as a share of GDP, public health care spending in Greece currently stands at around 4.9%, having decreased from 2009, when it stood at 6.5% of GDP. Although this data understates the actual expenditure and needs to be adjusted upward with the level of yearly clawbacks, as these are not captured by the official statistics, an overall below EU average spending and reports of operational disruptions in some hospitals may be indicative of a need to increase the financial envelope. The budget of public hospitals has to be of adequate magnitude to continuously meet the needs of the population. With a view to this, the use of future available fiscal space and a redistribution of social spending should be targeted to alleviate this pressure and to ensure uninterrupted patient access to high quality services.

4.3. SOCIAL SAFETY NETS

The reform of the disability benefits framework (a mid-2019 specific commitment) is advancing but with significant delays outside the control of the authorities. While the upgrading and simplification of the administrative processes to determine the disability status is progressing, the new approach based on both medical and functional assessment is still to be adopted. The new methodology should have been developed on the basis of the evaluation of a pilot project. This, however, encountered significant delays for reasons outside the control of the authorities. A first draft final report was delivered in December 2019, while the final evaluation report is pending. Some issues have emerged already from the draft report, which point to potential difficulties in implementing the new methodology (notably, how to ensure the reliability of a self-reported assessment of functionality). In view of these issues, the authorities have agreed to provide a new revised timeline for its national rollout by April 2020. Finally, the authorities have announced their intention to prepare a National Action Plan on Disability shortly, going beyond the revision of disability assessment, to review the whole set of benefits and services for the disabled, in view of strengthening the provision of in-kind benefits and services for the disabled. The reform of disability assessment should be an element of this broader Action Plan.

Regarding the review of the system of subsidies for local public transport, the evaluation study (an end-2019 specific commitment) will be completed by end April 2020. The delay is due to the many distinct beneficiaries (ten different population groups receive these types of subsidies) and the involvement of a number of different ministries.

Major steps have been taken to improve the efficiency, effectiveness and adequacy of the social welfare system, however poverty remains high (the highest in the EU at 31.8%). According to the latest available data, between 2017 and 2018, the share of people at risk of poverty or social exclusion (AROPE) declined from 34.8% to 31.8%, while the percentage of severe material deprivation decreased from 21.1% to 16.7%. The introduction of a guaranteed minimum income scheme and the housing benefit for rental costs for vulnerable households have been significant measures. Nevertheless, the level of the guaranteed minimum income scheme (at €200 per month) remains low and there is no permanent support for vulnerable homeowners with a mortgage. There is currently a system of protection of primary residences under the Household Insolvency (Katseli) law and therefore covering only non-performing mortgages, which however will expire in April 2020. Therefore, part of the 13th pension could be used for social welfare policies such as an increase in the guaranteed minimum income scheme or a housing scheme for vulnerable homeowners with a mortgage.

5. FINANCIAL SECTOR

5.1. FINANCIAL SECTOR DEVELOPMENTS

Following the abolition of capital controls in September 2019, the banking sector continued to strengthen but legacy risks and challenges remain high. Domestic deposits continued their upward trend, growing by 4.8% after the lifting of the capital controls. This has further reinforced the liquidity situation of Greek banks (see graph 5.1), which should facilitate compliance with the Liquidity Coverage Ratio requirement by mid-2020. Banks' profitability is showing signs of recovery, supported by an improving economy and continuous efforts to reduce recurring operating and headcount costs, reflected in an average cost-to-income ratio comfortably below the EU average (51.4% compared to 64.2%). However, their Return-on-Equity is still among the lowest in the EU (2.9% annualised compared to an EU average of 6.2%) and is partly driven by non-recurrent trading income stemming from the banks' government bond portfolio. As a result, the profitability outlook of Greek banks remains low and exposed to the current environment of subdued evolution in interest income, given the relatively small contribution of commission income to operating profit. The quality of revenues, in particular, is adversely affected by high amounts of interest income from non-performing loans, which are accrued but may not be collected, implying that sales of non-performing loans also have a negative impact on net interest income. As a result, banks are i) adjusting their business models towards a higher share of fee income, trying to balance client reaction over a recent upward trend in transaction fees with a more sustainable growth of their e-payments, bancassurance and asset management business, while ii) looking at ways to increase lending by expanding their client base.

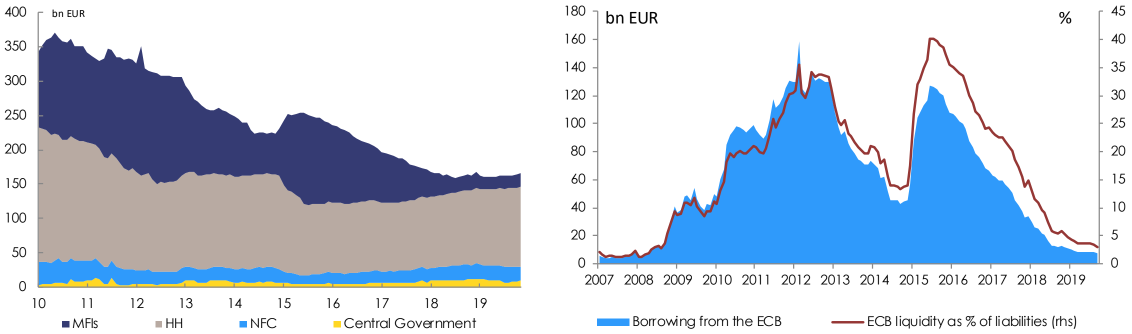
The banks are compliant with their capital requirements but the capital structure is largely dependent on state-related assets, specifically due to the high amount of deferred tax credits. Banks' average common equity tier 1 ratio on a consolidated basis stands at 15.9% at the end of September 2019, up from 15.6% in June 2019, partly due to the issuance of a Tier 2 capital instrument by one systemic bank in July and an overall reduction of risk-weighted exposures. Deferred Tax Credits of the four systemic banks as of end of September 2019 continue to represent a substantial part (55.5%) of the systemic banks' Common Equity Tier 1 capital, amounting to €15.5 billion. Deferred tax credits greatly increase the sovereign-bank nexus. More specifically, deferred tax credits may be converted into tax credits, i.e. irrevocable claims towards the Greek state, while in exchange banks would need to issue equity in favour of the State. Moreover, Greek banks are exposed in the near future to the upcoming increase in capital demand ([29]) and the implementation of new rules leading banks to gradually write down non-performing exposures ([30]), as well as the cost of the non-performing loans' reduction strategy and the necessary gradual phasing out of beneficial transitional

([29]) Caused by the fact that, from 29 December 2020, banks' own funds held under Pillar II Guidance will no longer be eligible to meet any other regulatory requirement.

([30]) Regulation (EU) 2019/630 amending Regulation (EU) No 575/2013, as complemented by further supervisory guidance by the European Central Bank.

prudential arrangements ([31]). At the same time, credit institutions are regaining access to the market for long-term unsecured subordinated debt, while funding costs are declining but are still high.

