

HELLENIC REPUBLIC

THE PRIME MINISTER

To the President of the European Commission

Mr. Jean — Claude Juncker

Athens, 22.06.2015

Dear Mr. President,

Attached, you will find the comprehensive proposal from the Greek Government. These are the reforms and legislative projects that the Government of Greece will undertake and implement under the terms of the 20 February 2015 extension of the MFAFA. Further, I would like to inform you that the response of the Greek Government to the requirements of the institutions for covering the fiscal gaps for 2015 - 2016 has been absolute and complete.

More specifically the assessment by the institutions has been that the appropriate fiscal measures should result fiscal targets of 1% of GDP for 2015, 2% of GDP for 2016, and therefore the related measures should reach 1.5% of GDP for 2015 and 2.5% of GDP for 2016.

The proposals by the Greek Government to the European Institutions and the IMF project an increase in public revenues solely by parametric measures of 1.51% of GDP for 2015 and 2.87% of GDP for 2016.

In parallel, revenues from administrative measures that are being proposed will cumulatively account for 0.91% of GDP for 2015 and 1.31% of GDP for 2016. Given the above facts and against this background it is clear that there are no fiscal slippages and that the prescribed objectives have been exceeded.

Kind Regards,

Alexis Tsipras

## CORRIGENDUM

### Reforms for the completion of the current programme and beyond

#### Introduction

This document presents a full summary of the reforms and legislative projects that the Government of Greece will undertake and implement under the terms of the February 20, 2015 extension of the MFAFA. It is presented to Greece's partners in order to complete the review of the current arrangement by the target date of the end of June 2015, so that Greece and its partners can launch a new partnership and new chapter for Greece that gives clarity to the people, in the young and unemployed.

These reform proposals are part of an integrated three pillar approach that includes a new financing arrangement and support from European partners for growth and investment. On financing, completion of the review will unlock short-term financing that will permit the Greek government to meet its immediate obligations and thus allow for the stabilisation of economy. It should also lead to a medium-term financing arrangement that will enable Greece to sustainably regain market access.

These reforms will take time to bear fruit, and whilst long-term recovery will need to be financed privately, kick-starting the flow of investment funding will require an initial boost. Greece must be allowed to benefit from the substantial means available from the EU budget and the EIB to support investment and reform efforts. For the period 2007-2013, Greece was eligible for EUR 38 billion in grants from EU policies, and should be allowed to benefit from the currently remaining amounts under this envelope. For the 2014-2020 period, more than EUR 35 billion is available to Greece through EU funds, and to help their absorption, the European Commission's Investment Plan for Europe should provide an additional source of investment as well as technical help for public and private investors to identify, promote and develop high-quality and feasible projects to fund. This investment will also help the Greek state in its fight against poverty by increasing employment and helping with social inclusion initiatives. We understand the Commission is ready to adopt such a plan immediately and count on the other EU institutions for their joint support.

Legislative or other actions listed below as part of the completion of review will be done after consultation with the institutions, in line with the spirit of the 20 February 2015 Eurogroup statement. The Greek government is prepared to confirm its full support to implement the list of reforms through a vote in Parliament in a matter of days that will include the necessary legislation on VAT and other measures necessary to deliver the agreed fiscal targets.

#### Tackling the social crisis and strengthening fairness across society

The economic crisis has had an unprecedented impact on the welfare of Greek citizens. The most pressing priority for the government is to provide immediate support to the most vulnerable to help alleviate the impact of the economic crisis. Already, a package of humanitarian measures on food, housing and access to health care has been adopted and is being implemented. It is the collective mission to get people back to work and prevent the entrenching long-term unemployment. The authorities, working closely with European partners, will initiate measures to boost employment by 50.000 people targeting youths, women, the elderly and the long-term unemployed.

