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Enhanced Surveillance Report – Greece, November 2020

Communication from the Commission
and accompanying Commission Staff Working Document

ABBREVIATIONS

AIA: Athens International Airport

ANFA: Agreement on Net Financial Assets

ASEP: Supreme Council for Civil Personnel Selection

CRR: Capital Requirement Regulation

DEPA: Public Gas Corporation

DRU: Dispute Resolution Unit

ECB: European Central Bank

EFKA: Single Social Security Fund

EFSF: European Financial Stability Facility

EIB: European Investment Bank

EKAPY: National Central Authority of Health Procurements

ENFIA: Unified Property Tax

EOPYY: National Organisation for the Provision of Healthcare Services

ERGANI: Greek Database for Unemployment Registration

ERGOSE: Subsidiary company of OSE to implement railways infrastructure projects

ESI: Economic Sentiment Indicator

ESM: European Stability Mechanism

ESOEL: National Coordinating Body for Audit and Accountability

ETAD: Public Properties Company

ETEAEP: Supplementary Pension Fund

EYATH: Thessaloniki Water Supply and Sewerage Company

EYDAP: Athens Water Supply and Sewerage Company

FEK: Government gazette

GDP: Gross Domestic Product

GPS: Global Positioning System

GRECO: Group of States against Corruption

HCAP: Hellenic Corporation of Assets and Participations

HELEXPO: National institution for the organisation of exhibitions, congresses and cultural events

HFSF: Hellenic Financial Stability Fund

HRADF/TAIPED: Hellenic Republic Asset Development Fund

HRMS: Human resources management system

IAPR: Independent Authority for Public Revenue

ICT: Information and Communication Technologies
IEK: Public professional schools
IKE: Greek private company
IMF: International Monetary Fund
JASPERS: Assistance to Support Projects in European Regions
KEK: Vocational training centres
KEPA: Disability assessment centres
KOMYs: Newly and swiftly deployed medical mobile units
KPI: Key performance indicator
KTEL: Joint-venture of Regional Transport
LCR: liquidity coverage ratio
LEPETE: Supplementary Pension Fund of the National Bank of Greece
MFIs: Monetary financial institutions
NFCs: Non financial corporations
NOME: Nouvelle organisation du marché de l'électricité (New organisation of the electricity market)
NPEs: Non-performing exposures
OAED: Public employment service
OASTH: Urban Transport of Thessaloniki
OGA: Agricultural Insurance Organisation (former farmers' fund)
OMED: Mediation and arbitration board
OSDDY: Integrated Management System for Judicial Cases
OSE: Organisation of railways of Greece
PMI: Purchasing Managers Index
SEPE: Labour inspections directorate
SMP: Securities Markets Programme
SURE: Support to Mitigate Unemployment Risks in an Emergency
SYNERGASIA: Temporary short-time work scheme
TEPIX II: Envelope for co-financing loans to small and medium-sized enterprises
TLTRO III: Eurosystem targeted longer-term refinancing operations
TOMYs: primary health care units
VAT: Value added tax

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Contributors:

Chris Allen, Giuseppe Carone, Christos Daoulas, Fotini Dionyssopoulou, Matteo Duiella, Dolores Gloria Duran Bono, Sotirios Giannoulis, Christos Gofas, Andras Hudecz, Alexander Ioannidis, Eloïse Lecouturier, Vasileios Maroulis, Benedetta Martinelli, Vasilis Nikitas, Zoltan Petrov, Eleni Polemidiotou, Marie-Luise Rud, Alexandros Tavoutsoglou, Andreas Trokkos, Vasiliki Vasilopoulou, Irene Vlachaki, Veli Laine, Rainer Wichern and Alkistis Zavakou.

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

Julia Lendvai

European Commission

Unit ECFIN-F-2

CHAR 14/103

B-1049 Brussels

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

CONTENTS

Communication from the Commission	1
Commission Staff Working Document	22
1. Introduction	23
2. Macroeconomic developments	25
3. Fiscal and fiscal-structural policies	27
3.1. Fiscal developments and outlook	27
3.2. Tax policy	30
3.3. Revenue administration	30
3.4. Public finance management	33
3.5. Public investment	37
4. Sovereign financing and debt sustainability	38
4.1. Sovereign financing	38
4.2. Debt sustainability analysis	38
5. Social welfare	45
5.1. Pensions	45
5.2. Healthcare	45
5.3. Social safety nets	47
6. Financial sector	49
6.1. Financial sector developments	49
6.2. Financial sector policies	54
6.3. Hellenic financial stability fund (hfsf)	57
7. Labour and product markets	58
7.1. Labour market	58
7.2. Product markets and competitiveness	59
8. Hellenic Corporation of Assets and Participations (HCAP) and privatisation	66
8.1. Hellenic corporation of assets and participations	66
8.2. Implementation of the asset development plan	68
9. Public administration and justice	71
9.1. Public administration	71
9.2. Digital governance	73
9.3. Justice	75
9.4. Fight against corruption	77
ANNEX	79

LIST OF TABLES

2.1.	Summary of main macroeconomic variables (%)	26
3.1.	Fiscal projections of the Commission 2020 Autumn Forecast and 2021 Draft Budgetary Plan	28
3.2.	Key Performance Indicators of the Independent Authority for Public Revenue, second quarter 2020	31
3.3.	Stock of arrears	33
4.1.	Assumptions in the baseline scenario	42
4.2.	Assumptions under the risk scenarios	42
4.3.	Decomposition of change of results on gross financing needs due to the revised assumptions	43
4.4.	Decomposition of change of results on debt-to-GDP ratio due to the revised assumptions	43
6.1.	Main financial stability indicators	50
9.1.	Evolution of public sector staff (2009-2020)	72

LIST OF GRAPHS

4.1.	Long term real GDP growth (%)	39
4.2.	Debt sustainability indicators (% of GDP)	44
6.1.	Bank deposits (left) and total borrowing from the Eurosystem (right)	49
6.2.	Non-performing loans as a% of total customer loans (left) and changes in their stock in the second quarter of 2020 (right: million EUR)	51
6.3.	Bank credit to non-financial corporations and households, annual % change	54
6.4.	Bank interest rates of new loans to euro area residents, annual percentages, weighted averages	54

LIST OF BOXES

3.1.	Revision of the public procurement framework	36
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Communication from the Commission



Brussels, 18 November 2020
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COMMUNICATION FROM THE COMMISSION

Enhanced Surveillance update - Greece, November 2020

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 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.

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) Hellenic Corporation of Assets and Participations and privatisation, and (vi) the modernisation of public administration ⁽³⁾.

This is the eighth enhanced surveillance report for Greece. The report is based on the findings of a mission held remotely on 19-20 October 2020 and regular dialogue with the authorities. The mission was conducted by the European Commission in liaison with the European Central Bank ⁽⁴⁾; the International Monetary Fund participated in the context of its Post-Programme Monitoring framework, 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. The current report assesses the

⁽¹⁾ Regulation (EU) No 472/2013 of the European Parliament and 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 L140, 27.5.2013, p. 1.

⁽²⁾ Commission Implementing Decision (EU) 2020/1142 of 29 July 2020 on the prolongation of enhanced surveillance for Greece, OJ L 248, 31.7.2020, pp. 20-23.

⁽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, also held remotely, from 30 September to 8 October 2020.

implementation of Greece's commitments to the Eurogroup regarding reform completion up to mid-2020.

This report could serve as a basis for the Eurogroup to decide on the release of the next set of policy-contingent debt measures worth €767 million. These measures were agreed with the Eurogroup on 22 June 2018 and include the transfer of income equivalent amounts stemming from central banks' holdings of Greek government bonds under the Securities Markets Programme and the Agreement on Net Financial Assets and a waiver for the step-up interest margin for certain loans provided by the European Financial Stability Facility. The third tranche of policy-contingent debt measures was released following the Eurogroup on 11 July 2020, inter alia based on the assessment of the implementation of Greece's commitments for end-2019 included in the enhanced surveillance report adopted by the Commission on 20 May 2020 ⁽⁵⁾ and considering the extraordinary circumstances posed by the coronavirus outbreak.