Graph 5.1: **Bank deposits (left) and total borrowing from the Eurosystem (right)**



Source: European Central Bank, International Monetary Fund

The pace of reduction of non-performing loans accelerated in 2019 but non-performing loan ratios remain very high. The decline in the stock of non-performing loans has accelerated in 2019, falling by €36 billion from its peak of €107.2 billion in March 2016, reaching €71.2 billion by end-September 2019 (see graph 5.2), representing a ratio of 42.1% of total customer loans, compared to 43.6% in the previous quarter. This was mainly driven by a reduction in the stock of consumer and business non-performing loans by more than 7% in the third quarter of 2019, compared to a more lacklustre performance in residential non-performing loans (-1.5% fall in the stock). The difficulties in tackling the mortgage non-performing loan book partly reflect the effect of restrictions in collateral enforcement and the related strategic defaults. However, the recent rebound in real estate prices, albeit geographically uneven and from very low levels, is a first sign that collateral valuation conditions may improve going forward, when the real estate market gains momentum and depth in terms of transactions. Notwithstanding the progress made, the still very high levels of non-performing loans severely hamper banks' credit intermediation capabilities, thus preventing them to lend to the economy and consequently support growth.

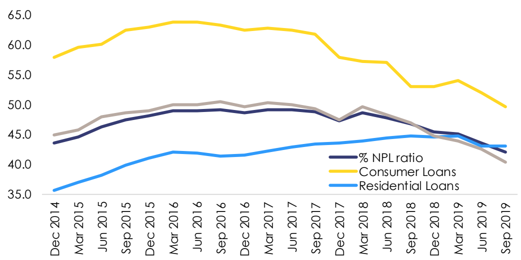
Sales and write-offs have been the main drivers behind the reduction of non-performing loans so far, while the internal capacity of banks to work out non-performing loans continues to be very low. Sales of non-performing loans have exceeded €7.1 billion ([32]) in the first nine months of 2019, while write-offs contributed an additional €3.1 billion of NPL reduction. The secondary market for non-performing loans is expected to grow further on the back of significant sales and securitisations, some of which have already been launched and are expected to be completed within the first half of 2020, supported by the newly adopted asset protection scheme. However,

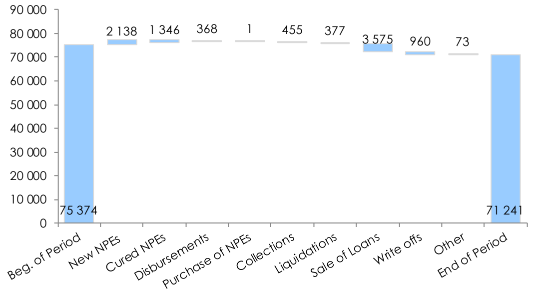
([31]) These transitional arrangements refer to the phasing in of the new International Financial Reporting Standard 9 on impairments of financial assets and the implementation of new rules leading banks to more quickly write down non-performing exposures, according to Regulation (EU) 2019/630 amending Regulation (EU) No 575/2013, as complemented by further supervisory guidance by the European Central Bank. In the medium-term, banks will also need to issue bail-inable debt in order to meet the minimum requirement for own funds and eligible liabilities set by the resolution authorities.

([32]) Amounts sold or for which binding offers have been received.

the amount of 'cured' non-performing loans, i.e. the rate of non-performing loans for which repayments have re-started, was weaker in the third quarter of 2019 relative to a quarter before, and fell below the amounts of newly created non-performing loans. Moreover, re-default rates on restructured loans with re-negotiated terms remain high, while collections and liquidations remain at low levels. Overall, banks continue to accelerate their efforts to reduce their stock of non-performing loans, mainly through outright sales compared to loan restructuring solutions.

Graph 5.2: **Non-performing loans as a % of total customer loans (left) and changes in their stock in the third quarter of 2019 (right: million EUR)**





Source: Bank of Greece

The successful and speedy implementation of the Hercules asset protection scheme could accelerate the reduction of non-performing loans of the four systemic banks. The scheme ([33]), which will run over an 18-month period with a planned envelope of maximum €12 billion of state guarantees, aims at allowing banks to securitise and transfer non-performing loans out of their balance sheets. Under the scheme, a state guarantee will be provided for the senior notes of the securitisations, against remuneration priced at market terms. All four systemic banks have expressed interest to participate in the scheme and are in the process of updating their strategies for the reduction of non-performing loans. The banks plan to frontload their actions to the extent possible given the implied cost of capital of these transactions and the banks' current capital position. The focus now falls on the successful and timely implementation of the scheme. The value of the portfolios that are envisaged to be securitised under the Hercules asset protection scheme will also be affected by the progress made in the implementation of the policy actions outlined below.

([33]) The scheme was assessed as not containing elements of State aid. State aid case SA.53519 and press release IP/19/6058: https://ec.europa.eu/commission/presscorner/detail/en/IP_19_6058.

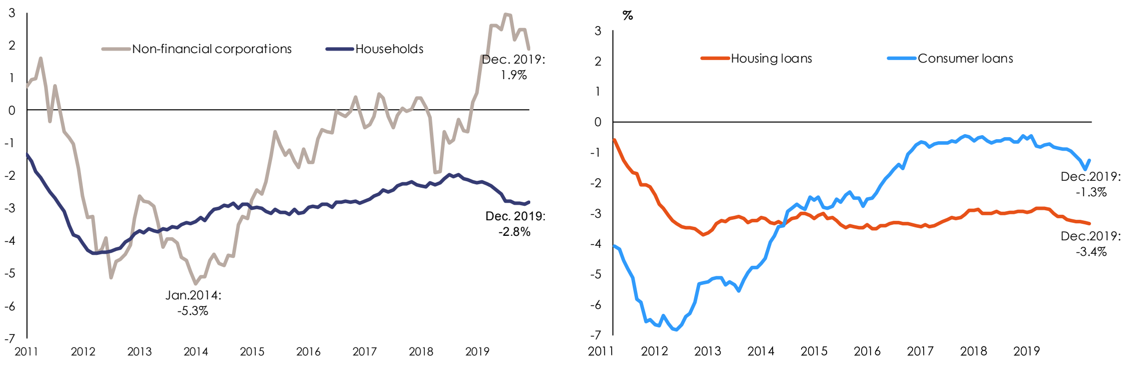
Table 5.1: **Main financial stability indicators**