A fairer society will require that Greece improves the design of its welfare system, so that there is a

genuine social safety net which targets scarce resources at those who need it most. The Guaranteed Minimum Income scheme over the long run should not rely on cuts in benefits in kind, notional to actual income, subject to minimum required contribution rules (iii) revise and rationalize all different systems of basic, guaranteed contribute (iv) the main elements of a comprehensive SSFs consolidation, including any remaining harmonization of contribution and benefit payment rules and procedures across all funds, (v) abolish most of nuisance charges in the financing of pensions and offsets by reducing benefits or increasing contributions in specific funds to take effect from [to specify]; and (vi) harmonize pension benefit rules of the agricultural fund (OGA) with the rest of the pension system in a pro rata manner (unless OGA is merged into other funds). This shall be done after consultation with the social partners and in full agreement with the institutions.

The consolidation of social insurance funds will take place in two phases and over a period of three years. In 2015, the process will focus on consolidating the insurance funds under a single entity, and the first phase of their operational consolidation will be completed by 31 December 2016. The objective will be to secure further reductions in operating costs combined with a more effective management of overall fund resources, which includes balancing the needs between better-off and poorer-off funds. The codification of the insurance law will be completed in the immediate future and will correspond to the new organisation of the new and more integrated social security system. Finally, the government will take the necessary measures to fully offset the fiscal impact of the recent Constitutional Court ruling on elements of the 2012 pensions.

#### Additional parametric budgetary measures

The government, as part of supplementary budget to be adopted in June 2015, will adopt a series of additional parametric fiscal measures that will have a sustainable impact on public finances (see annex 1 for a list of measures and yields). This will include:

- Reducing the expenditure ceiling military spending by €200 million with a targeted set of actions
- An increase in the solidarity contribution in 2015 and the rates of which shall be progressive. By September 2015, the authorities will also re-design the Income Tax Code for income of 2016 to more effectively achieve progressivity in the income tax system and which simplifies the personal income tax credit schedule;
- Introduce a reform of the income tax code, inter alia covering capital taxation, investment vehicles, farmers and the self- employed;
- Increase the corporate income tax in 2016 from 26% and 29%.
- For reasons of social fairness any further one-off measures to meet fiscal targets should not burden the poor. In that sense the special tax on corporate profits above €0.5 million should be at the level of 12% as a one off measure to meet the fiscal target for 2015.
- Introduce a tax on television advertisements, and an international public tender will be announced for the acquisition of television licenses in return for a fee for the acquisition and use of the relevant frequencies.
- Extend the implementation of the luxury tax to recreational vessels in excess of 10 meters and increase the rate from 10 to 13%, coming into effect from the collection of 2014 income taxes and

beyond;

- In view of any revision of the zonal property values, adjust the property tax rates if necessary to safeguard the 2015 and 2016 property tax revenues at €2.65 billion and adjust the alternative minimum personal income taxation;
- Strengthen VAT The T collection carousel fraud. and enforcement inter alia through measures to combat VAT authorities will submit an application to the EU VAT Committee and prepare an assessment of the implication of an increase in the VAT threshold to €25.000.
- Provide special tax deductions for permanent residents of Greek islands with low income levels
- Promote the use of electronic payment practices, making use of the EU Structural and Investment Funds to facilitate the adoption of these practices.
- Eliminate the cross- border withholding tax introduced by the installments act (law XXXX/2015) and reverse the recent amendments to the ITC in the public administration act (law XXXX/2015), including the special treatment of agricultural income;
- The Government will implement taxation on Gross Gaming Revenues (GGR) of 30% on VLT games expected to be installed at second half of 2015 and 2016
- Generate revenues through the issuance of 4G and 5G licenses and also undertake pharmaceutical rebates.