OVERALL ASSESSMENT

This report was prepared at a time when most Member States face a resurgence of the pandemic. In spite of the recent surge in infections, Greece has to date managed to contain the spread of the coronavirus comparably well, also thanks to a timely response in regions facing an increase in the number of new cases. The authorities are strengthening the preparedness of the health-care system and expanding the testing capacity, while at the same time expanding and adapting the set of fiscal and liquidity measures aiding persons and businesses affected by the pandemic. These measures help cushion the social and economic cost of the pandemic, but according to the Commission 2020 autumn forecast, the Greek economy is still expected to suffer one of the largest falls in economic activity in the EU, on account of its high exposure to tourism and the large share of small enterprises, which have a limited adjustment capacity. The three-week national lockdown announced on 5 November, and its potential prolongation depending on the evolution of the pandemic, could weaken the near-term outlook more than currently assumed.

Despite the very challenging circumstances, which necessitated a focus on more immediate priorities, Greece has significantly stepped up the pace of reform implementation in the past months. Most importantly, the insolvency code has been adopted in the Parliament. This is a major reform of the insolvency framework, which is expected to facilitate the resolution of key challenges in the financial sector. The authorities are currently preparing secondary legislation, which will define important aspects of the new framework, and are in parallel developing the infrastructure, both of which are necessary for the code's effective implementation as from 1 January 2021. A long-standing bottleneck to the human resources reform of the Independent Authority for Public Revenues is being addressed through the agreement to go ahead with its supplementary wage legislation, which will enhance its capacity to attract and maintain high calibre staff. The authorities are also advancing on a number of flagship privatisation transactions, although others are delayed due to the pandemic.

⁽⁵⁾ https://ec.europa.eu/info/publications/enhanced-surveillance-report-greece-may2020_en.

Furthermore, good progress has been made in the fields of:

- **Fiscal-structural reforms**, with the completion of the Treasury Single Account system, a major public procurement reform to be adopted by the end of the year, progress on reforms to speed up the implementation of public investments, and positive developments on arrears clearance, which will need to be sustained;
- **Public administration**, with steady progress on the modernisation of human resource management and the entry into force of a uniform selection process for senior management posts at public sector entities. The authorities have also progressed with the implementation of their ambitious digital agenda.
- **Energy**, where the launch of the Target Model for the electricity market took place on 1 November 2020, fulfilling a long-standing commitment.

The authorities also established clarity on the way forward in areas, where full completion of existing commitments was out of reach due to previous delays or the impact of the pandemic. The authorities restarted the collection of health expenditure under the clawback and agreed to finalise the primary health care legislation by the time of the 10th report, while adequately delivering on the principles of the 2017 reform, which has not been fully implemented yet. Clear timelines have been established also for the investment licensing reforms monitored under enhanced surveillance, while steady progress has been seen on the implementation of the road map for the cadastre project. The authorities also agreed to restart two specific reforms that have been significantly affected by the coronavirus outbreak, namely the nationwide reassessment of property tax values and the completion of the activation element of the Guaranteed Minimum Income scheme. A final proposal for the anti-trust remedy related to the Public Power Corporation's lignite generation has been submitted to the Commission and is expected to be market tested as soon as the authorities provide their final authorisation. The staffing target set for the Independent Authority for Public Revenue is not being met but the authorities confirmed that ongoing hiring procedures at the Ministry of Finance would not have an adverse impact on the Authority's capacity.

The efficient and appropriate use of funds available under the Recovery and Resilience facility could help the Greek economy recover from the current crisis and address the challenges it continues to face, despite the progress achieved. Persistent reform efforts to address the remaining vulnerabilities are of the essence. The significant funds that Greece is entitled to receive via the Recovery and Resilience Facility, if used efficiently and appropriately, can support growth, job creation and the twin transitions in the coming years. Reforms and investments, as part of the upcoming recovery and resilience plan, are expected to build on and complement past and ongoing reforms in the context of the enhanced surveillance process.

This report concludes that in spite of the adverse circumstances caused by the pandemic, Greece has taken the necessary actions to achieve its due specific commitments. The unprecedented events have led to a sharp economic downturn and to a standstill, in the first half of the year, on a number of reforms in view of the need to address more immediate priorities. Nonetheless, the authorities managed to restart the work on the commitments in the past months and delivered on a number of fundamental

reforms. The European institutions welcome the close and constructive engagement in all areas and encourage the authorities to keep up the momentum and, where necessary, reinforce the efforts to quickly complete the implementation of recently adopted primary legislation. This is in particular the case with the financial sector reforms, where a large body of secondary legislation is to be completed and adopted shortly.

MACROECONOMIC DEVELOPMENTS

The coronavirus pandemic is taking a strong toll on the Greek economy. The economy contracted by -14.2% in the second quarter of 2020 as economic activity was constrained to stop the spread of the pandemic. The services sector was hit particularly hard also during the summer season due to the importance of international tourism. While the increase in the unemployment rate has been relatively muted so far, partly on account of the protection schemes put in place timely by the authorities, employment has suffered more markedly in view of the lower demand for seasonal workers. The slack in the economy, as well as falling energy prices, are expected to lead to a temporary decrease in consumer prices in 2020.

As the number of new coronavirus cases continues to rise, the recovery is likely to be somewhat slower than previously expected. According to the Commission 2020 Autumn Forecast, real GDP is expected to decrease by 9% in 2020 and grow by 5% in 2021. The projections factor in only a gradual increase in demand for tourism services, more cautious consumer spending, and persisting uncertainty and lower profits in the corporate sector. The authorities have adopted a large amount of measures to cushion the economic impact of the containment measures in 2020 as well as measures stimulating aggregate demand in 2021. These projections were finalised before the announcements of the 3-week lockdown on 5 November 2020 and the relevant support measures ⁽⁶⁾.

Uncertainty and risks surrounding the outlook are very high, due to the uncertain developments of the global health crisis. The increasing stringency of the restrictions already implemented in Greece and in other European countries could negatively affect the short term outlook. Additional restrictions on the movement of persons and goods in the coming months in Greece, but also abroad – in view of the importance of international tourism – remain a substantial source of uncertainty. Further downside risks are represented by the heightened geopolitical tensions in the region and sustained migration pressures. On the upside, the support measures adopted at EU level, including Next Generation EU, could significantly support demand in 2021 and strengthen economic fundamentals and resilience going forward. More specifically, the Commission forecast does not incorporate the impact of the Recovery and Resilience Plan as it is still at an early stage of development. Once fully specified, adopted and implemented, the reforms and investments implemented under the Plan are expected to have a positive impact on the growth outlook.

⁽⁶⁾ The forecast was prepared taking into account information available up to the cut-off date 22 October 2020. More details regarding the Commission 2020 Autumn Forecast can be found here: https://ec.europa.eu/info/business-economy-euro/economic-performance-and-forecasts/economic-forecasts/autumn-2020-economic-forecast_en.

FISCAL DEVELOPMENTS AND OUTLOOK

The fiscal impact of the economic downturn and the cost of emergency measures adopted to address the coronavirus outbreak are expected to result in a large fiscal deficit this year. The primary balance monitored under enhanced surveillance is forecast to reach -4.4% of GDP in 2020. Apart from the shortfall in revenues triggered by the recession, the projection takes into account the prolongation of measures already adopted by the authorities to cushion the downturn in recent months. These include an increase in the total envelope of the ‘repayable advances’ to companies and extensions of existing support measures for both the unemployed and employees of companies affected by the pandemic. The forecast also takes into account a retroactive payment to pensioners following the July 2020 Court of State ruling, for a short period before to the entry into force of the 2016 pension reform.

Greece’s fiscal policy is expected to continue to support the recovery throughout 2021. While most of the measures taken in 2020 have targeted the direct impact of the pandemic (health care expenses, support for the lock-down period, tax deferrals etc.), authorities have also announced temporary measures to more broadly stimulate demand and employment in 2021. These include a three percentage points reduction in social security contributions and a suspension of the social solidarity tax for the private sector, and a new temporary recruitment subsidy. These measures go in the right direction as to reduce the high tax wedge on labour and their temporary nature is consistent with the objective of ensuring sustainability of public finances in the medium term. The fiscal policy setting planned for 2021 takes into account the continued application of the General Escape Clause in 2021.