	2014q4	2015q4	2016q4	2017q4	2018q1	2018q2	2018q3	2018q4	2019q1	2019q2	2019q3
Non-performing loans /1	39.7	46.8	46.3	45.0	45.4	44.9	43.5	41.6	41.6	39.6	37.8
o/w foreign entities	-	-	-	-	-	-	-	-	-	-	-
o/w NFC & HH sectors	41.8	49.5	50.4	49.4	49.2	48.4	47.3	46.3	45.6	43.8	42.3
o/w NFC sector	44.7	52.5	53.9	51.4	51.1	49.4	47.9	46.1	44.5	42.8	40.5
o/w HH sector	38.5	45.9	46.3	47.1	47.0	47.3	46.6	46.5	46.8	45.1	44.4
Coverage ratio	43.5	48.5	48.2	46.7	49.5	49.0	47.8	48.0	47.7	46.7	45.0
Return on equity /2	-10.6	-24.2	-7.5	-1.3	0.7	-2.4	-0.8	-0.4	1.6	2.6	2.9
Return on assets /2	-1.0	-2.8	-0.9	-0.2	0.1	-0.3	-0.1	-0.1	0.2	0.3	0.4
Total capital ratio	14.1	16.5	17.0	17.1	16.4	16.4	16.3	16.0	15.6	16.5	16.9
CET 1 ratio	13.8	16.3	16.9	17.0	15.8	15.8	15.7	15.3	14.9	15.6	15.9
Tier 1 ratio	13.8	16.3	16.9	17.0	15.8	15.8	15.7	15.3	14.9	15.6	15.9
Loan to deposit ratio	79.1	72.3	75.9	83.5	78.8	78.4	76.0	74.7	75.8	74.3	76.8

(1) As % of total loans
(2) Annualised data
Source: ECB - CBD2 - Consolidated Banking data; own calculations

In 2019, net bank lending to non-financial corporations has further improved, while credit growth to households remained negative, against the background of a further decrease in lending rates. The rebound in net bank lending to companies has continued unabated in 2019, although with a somewhat reduced pace towards the end of the year. According to the Bank of Greece, this recovery in credit growth was driven by loans to large corporations, while the year-on-year change of credit towards small- and medium-sized companies remains negative. However, the Survey on the Access to Finance of Enterprises pointed to an improvement in access to credit for small firms. The growth rate of loans to households continued to remain negative in the same period, particularly for mortgage lending, which reflects to a large extent the evolution of demand, as evidenced by the Bank Lending Survey (Graph 5.3). Bank lending rates followed a mild downward trend in 2019 despite higher loan demand, reflecting overall a decline in risk-free market reference rates on account of further monetary policy accommodation. While the lending spread for non-financial corporations remained unchanged over the course of the year, the one for households declined over the second half of 2019 but remained overall at an elevated level, 109 basis points higher than the one for corporates as of end-December 2019. Normalisation of the banking sector is vital to restore banks' capabilities to provide credit to the economy.

Graph 5.3: **Bank credit to non-financial corporations and households**



Source: Bank of Greece

5.2. FINANCIAL SECTOR POLICIES

The authorities are working on reforming the fragmented insolvency framework currently in place, in a way that contributes to a viable reduction in private and public debt in the near term, while accelerating the pace of implementation of the existing tools for the resolution of non-performing loans and improving their effectiveness. The actions outlined below are monitored and assessed under enhanced surveillance as part of the continuous specific commitment to *"continue to implement reforms aimed at restoring the health of the banking system, including resolution efforts for the non-performing loans"*.

Harmonisation of the insolvency framework

Preparatory work on the harmonisation and integration of the corporate and personal insolvency regimes is proceeding, and the new framework is planned to be adopted by the end of April 2020, in line with commitments, replacing several of the currently existing mechanisms for facilitating debt restructuring ([34]). Further to the elaboration of a concept paper, a draft version of the National Private Debt Resolution Strategy was delivered to the authorities in mid-December 2019, supported through technical support of the European Commission. The Working Group set up by the authorities is currently working on the draft legal text of the new insolvency framework with a view to adopting the legislation by end-April 2020. Independently of the implementation of the new framework, the Primary Residence Protection scheme will also expire by end April.

The new integrated insolvency framework should facilitate dealing with the total outstanding debt, amounting to approximately €244.5 billion, by addressing existing legal shortcomings. The total outstanding business debt in the economy amounts to €158.2 billion, while that of individuals to €86.3 billion. The authorities relayed broad outlines of the reforms, although key details about the regime remain to be clarified. In that regard, the new system is expected to tackle current statutory obstacles to dealing with excessive indebtedness, such as the non-availability of a bankruptcy procedure for non-merchants ([35]), procedural complexity and inefficiency of the currently existing framework, departure of several of the existing mechanisms from bankruptcy principles, non-complementarity and fragmentation of insolvency mechanisms and the risk of procedural abuses, especially as to judicial suspensions. The new system also aims at addressing general obstacles observed in procedures legislated and used to-date, such as informational asymmetry and limited cooperation among creditors, slow judicial processes, lack of a sound payment culture and

([34]) These include the Primary Residence Protection scheme, the Out-of-Court Workout mechanism, the Household Insolvency law and law 4307/2014 ("Dendias law"). These schemes have either outlived the necessity that brought them forth in the wake of extraordinary circumstances (e.g. the household insolvency and the Primary Residence Protection law) and/or have not attained fully their main goal, i.e. the conclusion of successful multilateral restructurings of viable business debt (the out-of-court workout law and law 4307/2014).

([35]) Under the Greek Insolvency Code, a prerequisite for a physical person or legal entity to be declared bankrupt by the court is that such person or entity be a merchant, either in the substantive sense (i.e. being or having been engaged in the conduct of merchant activity) or in the formal sense (i.e. being or having been engaged in the conduct of an activity considered by law as being merchant activity).

disproportionality between profitability/disposable income and overall debt levels. The new framework will be designed to facilitate restructurings and expedite liquidation while ensuring harmonisation with EU Directive 1023/2019 on restructuring and insolvency ([36]).

A preliminary outline of the draft law has been prepared by the authorities and is currently under assessment by the institutions, pending further elaboration. Based on preliminary information, the authorities are contemplating a framework, which would initially rely on pre-judicial settlement, supported by electronic means, in an attempt to reach an amicable debt restructuring. Failing that, a judicial procedure could automatically be engaged, to define the settlement and mandate the liquidation of assets and the distribution of the proceeds to the creditors by an insolvency administrator. The authorities are aiming to provide tailored mechanisms to address the specific needs and circumstances of each class of debtors: large corporations, small and medium-term enterprises, small traders and non-merchants. The authorities are also considering standardised proposals for creditors with small debts, while large ones would be channelled to a negotiation process with creditors, facilitated by an insolvency administrator. An auditing mechanism would be established to identify strategic defaulters and ex post controls to that end would also be introduced. In general, the design of the pre-judicial phase would aim at avoiding undermining the payment culture with automated solutions, which cannot be objected to by creditors.

The authorities relayed that the revamped bankruptcy proceedings, including those for personal insolvency, will ensure that, in line with bankruptcy principles, the right of secured creditors to liquidate assets and enforce on collateral, including primary residences, is not in any way adversely affected. The current situation allows for overly lengthy periods of suspension of enforcement actions, mainly as a result of appointing distant hearing dates for household insolvency cases, a situation very detrimental for the resolution of non-performing loans. The reform will ensure that foreclosure procedures will not be impeded by insolvency proceedings. The claims of all creditors, public and private, will be eligible for a write-off, and their hierarchy in distributing the proceeds of liquidation will be defined according to the Code of Civil Procedure and in line with the provisions of the above-mentioned EU Directive on restructuring and insolvency. Mechanisms incentivising an early start to collective bargaining proceedings will be introduced. Discharge of indebted individuals would ensue within a reasonable timeframe, while safety nets for the most vulnerable debtors will be provided as a matter of social policy, outside the context of the insolvency framework and will not affect the rights of creditors. An insolvency observatory will be created to monitor the implementation of the new framework and identify the need for potential revisions.