#### Tax administration reforms

The ability to collect taxes has been hampered by a long history of complicated legislation. Poor administration, political interference and generous amnesties, with chronically weak enforcement.. To break from this practice and improve the tax payment culture, the authorities will: • Adopt legislation to establish an independent tax and customs agency, which will be fully functional by end-June 2016:

- Implement measures to fight tax evasion and fraud and to strengthen enforcement by enhancing collection tools such as garnishments;
- Amend legislation on installments to among others exclude those who fail to pay current obligations and introduce a requirement to shorten the duration for those with the capacity to pay earlier;
- Combat fuel smuggling, enacting via legislative measures arrangements for locating storage tanks (fixed or mobile), which are used to move contraband fuel around the county
- Intensify checks on bank transactions, implementing a combined plan to detect deposits stemming from undeclared income of Greek citizens for the period 2000-2014 in banking institutions in Greece or abroad, advancing by 9/2015 to the level of certification of unpaid taxes and the beginning of their recovery;
- Take all appropriate and necessary measures towards the timely collection of categories of public revenue, including automobile "KTEO' fines, uninsured vehicles levies for the unlicensed use of frequencies;

- Immediate provisions will be promulgated to impose and collect taxes owed on undisclosed assets which will be revealed to the Greek Authorities in liaison and in agreement with the authorities of the countries where these amounts are deposited by Greek citizens;
- Adopt measures to restructure the existing legal framework for carrying out tax including amending current legislation to provide the tax administration the ability to plan their tax audit priorities on the basis of risk analysis and not, as is now the case, year of seniority (ie year of write-off). The option to write-off uncollectible old debt will be put in place through legislation to facilitate control over those cases more likely to produce revenues;
- Allow the possibility of an administrative settlement of cases that have not as yet been reviewed by the courts and are pending at different stages of administrative or judicial proceedings in order to irrevocably finalise the amount of the debt and for it to be immediately certified and collectable

#### Public Financial Management

The authorities commit to continue reforms that aim at improving the budget process and expenditure controls, clearing arrears, and strengthening budget reporting and cash management. The authorities will as yet adopted reforms on the income tax codes and tax procedures: introduce a new Criminal Law on Tax Evasion and Fraud.

The second-phase of amendments to the Organic Budget Law (OBL) will be adopted immediately so that the Court of Auditors limits ex-ante audits, provided that an efficient ex-ante mechanism for audits is in place.

The Fiscal Council will be made fully operational.

The authorities will present a plan and will proceed with the clearance of arrears, tax refund and pension claims by the end 2016. The Government will ensure that budgeted social security contributions are transferred from social security funds to health funds and hospitals so as to clear the stock of health-related arrears.

On health care, a number of measures will be taken immediately to: (i) re-establish full INN prescription, without exceptions, (ii) reduce the price of all off-patent drugs and all generics of the patent price, by repealing the grandfathering clause for medical supplies already in the market in 2012, and (iii) review and limit the prices of diagnostic tests to bring structural spending in line with claw back targets; and (iv) collect in the full the 2014 claw back for private clinics, diagnostics and pharmaceuticals, and extend their 2015 claw back ceilings to 2016.

#### Safeguarding financial stability

All necessary policy actions will be taken to safeguard overall financial stability and the authorities remain committed to preserve sufficient banking system liquidity in line with Eurosystem rules, including by the quarterly submission of funding plans to the Bank of Greece to ensure continuous monitoring and assessments.

The private management of the Greek banks will be respected, and the government will not intervene in the day-to day decision making and management of the banks, which will continue to operate under market principles. The Board members and higher management officers of the banks will be appointed according to the existing framework and in line with EU legislation and best

international practices, taking into account the specific rules in the HFSF law as regards the rights of the private shareholders who participated in the banks' capital increases under this framework. The independence of the HFSF will be fully respected. No fiscal policy actions will be taken that would undermine the solvency of the banks.

The Greek authorities will legislate corporate and household insolvency framework related reforms bringing them in line with international good practice, will introduce a profession of insolvency practitioners, not limited to any specific profession and in line with good cross-border experience, will amend the out-of-court workout law, and will develop a comprehensive strategy for the financial system

This strategy will aim to return the banks to full private ownership by attracting international investors and to achieve a sustainable funding model over the medium term. The authorities will further develop and swiftly implement a comprehensive strategy for addressing the issue of non-performing loans, drawing on the expertise of external strategic consultancy for both strategy development and implementation. It will also include the establishment of a social safety net including support measures for the most vulnerable debtors (notably through a temporary moratorium on auctions) and will differentiate between strategic defaulters and good faith debtors and strengthen and simplify procedures to address the large backlog of cases at this time.