The 2021 Draft Budgetary Plan expects the primary deficit monitored under enhanced surveillance in 2021 to reach 1.1% of GDP. The authorities’ projection takes into account the new measures, a special reserve, which could finance immediate needs that might arise from the evolution of the pandemic and an ambitious 7-year defence-spending programme. The authorities’ projection is more optimistic than the Commission 2020 autumn forecast, which expects a primary deficit of 3.4% of GDP in 2021. However, a large part of the difference is due to methodological assumptions on (a) the aforementioned recording of some of the emergency measures, the rules of which were clarified only after the presentation of the Draft Budgetary Plan, and (b) the inclusion of the Recovery and Resilience Facility in the authorities’ macroeconomic scenario ⁽⁷⁾. Apart from these, the Commission forecast is more cautious regarding the closure of the deficit in the Renewable Energy Source account assumed in the Draft Budgetary Plan, as the policy action delivering this improvement is yet to be specified, and takes a more gradual view on the implementation of the new defence programme.

Progress towards completion of the nationwide reassessment of property tax values has slowed down; this was a mid-2020 specific commitment, whose finalisation has now been rescheduled for mid-2021. Inevitable delays occurred earlier in the year due

⁽⁷⁾ The Commission forecast does not incorporate the impact of the Recovery and Resilience Plans as the full implementation is conditional upon their positive assessment by the Commission and endorsement through a Council implementing decision, as well as the achievement of milestones and targets. Furthermore, the Commission forecast does not account for any expenditure under the Recovery and Resilience Facility, as the Draft Budgetary Plan did not present such projects in sufficient detail.

to the coronavirus lockdown and further delays have taken place owing to the quality assessment required by successful appeals to the Council of State. The reassessment and expansion of the existing value zone system is now planned to be finalised in March 2021, in time for the property tax assessment of August 2021.

The inherent uncertainty in the current assessment and forecast is substantial: a further escalation of the health crisis could trigger the need for additional fiscal measures, which should be both of a targeted and temporary nature, to contain the fallout and bolster the recovery in 2021. Additional risks relate to the activation of state guarantees that have recently been issued, which were part of the set of emergency measures. Further risks refer to the cost of ongoing litigation cases and remaining public service obligations, which could deteriorate the balance when agreed. The uncertainty with respect to the full extent of the retroactive compensation for cuts in supplementary pensions and seasonal bonuses introduced by previous pension reforms remains, as the 2020 Council of State ruling has not yet been published. Finally, an additional risk stems from the potential additional cost of the coverage of individuals without health insurance. On the positive side, Greece is expected to greatly benefit from the Recovery and Resilience Facility, which aims to support a sustainable economic recovery by providing large-scale financial support to growth-enhancing reforms and investments.

SOVEREIGN FINANCING AND DEBT SUSTAINABILITY ANALYSIS

Greek sovereign yields remain low and the government's cash buffer is close to pre-crisis levels. The authorities have recently successfully completed the issuance of a 15-year bond. The yield spreads of the long-term Greek sovereign bonds remain at historic lows. The general government cash reserves now stand at €34.5 billion (end of September), with the cash buffer account balance unchanged at €15.7 billion. The overall general government cash reserves would be sufficient to cover around two years of financing needs even without further bond issuances.

The European institutions have carried out a comprehensive revision of the debt sustainability framework, as announced in the 5th enhanced surveillance report. The revised framework includes a baseline scenario, which is aligned with the Commission's framework applied to assess the debt sustainability for all Member States, and a country-specific scenario analysis. The revision makes use of market-based indicators that are readily available and well understood and makes the assumptions more consistent with market expectations for the short and medium-term. The revision also takes into account long-term growth and interest rate assumptions from the 2021 Ageing Report. The scenario analysis captures risks that are particularly relevant for high debt countries like Greece.

Despite the deteriorated short-term outlook, the baseline scenario shows a return to declining debt-to-GDP ratio. In the short run, public debt is projected to increase from 180.5% of GDP in 2019 to over 207% of GDP in 2020. However, as the emergency fiscal measures taken during the pandemic are expected to be temporary and the economy is projected to start recovering in 2021, the debt-to-GDP ratio is expected to follow a declining trend as from 2021. The government gross financing needs are expected to hover around 15% of GDP for the next 20 years, before decreasing to about 13% of GDP by 2060. The results of this baseline simulation are mainly supported by the assumed

favourable financing conditions, the large share of debt that is financed at low rates by official lenders and the long average maturity of the outstanding debt.

The two alternative scenarios suggest that higher refinancing rates would deteriorate the outlook, and more so if combined with low growth, underlining the importance of proceeding with an ambitious growth agenda. The baseline assumptions are subject to uncertainty, which is increasing over the projection horizon. Financing conditions could turn out less favourable than assumed, in particular beyond the medium-term. Under the higher risk premium scenario, which links risk premia to the level of debt in the medium and long run, the debt ratio while on a declining path, remains significantly higher than in the baseline projections. The gross financing needs are also higher and remain marginally below 20% of GDP in the long term. In a scenario in which GDP growth is lower than in the baseline, in addition to the existence of a higher risk premium, the debt level remains high in the long run and gross financing needs exceed 20% of GDP from the mid-2030s, thus signalling residual sustainability risks. Under that scenario, growth would remain below that of the euro area in the long term, which highlights the importance of delivering on the growth agenda for which a draft was prepared by the ‘Pissarides Commission’ and published by the authorities in August 2020. The Recovery and Resilience Facility represents an opportunity for increasing potential growth through investments and reforms.

PUBLIC REVENUE ADMINISTRATION

The supplementary wage grid legislation for the Independent Authority for Public Revenue, which is a key step towards completing its human resources reform, has been published for public consultation and is expected to be adopted by end-November 2020. The reform is expected to strengthen the Independent Authority’s ability to maintain and attract new high-calibre staff, which at the end of the third quarter remained well below the staffing target set for end-2019 (11 947 compared to 12 500). The authorities have confirmed that ongoing hiring procedures at the Ministry of Finance will not have a negative impact on the Independent Authority’s overall capacity. It is expected that the overall human resources reform will become operational by 1 January 2021.

Further progress has been reached to strengthen the anti-smuggling framework. The draft law has been published for public consultation and is expected to be adopted by November 2020. The draft law includes provisions to enhance the capacity of the Operational Coordination Centre, which coordinates anti-smuggling efforts, and is part of the Independent Authority for Public Revenues. The adoption of these provisions are expected to further facilitate its staffing.

Overall, there is good progress in meeting the targets set on the key performance indicators, including on debt collection, while work to further enhance the Independent Authority’s collection and audit capacity continues. A number of indicators has fared better than expected in the current circumstances, partly on account of the discounts provided for a timely payments of tax debts that were introduced after the pandemic outbreak.

The authorities have adopted a number of specialised arrangements to settle tax liabilities that emerged during the pandemic. These new schemes relate to the tax deferrals that were put in place at the beginning of the pandemic and facilitate the re-entry to settlement plans for payments that were interrupted during the pandemic, in view of the strict penalties that would otherwise apply under the framework agreed in 2019. In addition, a ‘second chance’ has been created also for settlement plans that had been agreed before the entry into force of the 2019 settlement framework. The scheme is yet to be made operational and is expected to subject the debtors to appropriate scrutiny of the reasons for their termination and compliance history. In relation to the state guarantees that had been called by banks and are currently being processed and paid by the state on behalf of the original debtors (see the financial section), the authorities have also created a settlement scheme that would allow the debtors to repay these to the state in up to 120 instalments. With a view to upholding payment discipline, the authorities have clarified that the drop-outs from this extraordinary scheme would not be eligible to join other settlement schemes and would therefore be subject to enforcement. The conduct of these enforcement efforts will be closely monitored.

PUBLIC FINANCE MANAGEMENT AND PUBLIC INVESTMENTS

The stock of arrears has decreased since the last report but sustained efforts are required to meet the ambitious target for the end of the year. While the stock of arrears remains above the levels envisaged in the October 2019 action plan, the slippages created in early-2020 also due to the pandemic have been recovered, except for the backlog of unprocessed pension claims, where the automatic processing and awarding of pensions is expected to deliver fully only next year. The zero arrears target for the end of 2020 in all sectors except for pension claims has been confirmed by the authorities, but remains subject to risks, including in relation to the resurgence of the pandemic. In view of the unforeseen increase in applications for pensions, which was triggered by legal and technical factors, the full clearance of pension claims is expected by December 2021.