The successful implementation of the new framework will crucially hinge on effective acceleration and optimisation of judicial insolvency processes. Congestion in courts, particularly the largest ones, coupled with lack of financial expertise and

([36]) Directive (EU) 2019/1023 on preventive restructuring frameworks, on discharge of debt and disqualifications, and on measures to increase the efficiency of procedures concerning restructuring, insolvency and discharge of debt, and amending Directive (EU) 2017/1132 (Directive on restructuring and insolvency).

insufficient IT skills are the main causes of the slow processing rate of cases (see also below Section 8.2). Dealing with them will be instrumental to safeguarding the unhindered implementation of the new framework. Broadening the use of IT and of a digitised reporting system to collect reliable statistical data from the courts would help to simplify or eliminate unnecessary clerical tasks, assist the bankruptcy court officials (judges, insolvency administrators) in the performance of their duties and accelerate the conduct of proceedings. In addition, the swift creation or expansion of collateral databases, including the cadastre (see also below Section 6.2), would help courts and the insolvency practitioners in locating assets and in identifying fraudulent asset transfers.

Clearing of the household insolvency backlog

The Greek authorities submitted an update on the state of play of the ongoing efforts to develop an action plan for accelerating the clearance of the household insolvency backlog, which they have committed to present by end-March 2020. According to the Ministry of Justice, 86 174 cases were pending at end-December 2019 ([37]), a lacklustre performance compared to a target of 61 910 for December 2019. Moreover, more than 40% of the cases have a hearing date scheduled for after 2020. A comprehensive action plan for accelerating the clearance of the household insolvency backlog was expected by end-December 2019. The authorities have now committed to present it by end-March 2020.

Based on preliminary information, the new action plan is expected to make use of different techniques in order to realistically cut the period between the filing of a case and its hearing by the court, and facilitate the eligibility control of presented evidence. These will include the mandatory rescheduling, by means of an electronic platform, for cases with a hearing date beyond January 2021, the electronic servicing of documents and the abolition of the hearing in favour of a trial in chambers, the introduction of a predefined minimum documentary content accompanying petitions, and the introduction of a mechanism for the objective determination of the commercial value of primary residences at the pre-trial stage. Upon finalisation of the plan, the relevant software for the electronic platform will be designed and the relevant logistics planned. All legal provisions required for the implementation of the action plan will be drafted and posted for public consultation by end-April 2020, and tabled in Parliament for adoption by mid-May 2020. Recent experience also indicates that the possibility to bring forward court hearings of household insolvency cases through the Primary Residence Protection scheme platform, offered to creditors as of November 2019, failed to meet its envisaged effect. Actions to ensure that the information is appropriately used in ongoing judicial processes could be covered in the context of the action plan to be delivered soon.

Clearing the backlog of called state guarantees

The authorities have committed to accelerate the implementation of the action plan for the clearance of the backlog of called guarantees, which remains considerable. Existing bottlenecks in the clearance process have resulted in a backlog of unprocessed

([37]) On the basis of data collected from 127 out of the 145 Magistrates Courts.

guarantee claims, which entails 735 912 claims, amounting to approximately €2.1 billion. The backlog of called and not processed guarantees has been gradually building up since 2012, making the solution increasingly problematic, while it may increase further in the future, given that the total stock of outstanding state guarantees in question exceeds €3 billion. As some of the calls are reaching their statute of limitation, the banks tend to take recourse to litigation with a view to preserving their claims. Such a set-up presents high costs for both the banks and the state. Moreover, it puts additional pressure on the already existing court congestion.

Notably, the authorities intend to speed-up the processing compared to the October 2019 action plan from seven to four years with a view for a swift clearance of the backlog. The plan foresees the processing of all currently called guarantees for corporate loans by end 2022 and loans for natural person by end 2023. The payment of claims is expected to follow immediately after the examination of each claim has been finalised, except for claims that (i) are subject to litigation and cannot be paid before the court cases are completed and (ii) cases where additional documentation needs to be provided by the creditors. For such cases, the payments are expected to be made in a period of one additional year after the processing of the claim, latest by end 2025. In addition to upgrading the existing IT platform (e-repository), the revised action plan aims to increase the number of staff to deal with the backlog. While the latest plan is a significant improvement, ensuring considerable payments already in 2020, with visible results by mid-year, and further exploring ways to process the guarantees scheduled for 2024 still in 2023 as well as a swift resolution of cases under litigation would enhance the effectiveness of the action plan and send the right signal vis-à-vis future payments from the state towards the financial system. As mentioned in section 3.1, the fiscal cost of the envisaged clearance path is expected to be incorporated in the 2020 update of the Medium-term Fiscal Strategy. The implementation of the action plan for clearance of called state guarantees will be carefully monitored.

Other initiatives

The performance of e-auctions by banks to liquidate their collateral continues to have limited impact and to fall short of expectations. The share of e-auctions that were cancelled or unsuccessful in the fourth quarter of 2019, remains at very high levels (above 75%), despite a rebound in the number of conducted e-auctions, following a poor third quarter. Legal issues that impede the success of e-auctions mainly relate to legal challenges available to debtors to suspend enforcement, which usually require court involvement. Moreover, the high percentage of 'barren' auctions, i.e. auctions which took place but no bids were placed, which account for around 55% of those conducted, signals that in these cases the initial reserve price is too high to settle in the current market, even by the creditor triggering the auction. A price reduction mechanism comprising elements of automaticity could significantly contribute to the success of the auctions in this respect. In approximately 75% of the cases ([38]), the successfully auctioned real estate assets were still acquired (re-possessed) by banks. This is a particular concern, given the growing stock of foreclosed assets of Greek banks. A thorough identification and assessment of impediments leading to the cancellation or suspension of e-auctions has been undertaken.

([38]) Source: Hellenic Banking Association

Progress in addressing the impediments to successful e-auctions remains limited, as the authorities have so far not presented a comprehensive analysis of the underlying reasons, including a proposal with possible legislative remedies. The authorities acknowledged the existence of impediments leading to the frequent failures of e-auctions conducted by banks to liquidate their collateral. They commit to implement actions to prevent cases of procedural abuse, including by putting in place an effective procedural mechanism for dealing with price adjustment requests, so as to deal with the high percentage of unsuccessful auctions and avoiding a lengthy process of judicial adjustment of the price. Concretely, the authorities plan to entrust an inter-ministerial working group, involving the Ministries of Finance, Justice and Growth and Investments, real-estate experts and legal practitioners, with proposing amendments to the Code of Civil Procedure, notably in relation to the setting of the reserve price and the conduct of repeat auctions according to the Code of Civil Procedure. The authorities also intend to adopt legislative amendments prescribed by the findings of the working group by end-April 2020. Finally, the authorities plan to enhance the user-friendliness of the platform, notably by uploading photographs of the properties as well as detailed descriptions accessible by non-specialists. These efforts are aimed at accelerating the conduct of successful e-auctions in 2020. A review, and further streamlining, of the legal means available to debtors for suspending or challenging enforcement proceedings, also covering legislation outside the Code of Civil Procedure, could further improve the success rate of e-auctions.