#### Labour markets

In recent years, important changes have been made to Greek labour market institutions and wage bargaining systems. The Greek authorities are committed to achieve EU best practice success through the range of labour market legislations through constructive dialogue amongst social partners. The approach not only needs to balance flexibility and fairness for employees and employers, but also needs to consider the very high number of unemployed. This can be achieved by modernizing legislation through a process of consultation with the social partners and benefiting from think tanks as well as international organizations such as the OECD and the ILO.

The authorities will review through a consultation process the existing frameworks for collective bargaining and industrial relations taking into account best practices elsewhere in Europe. Further input to the review described above will be provided by international organization including the ILO. Further, the authorities will take action to fight undeclared work in order to strengthen the competitiveness of legal companies and to protect workers as well as tax and social security revenues.

#### Product markets

More open markets are essential to improve social fairness by curtailing rent-seeking and monopolistic behavior, which has translated into higher prices and lower living standards. The authorities will intensify their efforts to bring key initiatives and reform proposals to fruition, drawing on technical expertise of institutions including the OECD and the World Bank. The authorities will legislate to

- implement the revised OECD toolkits which following the further work by the OECD in collaboration with the Greek authorities will include a variety of product markets and other areas of structural reforms

- open selected restricted professions and liberalize specific markets including tourist rentals and ferry transportation
- eliminate various nuisance charges eg fees which companies and individuals are called to pay which are disproportionate compared to the service they receive.
- reduce red tape including on horizontal licensing requirements of investments and low-risk activities in collaboration with the World Bank and establish a committee for the preparation of legislation.

#### Pension reform

The 2010 and 2012 pension reforms partially improved the sustainability of the overall pension system, which was previously fragmented and costly and placed unsustainable burdens onto future generations. But further, much more ambitious and courageous steps were required to complete these reforms and to tackle the strains on the system caused by an economic crisis where contributions have fallen due to high levels of unemployment whilst spending pressures have mounted as many citizens opted to retire early. To address these issues, the authorities are committed to proceed with reforms in two phases.

A first package of measures will be adopted immediately, targeting 1.05% of GDP in enhanced savings annually by 2016. The fiscal impact of these measures listed below will grow to 1.1% of GDP in 2017. With these aims, the Authorities will:

- adopt legislation to create strong disincentives for early retirement by adjusting early retirement penalties and by gradually eliminating grandfathering to statutory retirement age and early retirement pathways, applicable for everybody retiring (except for arduous professions, mothers with children with disabilities and other very few selected special categories) after January 1, 2016. Through a decree to be implemented immediately, there will be provisions for the progressive adaptation of the early retirement rules such that by 2025 the earliest possible age to retire is 67 years old, while preserving vested rights. Withdrawals from the social insurance fund will incur a penalty for the retirement age extension period equivalent to 10 percentage points on top of the current penalty of 6%
- integrate into ETEA all supplementary pension funds
- better target social pensions by increasing OGA uninsured pension, thus targeting resources at those most in need
- gradually replace the solidarity grant (EKAS) for pensions by 2020 starting in 2018. This reform will be linked to the second phase of the pension reform due in September 2015 and can benefit from the planned Social Welfare Review when the solidarity grant is replaced with an appropriate framework that delivers targeted support at retirees who need it
- increase health contributions from pensioners to 5% on average, taking account of ability to pay. This should also encompass supplementary pensions
- increase the health contributions for supplementary pensions from 0% to 5%
- increase the social security contribution rate for supplementary funds from 3% to 3.5%,

- increase the contribution for main pensions by 3.9% - IKA (previous level)