While the stock of arrears decreases, new arrears continue to be created, which underlines the importance of implementing the Hellenic Court of Auditors recommendations, a mid-2021 specific commitment, amongst which strengthening the internal control system is key. Reinforcing the internal control system would also be key for the sound management of the projects to be funded through the Recovery and Resilience Facility. A law setting out the conceptual framework for internal control is planned to be adopted by the end of the year. The challenge lies now in achieving the full implementation of its public finance management component across the public administration as well as ensuring its effective supervision by the Ministry of Finance. The reform will benefit from recent steps taken by the Hellenic Court of Auditors and, in the medium term, the simplification of the framework for budget execution and the payment procedure, which has recently started.

The mid-2020 specific commitment on establishing the Treasury Single Account system has been successfully completed. The Treasury Single Account system is operational and offers an overview of the cash situation of the state as well as an efficient liquidity-monitoring tool. The Ministry of Finance has set up a dedicated tool for the monitoring of the entities’ cash forecasting, which will be gradually rolled out.

The Chart of Accounts reform, including mid-2021 and mid-2022 commitments, is overall on track and its implementation in the Public Investment Budget is starting to advance. Following the implementation of the administrative classification in the ordinary budget in 2019, a functional classification of accounts is currently being designed, along with the performance budgeting framework. These are welcome and ambitious reforms. The full implementation of the Chart of Accounts in the Public Investment Budget is starting to gather momentum. The steps taken to ensure its interoperability with the central IT system, due to be completed by March 2021, are expected to substantially speed up the payment process. This will also significantly reduce the scope for creating arrears. The implementation of other measures, including the e-invoicing application for public procurement and upgrading the central payment system for the ordinary budget, are broadly on track.

The authorities plan to adopt a major public procurement reform by the end of the year. The reform builds on the experience with implementing the rules put in place in 2016 and aims to address, among others, the high observed number of single bid procedures or contracts awarded exclusively based on the lowest price offered. It also further streamlines the still lengthy award procedures. The reform is crucial for ensuring a quick absorption of available financial resources and supporting the recovery. In parallel, the authorities are proceeding with the digitalisation of the procedure and are preparing a public procurement strategy for 2021-2025, which is expected to support the green transition and strengthen the fight against corruption.

In anticipation of the large amounts of funds that Greece is expected to receive under the next Multiannual Financial Framework, the authorities are putting in place a Strategic Projects Pipeline for the selection of large infrastructure projects and are progressing with setting up of a Project Preparation Facility. The Strategic Projects Pipeline will facilitate the selection of projects of national importance and will be coordinated at the level of the Presidency of the Government, outside the core structure of the line ministries. The Project Preparation Facility is expected to accelerate the preparation of projects included in the Strategic Projects Pipeline, to take them efficiently from a concept stage to an implementation stage. The Facility will be established within the Hellenic Republic Asset Development Fund, where appropriate safeguards will be put in place to ensure that the Fund will continue to independently exercise its existing core mandate. The Facility will be supported by an international financial institution as a strategic partner. The action plan to enhance the monitoring and forecasting of the Public Investment Budget is broadly on track.

SOCIAL WELFARE

The authorities are making good progress in finalising the organisational and institutional setup of the Single Social Security Fund (e-EFKA), an end-2020 specific commitment. The merging of the public sector and supplementary pension functions has already been implemented including the physical move of offices; the remaining move concerns the employees of the former farmers fund (OGA), which is expected to be fully completed by the end of the year. The digital processing of pension applications has also progressed according to targets. The pace of processing is expected to slow down until March 2021 due to data availability issues but should accelerate again thereafter.

Greece is strengthening the preparedness of the health-care system for the current health emergency, and the implementation of a fully-fledged and effective primary health care, which is a specific commitment, is proving key in that respect. More than 160 health care centres can now receive patients with coronavirus symptoms and additional outpatient clinics have been set up in the area of Athens. The authorities are also enhancing the testing capacity and proceeding with new necessary recruitments. Concerning the roll-out of the primary health care reform, which started in 2018, the authorities plan to extend patients' registration through the health care centres in the short term, while granting them wider freedom of choice amongst providers. Utilising fully the medical e-record, which is not fully operational at present, would be key to countering the risk of duplicate visits and cherry-picking by patients under this framework. The gatekeeping function will likely be implemented through incentives, which is a softer tool compared to what was legislated in the 2017 reform, and would require careful design. The authorities committed to finalise the new legal framework by the time of publication of the 10th enhanced surveillance report due in mid-2021. It is welcome that the authorities put on hold the return to the pre-reform mode of provision of primary health care through private doctors (which was based on a 'fee-for-service' system, paired with a cap of 200 visits), which has been proved to limit access to health care for vulnerable patients.

Clawbacks are still high but steps are being taken to improve their collection and to curb the generation of new ones. The authorities adopted legislation to enable the collection of the 2019 clawback for the pharmaceuticals and to start the collection of the providers' clawback for the years 2018 and 2019. The authorities are making incremental steps to tackle the supply-driven overconsumption of health services, which puts strain on the health care system and increases the financial burden on patients, including putting in place additional therapeutic protocols and stepping up the emphasis on price negotiation. However, deeper revisions appear necessary to effectively counter supply-induced demand. At present, the authorities are not considering introducing an element of risk sharing in the definition of the clawback, which would increase the incentives to implement structural measures.

Centralised procurement for health care expenditure, a mid-2022 specific commitment, is moving forward despite the current situation. The authorities are progressing towards the implementation of this target, with an intermediate goal of 30% to be centrally procured by the first quarter of 2021. The authorities have also agreed to re-activate the price observatory from January 2021 and to adopt the new legal status of the National Central Authority of Health Procurements by the end of 2020.

The implementation of specific commitments on the transport subsidies and disability benefits reforms is overall progressing according to the agreed timelines, while the completion of the activation element of the Social Solidarity Income scheme needs to restart. For what concerns transport subsidies, a mid-2020 specific commitment, the secondary legislation to allow a regular and objectively-based reimbursement of subsidised public transport tickets for vulnerable groups including disabled persons and members of large families has been adopted in October 2020, while the secondary legislation setting compensation levels for main transport operators is under preparation. A policy paper for the review of disability benefits, a 2021 specific commitment, is being finalised and a pilot project is to be launched in March 2021. However, with respect to the provision of labour market reintegration services for the

beneficiaries of the Guaranteed Minimum Income scheme, the plans to assess the findings of the 2019 pilot project undertaken in a number of municipalities so as to guide its national implementation stalled following the coronavirus outbreak. The authorities plan to launch the nationwide rollout in April 2021.

FINANCIAL SECTOR DEVELOPMENTS

While the accommodative monetary policy conditions have allowed Greek banks to benefit from favourable liquidity conditions, the economic effects of the pandemic are expected to squeeze banks' already low profitability going forward. The temporary relaxation of collateral requirements for Eurosystem credit operations and conditions for targeted longer-term refinancing operations have allowed banks to increase their cash buffers. This was further supported by an increase in deposits since March, driven mainly by corporates seeking to accumulate liquidity amidst the pandemic and underpinned by a less pronounced but steady upward trend in household deposits. In terms of profits, banks' return on equity continued to be one of the lowest in the euro area in the first half of 2020 and it is expected to come under additional pressure due to high loan loss provisions, the uncertainty related to new corporate lending next year and the mixed impact of ongoing securitisations of non-performing loans, which – beyond the positive effect on the banks' cost-of-risk – will weigh on their net interest income. Low profitability coupled with the cost of upcoming securitisations and the gradual phasing out of transitional prudential arrangements may pose challenges for the banks' capital position while reliance on state-related assets is set to increase. Banks' average Common Equity Tier 1 ratio on a consolidated basis stood at 14.7% of risk-weighted assets at the end of June 2020, above the minimum capital requirements.

The reduction of non-performing loans continued in the first half of 2020, albeit at a slower pace than earlier, and was supported by bank moratoria on loan repayments, which are set to expire at the end of the year. The non-performing loans ratio continued on a gradual downward path and reached 36.7% in June 2020, remaining the highest in the euro area. Debt payment moratoria, coupled with the temporary supervisory flexibility in place, have been instrumental in shielding so far the banks' balance sheets from the impact of the pandemic on the credit risk of their loan book. However, the large share of the banks' performing loans under moratoria points to a significant risk of increased provisioning needs after they expire and a deterioration in the corresponding asset quality ratios, while the banks' internal capacity to viably restructure loans remains a challenge. Banks have started to adjust their non-performing loan reduction strategies but loan loss provisions booked so far might only partially capture the eventual effect of the pandemic on banks' asset quality. A key element of the banks' strategy to tackle non-performing loans remains to move ahead with the securitisations under the Hercules scheme, which are expected to be concluded in the first half of 2021.