The primary residence protection scheme, which is due to expire by end-April 2020, shows little signs of being used by debtors to help start repaying their mortgages. Pursuant to the introduction of a number of amendments to the law, adopted last fall and simplifying the requirements for applying to the platform, the pace of participation has picked up but remains feeble. According to data provided by the Greek authorities on 17 February 2020, 44 924 users have started drafting an application, of whom only 2 218 eventually concluded and submitted it to the relevant bank. Over the same period, banks extended 836 proposals to debtors, 380 of which were accepted by the latter. Only 240 requests for a state subsidy have been accepted, with another 140 pending. The success rate of the long-term restructuring plans envisaged by and provided under the scheme remains unknown. The authorities have reiterated their commitment that the Primary Residence Protection will expire at end-April 2020.

The authorities completed their assessment of the implementation of the reformed Code of Civil Procedure, and formulated proposals for the legislative adoption of improvements in line with commitments. The working group that was formed in February 2019 with the mandate for assessing the implementation record of the reformed Code of Civil Procedure issued its comprehensive evaluation report in January 2020, based on the collection of stakeholders' feedback to questionnaires. The report contains concrete proposals for potentially needed legislative amendments. It will be followed by the formation of a law-drafting committee that will be entrusted with examining the proposals, assessing the need for legislative action and drafting the requisite amendments and accompanying explanatory report by mid-July 2020.

The authorities submitted a draft legislative proposal for the creation of a special department for the provision of training magistrate court judges, who are the ones dealing with household insolvency cases. The authorities intend to enact the relevant amendments to the law on the National School of Judges by end-March 2020 and are expected to provide by that time information on the syllabus regarding the financial training of judges, that would include courses on financial and accounting subject matters, with an emphasis on issues frequently encountered in the course of the judicial processing of financial and insolvency cases. The authorities are also proceeding with the appointment of successful candidates for clerical court positions based on recently completed Supreme Council for Civil Personnel Selection competition.

An amendment reinstating the favourable tax treatment of loan write-offs that had expired at the end of 2018 has been adopted and will provide an incentive for debt restructurings. The relevant provision ([39]) stipulates that the amount of the write-off (for restructurings concluded up to end-2019) will not be considered as an income of the debtor and will thus be exempted from the tax levied on donations. This measure effectively addresses the disincentives to restructurings caused by the expiry of the previous tax treatment. An extension of the treatment to restructurings conducted after 2019 would provide an additional relief.

The authorities are considering adjusting the legislative framework on deferred tax credits to ensure smooth operability. Notably, clarifying the use of deferred tax credits in resolution has been an outstanding issue for a long time. Completing and implementing the primary and secondary legislation is very important to help safeguard the loss-absorbing capacity of the banks' capital.

5.3. HELLENIC FINANCIAL STABILITY FUND

The Fund continued exercising its shareholding rights in the four systemic banks, focusing on improving the banks' governance, assessing their business models, and progressing with the implementation of its Exit Strategy. During the last months, the Fund (i) has been actively involved with the Ministry of Finance and other stakeholders in the development of the Hercules law; (ii) has been working, as a part of its Exit Strategy, on an initiative to develop and communicate its shareholder expectations for all systemic banks, challenging their strategies and business plans, with the view to promote value-enhancing initiatives, and (iii) continued its efforts to facilitate the management and resolution of the non-performing exposures of the systemic banks. The discussions between the Fund and the Ministry of Finance on the potential involvement of the authorities in the final stage of the divestment and the legal protection for the Fund's governing bodies and staff have not yet been finalised. Preserving the Fund's independence remains a cornerstone in the process toward restoring the health of the banking sector.

([39]) Article 62 of law 4389/2016 (OJ A 94) as amended by article 42 of law 4646/2019 (OJ A 201).

6. LABOUR AND PRODUCT MARKETS

The authorities are preparing a new National Growth Strategy. The new Strategy, which is due to be completed by mid-2020, is expected to introduce a set of measures to be implemented over four years, including on addressing reform priorities, improving framework conditions and developing key economic sectors with a view to addressing competitiveness issues, and boosting exports and investment. Following the adoption of the Development Law in October 2019, the authorities are also working towards the preparation of secondary legislation, as the issuance of relevant ministerial decisions and presidential decrees is a pre-condition to making operational specific provisions of the new framework.

6.1. LABOUR MARKET

Labour

The authorities committed to safeguard competitiveness, as a continuous commitment, when carrying out an annual update of the minimum wage, based on the ex post assessment of the recent increase in the minimum wage by the World Bank and mindful of the requirement of the Greek legislation to also safeguard purchasing power. The ex post assessment of the 10.9% increase of the minimum wage as well as of the abolition of the sub-minimum wage for youth, which took place in February 2019, is now under preparation with the technical support of the World Bank provided through the European Commission and the report will be completed by end-March. The launch of the consultation process with the social partners and all relevant stakeholders for the next update as prescribed by the Law 4172/2013 took place on 15 February 2020. Following this consultation and a report with recommendations by a committee of independent experts specifically appointed for this purpose, the government shall determine the new level of the minimum wage. The law posits that this should be based on a sound economic analysis taking into account the state of the economy, the growth rate, productivity, prices, competitiveness, employment, unemployment, incomes and wages as well as the findings of the ex post evaluation of the previous increase. The procedure is expected to be concluded in June of 2020 with the issuance of a ministerial decision establishing the new level of the minimum wage.

The authorities have completed the implementation of the 2017-2019 action plan to fight undeclared work, an end-2019 specific commitment, and are now in the process of preparing a follow up. The 2017-2019 action plan promoted an integrated approach to undeclared work, including measures to reinforce the cooperation among different institutions and improve the capacity to detect undeclared work. The authorities are now designing a follow-up to it. In January 2020, the fines for undeclared work were revised based on the following criteria: (i) the gravity of the infringement; (ii) the number of employees; (iii) the repeated penalties for similar infringements; (iv) the number of workers affected; and (v) the size the business. The new fines range from €300 for small offences in firms with 1 to 10 employees to €8 000 for very high offenses in firms with more than 250 employees. The authorities are preparing for the first time a code of ethics for inspection as well as training and education of inspectors inspired by best EU practices. A series of workshops are foreseen for the exchange of technical expertise. These measures have been accompanied by a number of additional recent steps to limit the abusive use of part-time work, which often masks undeclared full-time work. These notably include an increase in the overtime remuneration for part-time workers, the recording of working time in a new digital platform as well as an e-registry for no-compliant firms.