To complete the package, the authorities will in the second phase pass further legislative reforms in order to establish by October 2015 a closer link between contribution and benefits within the framework of the tripartite financing and the integration of outstanding funds. In designing these reforms, the government will ensure that the burden of adjustment is fair to ensure that the most vulnerable households are protected whilst avoiding undue burdens onto future generations and that there is a clear link between contributions and entitlements so as to incentivise declared work and longer working lives. To this end, the authorities drawing upon an actuarial study and in collaboration with the EU's Ageing Working Group, will legislate: (i) specific design and parametric improvements to establish a close link between contributions and benefits (ii) broaden and modernize the contribution and pension base for all self-employed, including by switching from which Greece currently spends well below the European Average. The authorities plan to benefit from available technical assistance from international organizations.

Delivering sustainable public finances that support growth and jobs

Public finances are now on a more sustainable footing compared to the pre-crisis period, although the fiscal position has deteriorated in recent months due to uncertainties. The consolidation, however, has required the dramatic scaling back of essential public investments and services, which will need to progressively recover in order to sustain growth potential. Furthermore, the burden of the fiscal adjustment has fallen more heavily on certain groups, especially workers. This will be corrected by widening the tax base and by eliminating loopholes and exemptions that have protected certain groups from bearing a fair share of the adjustment burden.

The Greek authorities commit to ensuring sustainable public finances and sustainable primary surpluses over the medium term that will reduce the debt to output ratio steadily and which are in line with the primary surpluses of other Eurozone economies with high levels of public debt. The trajectory of the fiscal targets is consistent with the expected growth rates of the Greek economy as it recovers from its deepest recorded recession. To demonstrate its commitment to credible fiscal policies, the Greek authorities will:

- effective as of July 1, adopt a supplementary for 2015 budget and a 2016-19 medium term fiscal strategy, supported by a sizable and credible package of measures
- pursue a new fiscal path premised on a primary surplus of 1,2,3 and 3.5 percent of GDP in 2015, 2016, 2017 and 2018, respectively
- base their fiscal strategy on parametric measures that amount to some 2.87 percentage points of GDP by 2016, of which 0.74 p.p. of GDP would come from a major simplification of the VAT system and a further 1.05% of GDP from a structural reform of the pensions. There will be an additional supplementary package of parametric measures that will deliver 1.08% of GDP, including long overdue reforms to close loopholes in the tax system and curtail spending on expenditure items, such as defense, where further savings are still feasible.

Parametric fiscal measures will be bolstered by a wide range of administrative actions to address shortfalls in tax collection and enforcements: these measures will take some time to bear fruit but offer significant upside fiscal yield going forward.

## VAT reforms

Greece has a very fragmented VAT system. As part of its commitment to improve VAT collection, the authorities will adopt legislation changing parameters to significantly broaden the tax base at a standard rate of 23 percent. Reflecting the needs to protect the disposable income of low and middle income households, there will be a reduced rate 13% to cover a limited set of goods that includes energy, basic foods, catering and for reasons of competitiveness, hotels. There will also be a super-reduced rate of 6% on medical supplies and books. As part of efforts to promote fairness, the reform will eliminate discounts including on islands, and streamline exemptions. These legislative changes of parameters will generate an annual fiscal yield of 0.74% of GDP and are being supported with administrative measures to combat fraud and increase compliance.

## Privatisation

The Greek authorities are committed to approving and proceeding with an ambitious privatisation program. The policy of privatisations and utilisation of public and private property will be subject to the following conditions:

- a minimum level of investment for each privatisation;
- protecting labour rights;
- commitments to ensure benefits to local social economies;
- the public holding of a significant (probably a minority) stake in the capital;
- protection of the natural environment and cultural heritage.

The annual targets (excluding bank shares) for 2015, 2016 and 2017 are EUR 1.4 bn, EUR 3.7 bn and EUR 1.2 bn, respectively. Among other actions, the authorities will take immediate irreversible steps for the sale of the regional airports, Hellinikon, finalise the terms for the sale of the Piraeus and Thessaloniki ports and of the train operator, and advance with the tender to extent the concession agreement in the Athens International Airport. For real estate projects, the HRADF will set annual proceeds targets consistent with the overall privatisation revenue target.