The authorities successfully implemented or extended support measures to sustain access to finance for coronavirus affected businesses. The Hellenic Development Bank is implementing a guarantee scheme and an interest subsidy for new corporate loans, which appear to be successful in supporting bank credit to large corporates and, more recently, also to small and medium-sized enterprises. As a result, the annual rate of growth in bank credit to non-financial corporations reached 8.3% in September 2020, the highest

value attained since mid-2009. By contrast, lending to households has continued to contract, albeit at a more moderate pace relative to recent quarters. Nominal lending rates continued their downward trend, stabilising near historical lows for non-financial corporations.

The actions outlined below are monitored and assessed as part of the continuous commitment in the area of financial policy:

- **Following the adoption of the new Insolvency Code, the authorities are preparing the secondary legislation and the necessary infrastructure.** The code foresees the adoption of about 53 administrative decisions, which is a challenging task. In view of the entry into force of the Code in January 2021, the authorities aim at completing the process incrementally – along with the development of the underlying electronic platform – by the end of December 2020. Work on the key ministerial decisions on the loan subsidy, sale and leaseback mechanism and the algorithm for the computation of restructuring proposals will receive priority and the authorities committed to share advanced drafts with the European institutions by mid-November. The new insolvency framework is a major step forward and its effectiveness will depend on the quality of its implementation. Close monitoring will be required in particular as regards the impact of the new out-of-court workout mechanism, as well as the fiscal and financial effects of the new sale-and-lease-back scheme and the one-year pre-discharge period foreseen in certain cases. It is crucial that the entire legal framework, including secondary legislation, as well as the necessary infrastructure are in place in time for the new Insolvency Code's entry into force, so as to ensure the successful operationalisation of the new framework and avert any unintended negative effects on the financial sector and payment culture in general.
- **The authorities have adopted a set of new provisions to enable the processing of the long-standing backlog of household insolvency cases.** The law establishes a fixed time schedule for advancing distant hearing dates. The authorities expect that the rescheduling and the submission of all relevant documentation will have taken place by the third quarter of 2021, which would allow courts to process all cases by April 2022. Given that the implementation will depend on the case-processing capacity of individual courts, close monitoring is warranted. The success of these provisions will depend on the authorities' ability to address staff shortages and overcome infrastructure challenges.
- **The authorities have also adopted the first set of measures aimed at enhancing the functionality and user-friendliness of the e-auctions platform.** The measures facilitate electronic sharing of relevant documents through the e-auctions platform. Regarding further identified issues, mainly related to the mechanism for adjusting the reserve price and the interoperability of the e-auctions platform with other state databases, the authorities confirmed that they would be considered in the context of the Code of Civil Procedure review. The draft of the revised Code will be completed in early 2021, somewhat later than initially foreseen but in time ahead of September 2021, when it is due to enter into force. The authorities committed to submit a progress report in November 2020.

- **The implementation of the agreed plan for the clearance of called state guarantees is on track, while the backlog of called guarantees remains considerable.** The examination and payment of claims for the third quarter of 2020 has accelerated, following the shortfalls registered during the lockdown. Following the change of the relevant legal framework at the beginning of June, the electronic files repository is now operational, while interoperability with local tax offices is in its testing phase. The authorities are also recruiting 30 employees, who should become operational in November. These important steps are expected to ensure the envisaged significant acceleration in the clearance of called guarantees during the remainder of 2020.
- **A limited amendment of the primary legislation on deferred tax credits has been voted in September to safeguard the loss-absorbing capacity of the banks' capital in all cases, including resolution.** Work is ongoing on further technical aspects in the form of secondary legislation, in order to operationalise all aspects of the framework, including in the context of resolution and special liquidation.

The Hellenic Financial Stability Fund continued its efforts to support the systemic banks in view of the challenges brought about by the pandemic. The Fund supported the systemic banks in the preparation of their updated non-performing loan reduction plans and their corporate transformations (hive-downs). The Fund also is in the process of revisiting its shareholder expectations by taking into consideration the various effects stemming from the pandemic.

LABOUR MARKET

The Greek labour market has proved particularly resilient in the wake of the coronavirus outbreak, but the extended duration of the pandemic poses serious risks to employment, which necessitates the further strengthening of active labour market programmes. The swift adoption of emergency measures aimed at supporting businesses and protecting jobs contributed to the observed labour market resilience. As the pandemic prevails, however, restructuring in the most affected sectors may become unavoidable. A well-performing public employment service and an effective system of active labour market policies are needed to support such restructuring processes and avoid a surge in unemployment. While some active labour market programmes are being strengthened, the overall system continues to suffer from capacity constraints, which, coupled with disruptions caused by the pandemic, have led to delays with ongoing reform implementation. In particular, there has been limited progress regarding the adoption of a new delivery model of policies and the systematic provision of labour market reintegration services to Guaranteed Minimum Income recipients.

The government has presented proposals to modernise several aspects of the labour legislation. The legislation, currently under consultation with the social partners, foresees substantial changes modernising, amongst others, the rules concerning working time and annual leave, employment protection legislation, dismissals and trade union law. They further provide for an extension of paternity and parental leave and the institutionalisation of telework, bringing national labour legislation closer to EU best practices. The codification of the labour legislation, an end-2020 specific commitment, has been delayed by the pandemic but is still expected to be adopted by the end of 2020.

PRODUCT MARKETS AND COMPETITIVENESS

The authorities are advancing with most mid-2020 specific commitments under investment licensing and remain committed to implementing a widened reform agenda. The authorities are expected to submit for public consultation by end-November a bill that will simplify licensing procedures in most sectors that have not been reformed thus far, and developed a timeline to fully complete the simplification of investment licensing procedures in all remaining activities by June 2021. In parallel, they continue to simplify and fine-tune areas related to sectors already reformed. In the area of inspections, all starting tools in the three agreed priority areas are expected to be swiftly put in action, in tandem with the full roll-out of training. Remaining elements to ensure effective enforcement and compliance on these areas are expected to be fully addressed by April 2021, in parallel to the roll-out of the inspections framework in the remaining four areas, which is expected to be completed by end-2021. The successful completion of the remaining work critically depends on the timely inputs by all ministries involved and the commitment of all stakeholders. The full deployment of the relevant IT system, which is critical to support the new investment licencing framework, continues to be delayed due to legal challenges.

The authorities are advancing with the implementation of key business environment reforms initiated under the programmes. Progress has been made on certifications for external environmental assessors and inspectors as well as on the legal framework concerning tourism, with a view to aligning it with the principles of the investment licensing reform. Work continues to further ease doing business. In addition to notable improvements in the frameworks of insolvency and dispute resolution, and an upcoming reform of public procurement (see above), the authorities improved and accelerated the refund process for the value added tax. Key interventions scheduled by March 2021 aim to streamline and accelerate administrative processes, including those related to building permits, business start-ups, electricity connections, and registering property. Moreover, with technical support from the Commission provided through the World Bank, the authorities are designing additional measures in key areas. The government has also taken further steps to reform product markets and improve market surveillance. A bill submitted to Parliament early November aims, among others, at ensuring fairness and transparency for business users in the area of e-commerce, while allowing for more effective market surveillance mechanisms and control of illegal trade, as well as for an extension of Sunday retail trading to shops and open markets under certain conditions.

Despite progress with setting up a new strategy on promoting trade and foreign direct investment, institutional arrangements remain incomplete, which hampers efforts to increase extroversion and leverage Greece's potential in key sectors and export markets. The new strategy of the Ministry of Foreign Affairs expected to strengthen the country's export potential and facilitate inward foreign direct investment, is yet to be published. Putting in place necessary governance structures would be key to proceeding swiftly with the adjustment of the roadmap to reflect new priorities, and pursuing further simplification efforts, including at pre-customs level. Meanwhile, the authorities are progressing with digital initiatives to support e-commerce and the tendering of export promotion projects, notably of the integrated Single Window system that will automate imports and exports procedures, which was launched in October.