The authorities have prepared an action plan for the nationwide expansion of a new delivery model for active labour market policies, thus progressing towards completing the rollout of the Social Solidarity Income scheme, which is an end-2019 specific commitment. Historically, active labour market programmes in Greece have consisted mainly of temporary wage subsidy programmes and public work schemes. The updated action plan gives a more strategic focus on promoting long-term and sustainable employment growth by pursuing a more integrated approach, centred on the provision of quality measures (including vocational education and training, reskilling and upskilling programmes) that are targeted to the needs of the local labour markets and are tailored to characteristics of the individual jobseekers. Following an initial pilot project, the authorities are preparing an action plan in collaboration through a European Commission technical support project delivered by the World Bank to expand the new delivery model to three other regions capturing sufficient diversity in the settings (urban, suburban and rural) and sectors (tourism, technology, manufacturing, agribusiness, etc.). These will be targeted to i) older workers, ii) long-term unemployed, iii) female labour force participation, iv) technical professions; v) apprenticeships and the youth to combat brain drain. Given the complexity of the project and the time needed for the implementation of the pilot projects, it was agreed with the previous administration that full rollout of the labour market (re-integration) elements of the Social Solidarity Income scheme by end-2019 is not achievable, and that the nation-wide expansion will take place in July 2020.

Education

The Greek authorities have embarked on an ambitious agenda for a comprehensive education reform. This goes beyond Eurogroup commitments, but is relevant macroeconomically and from the social policy perspective, as it addresses skill mismatches, enhances growth and helps to reduce poverty and improve the social situation. The reforms aim to address the challenges described in the Country Report 2020, such as the need to enhance the quality of public schools, upgrade vocational education and training and improve the quality of higher education institutions to address the skills gap. Specifically: Greece ranks as one of the bottom of EU countries on the skills matching dimension of the European Skills Index, with one of the highest over-qualification rates of tertiary graduates (31.6%) and qualification mismatches among the EU countries. This is also corroborated by the latest PISA results, according to which Greece ranks significantly below the OECD average in literacy, mathematics and science. With regards to digital education, only 46% of people aged 16-74 appear to have at least basic digital skills, while 31% have no digital skills at all (EU average: 17%).

A new law on higher education has been adopted upgrading the quality assurance agency and linking funding of the universities with performance. The new agency

will assess the higher education institutions and the degrees that they offer, and will propose restructuring when needed. 80% of the public funding will be distributed based on quantitative criteria, and 20% will be based on achievement of agreed performance targets. The law also liberalises research grants, which will bring new sources of income to the universities. The link of research with industry is a matter that requires attention, as only a small portion of the research is turned into new patents. To boost internationalisation of the Greek higher education system, legislation is being developed to introduce double and joint degrees with foreign universities as well as to offer study programmes in foreign languages. The authorities plan in the near future to reform the university governance and increase the autonomy and accountability of universities.

A number of changes to compulsory education are in the pipeline. The authorities are proceeding with the full implementation of the pre-school mandatory two-year programme. They also announced measures to address the poor educational outcomes of pupils and the wide performance gap between different areas and schools. Model schools will be strengthened to act as a role model for other schools. Regarding soft and digital skills, the authorities plan to promote critical thinking by introducing multiple books, to introduce changes in the curricula and to increase the number of subjects that are examined. School self-evaluation is planned to be implemented as from the next academic year coupled with massive teacher training of 40 000 teachers. The authorities have also embarked on the recruitment of 15 000 permanent teachers over two years to renew the aging teacher population that will replace temporary posts in accordance with the annual hiring plan.

The authorities support a higher degree of pedagogical and administrative autonomy for schools and promote extroversion by increasing foreign language courses and exchanges with foreign schools. It will be important to link greater autonomy with the necessary support for educational staff and well-designed accountability. The authorities envisage to use private-public partnerships for school building, and to make a wider use of the private sector when it comes to IT and training.

To address the gap between education and actual needs of the labour market the government plans to introduce early career guidance from the beginning of lower secondary education. It also aims to upgrade the status of the vocational pathway, to promote internships for high school students and to encourage the collaboration of universities and companies through the institutionalisation of internships.

6.2. PRODUCT MARKETS AND COMPETITIVENESS

Competitiveness and export performance have improved over the last years in response to broad-based structural reforms, but the projected deterioration in net exports calls for a stronger focus on boosting productivity and attracting investment. Export levels, in part aided by increased cost competitiveness, reached 36.1% of GDP in 2018. However, with growing wages and domestically driven economic growth, and the economic slowdown in Greece’s export markets, a more pronounced approach to addressing remaining structural weaknesses would enhance non-price competitiveness, leveraging both exports and investments.

Economic diplomacy

Progress on areas of economic diplomacy and trade facilitation, which are expected to contribute to strengthening Greece's export performance, has been hampered due to incomplete institutional arrangements. Legislation enlarging the mandate and responsibilities of the Ministry of Foreign Affairs on economic diplomacy – originally planned for end-2019 – is now expected by March 2020. The strategy itself is expected to be completed by April 2020. A solid legal footing for the single authority on all relevant initiatives would allow the government to reap the synergies and policy cohesiveness associated with a coordinated approach. Further, in the absence of adjustments to governance structures and inter-ministerial arrangements, the Ministry of Foreign Affairs has no official role in terms of the work conducted on removing administrative impediments to trade. In fact, limited progress has been achieved in implementing the revised Action Plan that sets out trade facilitation initiatives for the next years, notably relating to the setting-up of the integrated Single Window system for imports and exports. Further, whilst the tendering process for important projects under the export promotion Action plan led by the said Ministry is progressing, the Action Plan would benefit from greater links with the wider trade facilitation and investment promotion perspective.

Investment licensing

Despite some delays mostly caused by factors outside the authorities' control, work on investment licensing is largely on track and the authorities remain committed to completing the reform within the agreed deadlines. The authorities enhanced the administrative capacity of the Better Regulatory Delivery Directorate in charge of coordinating the investment licensing reform and will receive further technical support from the European Commission, to be delivered by the World Bank. The scope of the new project will include support to the authorities for i) the extension of the licensing reform to selected key sectors not yet covered; ii) the extension of the implementation of the inspections reform framework; iii) capacity building and outreach of the Better Regulatory Delivery Directorate; and iv) the development of the IT system. These are positive steps, which are expected to accelerate progress in light of the high workload that remains to be completed.

Regarding the full deployment of the relevant IT system to support the investment licensing framework (end-2019 specific commitment), the tendering process for the procurement of the system has been delayed, due to an appeal that was submitted against the awarding of the contract. It is noted that given the size of the project and the anticipated length of the tendering procedure, it was agreed with the previous administration that full implementation of the IT system by end-2019 is not achievable and that the commitment would be assessed on the basis of the conclusion of the relevant tendering procedure by end-2019 and a 34-month implementation timeline for the completion of the project, which was also included in the tender documents. The revised action plan agreed with the current administration is also in line with this implementation horizon, with the conclusion of the project being scheduled for November 2022. In view of the pending appeal case, more clarity will be provided following the decision of the responsible appeal review body in March, with April being the most optimistic scenario for the signature of the contract, depending on the outcome of this appeal review.