## Energy

The authorities will adopt the reform of the gas market and its specific roadmap, and implementation should follow suit. They will adopt and implement the reform of capacity payments and other electricity market rules, review PPC tariffs based on costs and notify NOME products. The authorities will also continue the implementation of the roadmap to the EU target model in the electricity market in line with EU rules on unbundling, and taking all possible steps to increase competition in production and promote investment.

The authorities will prepare a framework for the support of renewable energies and review energy taxation. The authorities will clear the public sector's arrears to PPC and strengthen the electricity regulator's financial and operational independence. The authorities will introduce a new scheme for the development of projects from Renewable Energy Sources (RES) and for the implementation of energy efficiency projects. The Government will introduce legislation the ratification of Directive 27/2012 on energy efficiency and introduce a new plan for the upgrade of the electricity grids in order to improve performance, enhance interoperability and reduce costs for all categories of

consumers.

#### Public administration

The authorities will adopt legislation for a unified wage grid reform effective 1 January 2016, in line with the agreed wage bill targets, including decompressing the wage distribution in connection with the skill, performance and responsibility of staff. Secondary legislative acts needed to implement the new unified wage grid with a guaranteed starting point the salaries of each employee as of 31/12/2014, and legislation to rationalise the specialized wage grids, will be adopted by end-November 2015. The authorities will set a ceiling for the wage bill within the new MTF5, and the level of public employment consistent with achieving the fiscal targets and ensuring a declining path of the wage bill relative to GDP until 2019. They will align non-wage benefits across the public administration with EU best practices.

The authorities will review and implement legislation for hiring managers and assessing performance of all employees, and complete the hiring of new managers by the end of the year. They will continue to identify past cases of illegal hires and temporary injunctions, and take appropriate enforcement action.

#### Justice

The authorities will legislate and implement the new Code of Civil Procedure in agreement with the institutions. They will propose further actions to reduce the backlog of cases in administrative Courts. authorities will also continue to work closely with European institutions and technical assistance on the modernisation of the judicial system including initiatives in the area of juridical e-Government (e-justice), mediation and judicial statistics.

#### Anti-corruption

The authorities will review and present a new Strategic Plan against Corruption (TRANSPARENCY) in late July. To this end, it has set up a working group with participation from representatives from the Ministry of Justice and the General Secretariat for the Fight against Corruption.

The authorities will amend and implement the legal framework for the declaration of assets and financing of the political intervention in individual cases. They will also ensure proper coordination and sharing of information between investigation bodies through a Coordinating Body of Finance Prosecutors and Corruption Prosecutors.

#### Statistics

The Greek authorities will adopt legislation to strengthen the governance and independence of ELSTAT, and ensure its proper access to administrative data.

#### ANNEX 1

##### Fiscal Measures 2015/2016

##### Analytical Parametric Measures/GrGov

VAT: 0.38%/0.74%

VAT Reform: 680/1,360

PENSIONS: 0.37%/1.05%

Early retirement restrictions (accrual): 60/300

Increase contribution for main pensions by 3.9% - IKA (previous year level): 350/800

Increase the health contributions for pensioners from 4% to 5% - main: 135/270

Increase the health contributions for pensioners from 0% to 5% - supplementary: 0/240

Increase contribution for supplementary funds from 3% to 3.5%: 120/250

CORPORATE & INCOME TAX: 0.66%/0.58%

Special tax 12% on corporate profits above 0.5 mln: 945/405

Increase corporate income tax from 26% to 29%: 0/410

Increase solidarity contribution rate in PIT: 220/250

OTHER MEASURES: 0.10%/0.50%

Defence spending: 0/200

TV advertisement tax: 100/100

Increase luxury tax and include private yachts: 47/47

VLTs: 35/225

Licences to 4G and 5G: 0/350

Parametric measures: 2,692/5,207

%GDP: 1.51%/2,87%