The authorities have progressed in the area of forest maps and cadastral mapping.

Regarding the forest maps, 80% of the remaining ones have been prepared by October 2020 and will start gradually to be uploaded for public consultation. The authorities committed to upload all the remaining maps by December 2020 and the ratification of all forest maps will be completed by July 2021. While the original target of 45% coverage of cadastral mapping had to be delayed to December 2021 due to the pandemic and other technical difficulties, the authorities will submit to Parliament a bill with a view to accelerating the collection of the remaining rights, scheduled to be adopted in November 2020. By October 2020, 35% of the cadastral maps have been completed. The tender for the digitisation of mortgage deeds is ready to be launched, when financing is secured.

The cadastral agency is expected to be fully operational by end-2021, in line with the roadmap for the cadastre project. This is later than envisaged under the original mid-2020 commitment and reflects delays encountered due to the pandemic but also earlier on. The appointment of the management team has been completed and the recruitment of the migration team, a team necessary to implement the transition from the mortgage offices to the cadastral offices, is progressing smoothly.

A major energy market reform was achieved as the Target Model, a mid-2020 specific commitment, went live on 1 November, which is a big step towards Greece fulfilling the obligations of the EU energy acquis. The new format of the markets, with separated day-ahead, intra-day and balancing elements is expected to allow for better price discovery and wider participation and market access of different services. The new market design is compatible with other EU markets, allowing for the future coupling with the neighbouring markets of Italy and Bulgaria. Efforts to ensure that distortions in the wholesale market are completely removed, and that the market is effectively monitored in view of the market power of the incumbent and is brought fully in line with the EU energy acquis will be important.

The authorities submitted on 23 October a final proposal for an anti-trust remedy related to the Public Power Corporation's lignite generation, constituting a key step towards fulfilling this specific commitment. However, the Commission is still waiting for final authorisation from the authorities to start carrying out a market test of the proposed remedy, so that the measures can be implemented in the market in 2021. The implementation of the remedy would fulfil the specific commitment and comply with a longstanding ruling by the EU Courts. Considering the very tight timeline for the implementation of the remedy, the European Institutions encourage the Greek authorities to cooperate more effectively during the next reporting period.

Progress has continued in other areas of the energy policy, while a sustainable approach is needed to address the Renewable Energy Sources Account's structural deficit. There are growing concerns about the balance of the Renewable Energy Sources Account and given Greece's ambitions for increasing renewables' uptake, it is important to find a predictable and robust approach, not reliant on ad-hoc interventions and fully consistent with EU legislation. This includes safeguarding the level and conditions to renewable energy projects that have been granted support. Greece's decommissioning of lignite plants continues, and this year will see several plants taken off line. The authorities have carried out public consultation on the transition Master Plan, the basis for the territorial strategies and future reforms to help areas affected by the lignite decommissioning by end-2023.

As a first step towards the reorganisation of the public railway companies, the authorities are improving the governance of the steering committee responsible for the rationalisation of implementation of railway projects. The steering committee provides strategic supervision and guidance and coordinates the preparation of the action plan for railways. A first draft of the road map for the transformation of the two companies with intermediate steps will be prepared by end December.

HELLENIC CORPORATION OF ASSETS AND PARTICIPATIONS AND PRIVATISATION

The Corporation released its 2019 annual report and financial results end-September 2020, which showed a significant improvement in financial figures across most of the corporation’s subsidiaries, and in the Corporation’s own financial results for 2019. While it is expected that the 2020 results will be affected by the pandemic, the governance and operational improvements in the Corporation’s portfolio of companies appear to have improved their abilities to weather the impact of the pandemic.

Work related to specific commitments has continued. With regard to the implementation of the Corporation’s strategic plan, (i) the authorities are in the process of updating the Ministerial Guidance, which outlines the government’s general vision and expectations for the Corporation and is expected to be finalised by end-2020. The strategic plan will be updated following the issuance of the Ministerial Guidance. (ii) The Corporation and the state-owned enterprises are carrying out the next phase of the implementation of the Coordination Mechanism: the statement of commitments, which will set out the state-owned enterprises’ financial, operational and other objectives and are expected to be finalised by December 2020. In addition, the authorities stated their intention to proceed with the preparation of performance contracts setting out public service obligations for a limited set of state-owned enterprises. The review of the boards of the state-owned enterprises, is close to completion with only one out of the thirteen state-owned enterprises’ board review outstanding, namely that of the Hellenic Exhibition Organisation (HELEXPO), expected to be completed by December 2020. The transfer of the Olympic Athletic Centre, which proves very complex, is seeing progress despite delays. Preparatory work for the tender has received a further extension and it is now expected to be completed by November 2020, while maintenance works are ongoing.

With a view to setting up the Project Preparation Facility in a way that will maximise its contribution to accelerating the absorption of EU funds in Greece, the authorities have proposed mandating the Hellenic Republic Asset Development Fund to assume this function. This new mandate for the Fund would represent an increase in both, its headcount and its responsibility. It will be important to ensure that adding this mandate to the Fund will not affect the Corporation’s ability to carry out its core mandate, nor affect the Corporation’s independence.

Some good progress has been made on a number of transactions included in the Asset Development plan, while other transactions suffered delays partly caused by the pandemic.

- **Two transactions are close to completion.** The authorities continued their strong engagement and efforts to complete the prerequisites for the financial closing of the

Hellinikon transaction. Following the Council of State decision of 18 September, rejecting the petition for annulment in relation to the ongoing tender for the award of the casino license, the way for the financial closing of the transaction has been established. However, there are still some pending legal cases set for discussion in November 2020. Despite some technical issues, the *Marina of Alimos concession* is expected to be financially closed before the end of the year.

- **While progress on the pending actions necessary for the *Egnatia motorway concession* has been slower than expected in the past months, the authorities have recently taken significant steps towards the conclusion of this transaction.** In particular, a significant number of toll stations were completed and put in operation at the beginning of November, an additional number is expected to be completed and put in operation before the date of the submission of binding bids scheduled for 11 December, and the Ministry of Infrastructure committed to putting all the toll stations in operation before the commencement of the concession agreement. This is expected to secure revenue streams for the project and demonstrate the authorities' commitment to proceed with its implementation. Additionally, some progress was made over the past two months in relation to the required works necessary for the licencing of remaining 14 tunnels. Close monitoring will continue.
- **Progress was made on a number of other ongoing transactions.** This includes the transaction of the *Public Gas Corporation – DEPA Infrastructure*, for which the Regulatory Authority for Energy provided clarity on the tariffs framework for distribution system operators, as well as on the asset perimeter to ensure it remains a cohesive and attractive asset. The phase of the invitation for the expression of interest was concluded in October for three *regional ports* and the *underground natural gas storage South Kavala*, attracting strong investors' interest.
- **Some transactions needed to be delayed following a significant fall in the assets' capitalisation value due to the pandemic.** This is in particular the case of *Hellenic Petroleum*, which had previously already suffered significant delays following the failure of the first tender in mid-2019, and the Fund now considered appropriate to delay the launching of the transaction to a later point in time. Similarly, the *sale of 30% of Athens International Airport* has been postponed and the Fund will determine next steps once the situation improves, likely late in 2021.

Outside the scope of the Asset Development Plan implemented by the Fund, the authorities are working towards addressing long-standing weaknesses of certain state-owned-enterprises. This includes addressing the structural problems of the *Hellenic Aerospace Industry (HAI)*, and proceeding with the sale of the assets of the *Hellenic Vehicle Industry (ELVO)*, a company placed under special liquidation. The authorities are also taking steps to resolve issues that arose in the context of recovery of incompatible State aid as per long-standing Commission decisions (sale of assets of ferronickel production company *Larco*, and supporting the Public Real Estate Company (ETAD) in relation to former assets of *Hellenic Shipyards*).

PUBLIC ADMINISTRATION AND DIGITAL GOVERNANCE

The authorities have made further progress on reforms in the public administration.