Work on the implementation of the inspections framework law, a mid-2020 specific commitment, is progressing largely on track with the revised action plan, save for few delays. Most sector-specific tools regarding food safety have been fully developed and are ready to be legislated, with the exception of the enforcement management model and the complaint management system. As regards the tools for the environmental protection domain, despite few delays with respect to the revised action plan, work seems to be at a mature stage and is expected to be completed by end-April. The on-site training of inspectors regarding these domains has been completed. Regarding product safety, the authorities expect to develop sector-specific tools by end-May, with the support of an external advisor.

The authorities remain committed to meeting the mid-2020 specific commitment for the extension of simplification of the investment licencing procedures in the remaining sectors of the economy, despite some delays. The authorities drafted primary legislation on the simplification of the primary sector, which according to the revised action plan was due to be adopted by end-2019. The relevant services would thus need to swiftly proceed with the finalisation and adoption of all relevant primary and secondary legislation in order to avoid further delays in this respect. Regarding the simplification of the next sector (i.e. transport), the authorities aim to complete the mapping of activities shortly, with a view to concluding the review and finalise the proposals for simplification by end-April. Regarding the post-secondary education and vocational training sector, the authorities established the relevant structures and began to work on this sector, with the aim of finalising proposals for simplification by end-May. The mid-2020 deadline is considered challenging for the last two sectors (i.e. transport and post-secondary education and vocational training).

The authorities aim at concluding the revision of the nuisance classification by mid-2020, well ahead of the mid-2021 specific commitment. The authorities signed a contract with a technical advisor to support them in the steps needed for the alignment of nuisance classification with the environmental classification system, leading to the issuance of a Joint Ministerial Decision by mid-2020, as per the relevant provision adopted in the Development Law in October 2019. Work is largely on track with the revised action plan, with the first deliverable completed. This concerns the preparation of the report on the assessment of the current situation, which was presented by the advisor to the Working Group and social partners in January. The next steps include the specification and implementation of the methodology for the categorisation of activities. The authorities remain committed to the ongoing engagement of social partners in the process, which is considered highly beneficial to this reform area.

The authorities are also working on further measures to improve aspects of the licensing framework, in particular the environmental licensing and inspection frameworks. To this end, they are drafting primary legislation to simplify the process for renewing and amending environmental permits, due by March 2020, and secondary legislation for the certification of external environmental assessors, with a view to issue the relevant Presidential Decree by mid-2020 – the latter being a pending requirement since the ESM programme. With respect to inspections, the said primary legislation will also contain provisions to re-organise the administrative framework for carrying out inspections, whilst the authorities are also preparing secondary legislation for the certification of external inspectors, with a view to submit the draft Presidential Decree to the Council of State by March 2020. The latter would be an important step towards addressing the weaknesses of the enforcement framework, as well as creating new jobs in the private sector.

The authorities remain committed to ensuring continuity of reforms adopted under the programme. They are reviewing provisions legislated by the previous administration in the area of thematic tourism ([40]) to identify and address any potential deviations with the principles of the investment licensing reform by September 2020. To this end, and also with a view to streamlining the administrative burden on producers and buyers of milk, it would be helpful to review secondary legislation on measures to control the milk market ([41]) and adopt any necessary amendments. Given that other bills containing provisions relevant to licensing are currently being prepared by various services within the administration, the ongoing engagement and enhanced role of the BRDD in the scrutiny of these would act as a safeguard.

Cadastre

The cadastre project is progressing overall well despite some delays mainly due to a slow response of the public in declaring their properties. Additional delays were encountered in five contracts that were not awarded as lawsuits were filed by unsuccessful bidders. As a result, it is estimated that only 33% of the cadastral mapping will be completed by June 2020, while the Eurogroup target of 45% will be reached by May 2021.

After two years of implementation, the Road Map for the completion of the cadastre has been revised. The authorities have moved the deadline for the final completion of the cadastral mapping, which is a mid-2021 specific commitment, to May 2022. The problem with the delayed declarations has been overcome and in all but three contracts the number of declarations received allows to go to the next phase of the mapping. The completion of the remaining 6% of forest maps, that for technical reasons remained pending in relation to the mid-2019 commitment, is on track and the whole exercise of ratification of the forest maps will be completed on time by December 2020 for the entire country. The Management Information System, that was set-up to monitor progress of the cadastre surveys and report monthly is preforming well and proved its usefulness as a management tool.

Progress towards a full establishment of the cadastral agency, a mid-2020 specific commitment, has been limited. As of today, only six cadastral offices have opened. In order to accelerate the transition, the Hellenic Cadastre plans to open 17 offices, one in each Regional Unit (Regions and portions of Regions in Regions with a large population) and delegate the opening of the 72 sub-offices to the Regional Offices. For

([40]) This refers to primary legislation (Law 4582/2018).
([41]) This refers to a Joint Ministerial Decision issued by the Ministry of Finance and the Ministry of Agricultural Development and Food on 21 March 2019.

this sufficient administrative and financial autonomy will be delegated, without which this commitment would be at risk.

In order to migrate to a fully digitalised system, the Road Map foresees to accelerate the digitalisation of deeds. This is a major exercise as it is estimated that there are approximately 1 billion pages to scan and digitalise. The Hellenic Cadastre also is working on the completion of the recruitment of the management team with the appointment of three Deputy General Managers, the recruitment of a "migration team" needed for the transition from mortgage offices to cadastral offices, and the re-integration of a number of lawyers to supervise the legal part of the cadastral mapping.

In the longer term, the authorities intend to examine the introduction of some simplifications in the structure of Hellenic Cadastre given that at the final stage all transactions will be done electronically. This will be made possible after the full digitisation of all of deeds, which will allow the gradual abolition of the 72 sub-offices.

Energy

Progress towards the completion of Greece's energy market commitments continued with the initial submission of revised proposals to attempt to remedy the anti-trust concerns until the full phase out of lignite, along with the formulation of an overall strategy for energy and climate. Following the failure of the lignite divestment in July 2019, in November 2019 Greece communicated its intention to submit revised remedies by January 2020 to address the outstanding competition concerns related to the privileged access to lignite-fired generation granted by the Public Power Company and finally comply with the Commission's decision and Court's judgements, in line with the programme commitment.

In the past few months, Greece has engaged in discussions with the Commission about options for allowing Public Power Company's competitors to compete on the market by having access to a share of the existing and operating lignite-based generation until the full phase out of lignite in the country. Once these revised remedies are made binding, the authorities will be expected to support and fully implement them. Addressing the longstanding distortions on the wholesale market will increase the degree of competition in the Greek electricity market, setting the basis for further investments and helping Greece reform its energy sector.

The implementation of the target model for the electricity market, a specific commitment rescheduled for mid-2020, is progressing largely according to the schedule. Since the last report, Greece has made steps forward, such as the approval of the spot markets clearing rulebook. Almost all of the remaining technical rules will, based on new timelines, be completed and submitted to the regulatory authority for approval by January 31st. Regular stakeholder workshops and trainings are taking place in order to prepare the market participants for the new market. Although there are some delays in the delivery of some balancing market components by the contractor, the deadline of the go-live of the local day-ahead, intraday and balancing markets remains June 2020. Further work for the coupling with the Bulgarian and Italian markets has taken place ensuring that the local market will be coupled without undue delays after the spot market go-live.