The modernisation of human resource management is progressing well as the vast majority of public sector entities has by now completed their digital organigrams, an end-2020 specific commitment. Until end-October, more than 80% of general government entities had completed their digital organigrams and the authorities expect that nearly all entities complete this task by end-2020. The preparation of job descriptions and the establishment of links between job description and jobholder is also progressing which will allow for a connection to the Single Payment Authority by the end of this year. The depoliticisation and professionalisation of the public administration has continued as a uniform selection process for senior management posts at public sector entities has come into effect, which now extends to cover a large share of all general government entities. The appointment of all Permanent Secretaries has been completed. The authorities have also advanced on a number of other actions due by the end of the year, which include finalisation of a law to further strengthen the Supreme Council for Civil Personnel Selection (which is expected to be published for public consultation in November), and the completion of the performance assessment round for 2019.

The authorities are taking steps to control the size of the public sector. The evolution of personnel in 2020, both permanent and temporary, remains in accordance with the hiring plans. However, the expected reduction of temporary posts following their conversion to permanent positions has been slow and efforts need to be stepped up for the reduction to be evident in the staffing figures at end-2020. The authorities are working on establishing an annual ceiling on temporary staff by end-2020. In an effort to learn from past lessons, the authorities are documenting deviations from the hiring procedures and the unified wage grid, with an initial focus on the period from July 2019, while the previous years would be covered in the second stage.

With a view to enhancing legal certainty and access to law, the authorities are preparing the codification of the labour market legislation, an end-2020 specific commitment, and identified further areas for codification. The process is distinct from the modernisation of some aspects of the labour legislation mentioned above and has suffered delays due to the pandemic. The new labour law code is expected to be adopted by the end of 2020. The annual codification plan for 2021, adopted by the Council of Ministers, includes an ambitious programme including on spatial and town planning, trading of goods and services, collection of public revenue and party financing.

The authorities are advancing with key reforms to improve Greece's digital performance, aided by a comprehensive digital strategy which is underway, and a newly adopted unified legal framework on digital governance. The new national digital strategy ('Digital Bible'), which is expected to be submitted for public consultation shortly, outlines Greece's ambitious digital transformation agenda and reform priorities for the next four years. The Code of Digital Governance was adopted on 22 September 2020, and represents a key milestone for Greece concerning the transposition of the EU Directive on the establishment of a European Electronic Communications Code. The authorities aim to present shortly an action plan on the steps needed to fully operationalise the new Code.

Tangible progress is recorded with respect to the simplification and digitalisation of public sector processes and data, the interoperability of public systems and registries, digital upskilling and connectivity issues. The work on process simplification and digitalisation continues through the implementation of the National Programme for Process Simplification, notably in the areas of transport and justice. The authorities are on track with the implementation of the roadmap for the development of the integrated transactions portal (gov.gr). Work also continues on promoting the interoperability of public registries and systems and the tender was launched for the digitalisation of geospatial data for the development of the Single Digital Map and the State Infrastructures Registry. Improvements in digital skills, connectivity and the take up of new technologies by businesses remain key priorities for Greece as the authorities continue implementing their strategy on digital upskilling, including through the National Digital Academy and the National Coalition for digital skills and jobs. Connectivity issues are being addressed through the auctioning of the 5G pioneer bands, scheduled for end-2020, and the authorities expect to eventually reach 96% 5G coverage, which will require large investment in very-high capacity networks. The innovative scheme for a National Fund for 5G in Greece established through the recently adopted Code of Digital Governance is expected to play a pivotal role in the development of the 5G ecosystem.

JUSTICE AND ANTICORRUPTION

Steady progress has been made with the transition to mandatory electronic filing and processing of documents throughout the Courts and work is ongoing regarding the distribution of electronic signatures to judges and members of the legal professions. The authorities committed to submit shortly an action plan on *e-filing-related initiatives*, containing a mapping of the current situation and detailing planned actions, including an implementation timetable. Next steps include the adoption of legislation, by the end of December 2020. With regard to the *electronic issuance of court decisions*, the authorities plan to distribute to all courts, by the end of January 2021, a software developed for this purpose by the Piraeus Court. Further progress has been recorded regarding the *electronic issuance of court certificates*. Following the resolution of concerns about private data protection, the authorities expect to complete the distribution of electronic signatures for judges and court clerical staff by November 2020. The authorities confirmed that the Ministry of Justice stands ready to take legislative initiative as warranted regarding the distribution of electronic signatures to the members of legal professions in view of the entry into force of mandatory e-filing in administrative jurisdictions in January 2021.

The evaluation of offers in the context of the tender for the second phase of the Integrated System for the Processing of Civil and Penal Cases, an end-2020 specific commitment, continues and the authorities confirmed their intention to award the contract to the selected bidder in December 2020. Following the submission of an assessment of the technical part of offers to the Ministry of Justice for approval, the authorities foresee completion of the assessment of the financial part of the offers by end-November 2020, in time for proceeding as planned with awarding the contract in December 2020.

Other reforms in the judicial system have marked steady progress as follows:

- *The authorities took a number of initiatives to support the function of mediation.* The Central Committee for Mediation is putting in place a help desk for legal professionals and citizens, to provide legal guidance and support to stakeholders. The authorities are monitoring the take-up of mediation.
- *A progress report detailing the next steps in view of the implementation of the legislation on special chambers in civil and administrative courts will be provided by December 2020.* On 1 October 2010, the plenary formation of the Athens Court of appeal resolved unanimously to form two special chambers to deal with cases in the fields of competition, electronic transactions, energy and personal data protection, and other courts are expected to follow suit, following the appointment of the newly elected court administrations in October 2020.
- *The work stream on improving the working methods in courts, which is an important part of the ongoing justice reform, is proceeding as planned.* The Code of Judicial Staff is set to be adopted in December 2020. The authorities are aiming at upgrading and maintaining exacting standards for the performance by judicial clerks mainly through cultivating a heightened sense of duty. The revision of certain sections of the draft Code on the Status of Judges and the Organisation of Courts, which are expected to bring improvements to the methodology for the evaluation and professional advancement of judges and to the treatment of disciplinary matters, will be entrusted to a law-drafting committee in January 2021 with a view to its adoption in time for the start of the next judicial year in September 2021. Its work will be informed by technical support provided through the European Commission.
- *The launch of the tender for the ‘JustStat’ project for the creation of the statistical information unit for judicial data is expected to take place by the end of December 2020.* Concurrently, the authorities confirmed that secondary legislation is in preparation, in cooperation with the Hellenic Statistic Authority, regarding the provision of technical know-how.

The National Authority for Transparency is now fully operational, which is expected to improve coordination and a number of important steps have been taken regarding the fight against corruption in the political field. The National Transparency Authority oversees the implementation of the National Anticorruption Plan, which shows encouraging results and has amongst others supported the drafting of a dedicated anticorruption strategy by the Ministry of Health. The fight against corruption in the political field has advanced, with the launch of a codification project for the legislation on political party financing in 2021 and the adoption of the law on lobbying activities to enter into force as of mid-2021. The authorities are yet to improve the accessibility of some databases to the bodies in charge of asset declaration audits and to align the list of politically exposed persons subject to asset declaration with the updated definition of politically exposed people. Last, a major reform, which aims at implementing sound internal control systems across the public administration, is overseen by the Authority and is expected to have a major impact in the fight against corruption in the public administration as well as in the public finance management sector.

The implementation of the recommendations made by the Group of States against Corruption regarding the softening of sanctions for bribery of public officials is

ongoing. Addressing these recommendations requires a comprehensive review of the legal framework for the fight against corruption of public officials before drafting amendments to the relevant codes, expected to be delivered by mid-2021. The Group of States against Corruption has invited the authorities to submit a report on measures taken to implement their recommendations by end-October 2021. A swift adoption of the provisions addressing the Group of States against Corruption's recommendations would enable Greece to fight corruption of public officials more effectively and also to abide by the Criminal Law Convention on Corruption and its Additional Protocol.

Commission 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 ⁽⁸⁾. Following its fourth prolongation, enhanced surveillance for Greece is currently in place for six months as from 21 August 2020 ⁽⁹⁾. The implementation of enhanced surveillance for Greece acknowledges the fact that 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) Hellenic Corporation of Assets and Participations and privatisation and (vi) the modernisation of public administration ⁽¹⁰⁾.

This report is based on the findings of a mission held remotely on 19 and 20 October 2020 and regular dialogue with the authorities. The mission was conducted by the European Commission in liaison with the European Central Bank ⁽¹¹⁾; the International Monetary Fund participated in the context of its Post-Programme Monitoring framework, 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.

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

⁽⁸⁾ 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, pp. 1.