The National Energy and Climate Plan (NECP) adopted in December 2019 in accordance with Regulation (EU) 2018/1999 on the Governance of the Energy Union and Climate Action outlines the 2030 energy strategy of Greece, based around the early decommissioning of lignite plants. Greece submitted its plans in advance of other Member States, including its 2050 Long-term Climate Strategy. The final National Energy and Climate Plan showed renewed ambition compared to the 2019 version with an increase of targets in renewable generation, energy efficiency and a decrease in CO_2 emissions. Much of this is a result of the plan for early decommissioning of lignite. There will be many social challenges to face, particularly in certain regions that are highly dependent on the lignite industry (see also the 2020 Country Report). However, in line with the Commission's Green New Deal and Just Transition Mechanism, targeted support to those regions is at hand, so that the opportunities such a move provides can be explored, in cooperation with the Commission. At a national level, Greece set up an inter-ministerial committee to discuss the transition. Finally, Greece also pre-notified two state aid schemes, for interruptibility and flexibility.

The Public Power Corporation presented its new business plan, giving details on its planned timeline for lignite plants decommissioning and ideas for new business ventures. Further details are yet to be fleshed out, including the timing of its planned closures of the mines, which feed the generation plants. However, it is clear the company is aiming for a bold transformation in coming years, founded on the decommissioning plan that underpins Greece's energy strategy. After its strong efforts to stabilise its finances, the results of which were seen in its positive annual report, the further development and implementation of the business plan will be its mid-term focus. The Public Power Corporation provisions of the recent energy law puts in place corporate governance rules, which are being implemented, giving the company a chance to operate more at an "arm's length" from the government and engage in procurement in line with best practices. As of December 2019 ([42]), its retail share in the interconnected system stood at 71.8%, slightly higher than November's 69.8%. However this generally continues a downward trend, though it should be noted that this varies substantially by customer class. The Public Power Company remains more or less the sole provider to high voltage consumers, whilst at medium voltage and low voltage these shares are much lower, at 52.5% and 73.5% respectively. Given the opening of the market, discussions are ongoing about the rules for universal supply, to make sure that any new obligations on certain providers to supply to all customers will be applied in a proportionate way.

Initial estimates are that the Renewable Energy Sources Special Account will remain in slight surplus for 2019 despite dipping in the 3rd quarter, in the context of the programme commitment to achieve a sustained surplus. This was likely caused by the elimination of the supplier surcharge and the reduction of the renewable energy levy. Greece has announced intentions to take a sustainable approach to keep the account in balance, such as increasing the inflows of Emissions Trading System carbon allowances. Such an approach for a predictable balance going forward is welcome; the

([42]) Monthly Wholesale and Retail Penetration and Market Share Report, December 2019, http://www.enexgroup.gr/fileadmin/groups/EDSHE/FEP/MonthlyReports/FEPAS_MonthlyReport_201912_EN_V01.p forthcoming projection of the Special Account from the renewables market operator (DAPEEP) will be an important element. Views from market participants indicate that cash-flow issues have stabilised, which is an encouraging sign. The final renewable energies auction of 2019 took place in December with some success, though it is unclear what system will be in place for the future.

From a more international outlook, Greece's development as an 'energy hub' made strides with the agreement between Greece, Israel and Cyprus on the EastMed gas pipeline. Leaders from Greece, Cyprus and Israel signed an accord to start the ambitious project of nearly 2 000 km of pipeline designed to bring gas from the Cyprus area onto European markets, connecting to projects such as the TransAdriatic Pipeline. Other opportunities in gas are positive, such as the Greece-Bulgaria Interconnector currently in construction and the already applicable rules for reverse flow on the Trans-Balkan pipeline, while electricity connections such as the EuroAsia with Cyprus explored may develop further.

Water

The information system to monitor the performance of water companies throughout the country completed its first year of operation. The platform includes information on cost recovery, infrastructural investments, planned human resources and drinking water quality across the country, among others. In the first year of operation, the authorities took several actions to ensure that the system is operational and that the information received is reliable and proceeded to continuous verifications and corrections on the information received in 2017-2018. As of today, the number of registered users representing water supply service providers has increased to 719, up from 456 reported in the fourth enhanced surveillance report, but only 205 of these have introduced data for 2018. The reliability of the data is a concern, in particular in agriculture, which accounts for about 85% of the total water consumption. The data is often inconsistent, incorrect, or ignores major components such as the cost of energy.

There has been no progress on the implementation of the 2019 strategic and operational plans that will inter alia streamline the authorities' supervisory activities. Many municipalities and irrigation suppliers lack the appropriate staff and competence to be able to feed the system with valuable information and they are in need of support with training if the information system is to become operational and fulfil its purpose.

Regarding sewerage, the government intends to pass legislation that would allow subsidising private connections. The authorities also intend to involve the private sector in the supervision of the construction and the operation of the sewage treatment plants. This will be useful in particular for small municipalities that do not have the technical capacity to properly supervise the works nor to manage the sewage treatment plants.

Transport and Logistics

The authorities adopted the Strategic Transport Master Plan for Greece. The Master Plan identifies future policies and investments in the transport sector. The plan covers all transport modes for the years 2027 and 2037, the necessary supporting planning tools as well as accompanying capacity-building activities. The next step now is to proceed to the operational use of the Master Plan including actions that will enable the use of structural funds from the programming period 2021-27. These include regional plans and work on urban mobility in order to satisfy the enabling condition for 2021-2027 EU funding of transport projects.

There are long delays in the construction of co-financed infrastructure projects. This undermine the development of railways in Greece and may lead to the loss of already paid out or committed EU financial resources. To address this situation in the railway sector, the authorities are considering to restructure the public company in charge of constructing and equipping the railway network. Several contracts for new projects continue to be delayed (Athens metro line 4, Patra-Pyrgos motorway, Amvrakia – Aktio highway, Athens and Thessaloniki busses). The development of projects for the accessibility of the port of Thessaloniki has also encountered delays. While the port has a great potential as a freight gateway to the Balkans and Eastern Europe, and has recently been privatised, its functioning is seriously hampered by poor or inexistent rail and road connections to the hinterland.

The Thriasio logistics complex remains unutilised. Once fully operational, this investment – co-financed with EU funds – could give a big boost to rail freight and the overall competitiveness of the country. The concession contract for the private freight centre has not been activated as the contract was ratified before notification and clearance by relevant Commission Services for the involved State Aid. The tender for the management and operation of the park of 1 450 hectares is also severely delayed. The European Commission has started the procedures for recovering EU structural funds contributions by the Cohesion Fund and European Regional Development Fund.

The situation of the Public Transport Company of Thessaloniki (OASTH) continuous to raise concerns. The government nationalised the company in 2017 in order to undertake a substantial restructuring and generate savings on an expensive private concession. The authorities have recently decided to extend the lifetime of the company to 2022, as opposed to initial plans to liquidate it and replace by a new entity. The authorities have expressed their intention to prepare a restructuring plan in order to reduce the operating costs to a sustainable level.