⁽⁹⁾ Commission Implementing Decision (EU) 2020/1142 of 29 July 2020 on the prolongation of enhanced surveillance for Greece, OJ L 248, 31.7.2020, pp. 20-23.

⁽¹⁰⁾ 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.

⁽¹¹⁾ European Central Bank staff participated in the review mission in accordance with the European Central Bank'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, also held remotely, from 30 September to 8 October 2020.

commitments given by Greece to the European partners (chapters 3 and 5-9) and an update on sovereign financing conditions (chapter 4). This report is issued alongside the Commission assessment of Greece's 2021 Draft Budgetary Plan, 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 instalment 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 transfer of these income equivalent amounts would be made available to Greece in semi-annual tranches of €644 million 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 about €226 million every year. It would be waived on a semi-annual basis until 2022 and permanently after 2022. The third tranche of policy-contingent debt measures was released following the Eurogroup on 11 June 2020, inter alia based on the assessment of the implementation of Greece's commitments for end-2019 included in the enhanced surveillance report adopted by the Commission on 20 May 2020 ⁽¹²⁾ and considering the extraordinary circumstances posed by the coronavirus outbreak. The current report assesses the implementation of Greece's commitments to the Eurogroup including specific reform completion commitments up to mid-2020, the continuous commitments and its general reform continuity commitment. It thereby provides a basis for the Eurogroup to discuss the release of the next tranche of policy-contingent debt measures, amounting to €767 million.

⁽¹²⁾ https://ec.europa.eu/info/publications/enhanced-surveillance-report-greece-may2020_en.

2. MACROECONOMIC DEVELOPMENTS

The coronavirus pandemic is taking a strong toll on the Greek economy. After a comparatively mild impact in the first quarter of 2020, the Greek economy contracted by -14.2% in the second quarter as economic activity was restricted to stop the spread of the pandemic. The services sector has been hit particularly hard, due to the importance of international tourism. With travel restrictions for EU countries being gradually lifted from mid-June and travel restrictions for most non-EU countries still in place, tourism receipts in January-August 2020 were 80% below their level in the same period in 2019. Domestic demand suffered due to lower consumption possibilities, lower incomes, and higher uncertainty, with private consumption declining by 11.3% in the second quarter. Due to the global dimension of the crisis, exports have been strongly negatively affected as well, with goods exports excluding oil declining by 4% (13% including oil) in January-August 2020 compared to the same period in 2019 and service exports declining by 44% over the same period according to balance of payments data, largely on the back of the above-mentioned developments in the tourism sector.

The recovery is likely to be somewhat slower than previously expected, on account of the resurgence of coronavirus cases and the economic effects of the containment measures. Assuming that the containment measures continue with the stringency levels of September 2020 well into 2021 (i.e. without significant local or national lockdowns), a decline of real GDP of 9% in 2020 followed by a partial recovery of 5% in 2021 and 3.5% in 2022 is expected ⁽¹³⁾. Lasting travel restrictions and shifts in consumer behaviour to limit infection risks are expected to weigh on the pace of recovery in the services sector and in particular in tourism. Private investment is expected to recover only gradually, on account of high uncertainty and diminished profits. Regarding the external sector, the high importance of tourism remains a limiting factor, while transport services and exports of goods are expected to recover faster. Government support schemes that have been extended to, or announced also for 2021 are expected to support the recovery and cushion to some extent the negative impact of the extended containment measures in 2021. The nationwide lockdown for three weeks announced on 5 November could weaken the short-term outlook more than assumed in the projections presented here which were finalised before the announcement of the lockdown.

Employment is negatively affected by the crisis, but the authorities have implemented measures to cushion the decline and to facilitate the recovery. Data on hiring and firing from the ERGANI system shows that between March and June 2020 the labour market remained ‘frozen’, with very limited hiring and firing taking place. While these months are traditionally characterised by an increased hiring activity linked to the summer season in the tourism industry, this seasonal hiring largely vanished in 2020. The unemployment rate reached 17.7% in May and decreased to 16.8% in August 2020 mostly due to workers leaving the workforce. The relatively muted increase of unemployment can also be attributed to some extent the success of employment protection schemes. With

⁽¹³⁾The forecast was prepared taking into account information available up to the cut-off date 22 October 2020. More details regarding the Commission 2020 Autumn Forecast can be found here: https://ec.europa.eu/info/business-economy-euro/economic-performance-and-forecasts/economic-forecasts/autumn-2020-economic-forecast_en.

the gradual return of a more normalised hiring and firing pattern and as the inactive population slowly returns to the workforce, unemployment is expected to increase somewhat and reach close to 18% for the year overall. With a limited recovery of the tourism sector and travel restrictions still in place throughout 2021, the unemployment rate is forecast to recover more slowly than overall economic activity.

Consumer price inflation is expected to contract sharply in 2020 and recover partially in 2021 and 2022. Driven by low energy prices, lower demand in the service sector, VAT reductions and the general contraction of economic activity, consumer prices are forecast to fall sharply (by -1.3%) in 2020. Prices are expected to increase moderately in 2021 and 2022 along with the economic rebound, as energy prices and tourism activity recover gradually.

Uncertainty and risks surrounding the outlook are very high, due to the uncertain developments of the global health crisis. In view of the recent the developments regarding the pandemic and new nationwide lockdown announced on 5 November, economic activity could be significantly impacted in the last quarter of 2020 and in 2021. Due to the high importance of international tourism for the Greek economy, Greece is also dependent on the developments of the pandemic in other countries, and their restrictions regarding international travel. Downside risks, apart from the risks related to the coronavirus pandemic, are related to the geopolitical tensions in the region and migration pressures. For 2021 and beyond, upside risks are stemming from the support measures adopted at EU level including Next Generation EU, which, if swiftly adopted and implemented, could significantly support demand in 2021 and beyond also strengthening economic fundamentals and resilience going forward. More specifically, the Commission forecast does not incorporate the impact of the Recovery and Resilience Plan as it is still at an early stage of development. Once fully specified, adopted and implemented, the reforms and investments implemented under the Plan are expected to have a positive impact on the growth outlook.

Table 2.1: Summary of main macroeconomic variables (%)

	2019	2020	2021	2022
Real GDP	1.9	-9.0	5.0	3.5
Employment growth	1.2	-3.6	1.7	1.6
Unemployment rate	17.3	18.0	17.5	16.6
GDP deflator	0.2	-1.4	0.4	0.9
Harmonized index of consumer prices	0.5	-1.3	0.9	1.3

Source: European Commission.

3. FISCAL AND FISCAL-STRUCTURAL POLICIES

3.1. FISCAL DEVELOPMENTS AND OUTLOOK

The fiscal impact of the economic downturn and the cost of emergency measures adopted to address the coronavirus outbreak are expected to result in a large fiscal deficit this year. The primary deficit monitored under enhanced surveillance is forecast to reach 4.4% of GDP in 2020 ⁽¹⁴⁾. The forecast takes into account the prolongation of existing emergency measures, most importantly: (a) an increase in the total envelope of the repayable advance payment; (b) an extension of the regular and long-term unemployment benefit by two months; and (c) a prolongation of the temporary economic support to wage earners of companies affected by the pandemic based on specific codes of economic activity. The forecast also incorporates the retroactive payment to pensioners amounting to 0.8% of GDP, following the Court of State ruling of July 2020 ⁽¹⁵⁾. The deficit is significantly affected by the shortfall in revenues triggered by the recession. Finally, the forecast has been aligned with Eurostat's 'Draft note on statistical implications of some policy measures in the context of the COVID-19 pandemic' ⁽¹⁶⁾.

Greece's fiscal policy is expected to continue to support the recovery throughout 2021. While most of the measures taken in 2020 have targeted the direct impact of the pandemic (health care expenses, support for the lock-down period, tax deferrals etc.), the authorities have also announced temporary measures for 2021 which aim to support the recovery by stimulating demand and employment. Specifically, the authorities have also announced additional temporary measures reducing social security contributions by three percentage points for private sector wage earners and waiving the social solidarity tax for private-sector wage earners and self-employed. These measures aim to reduce the high tax wedge, and as such, they point in the right direction. In addition to the tax measures and in order to support employment, the authorities have introduced a new temporary recruitment subsidy programme that aims to create 100 000 new jobs by subsidising the social security contributions for six months for each new employment contact. The

⁽¹⁴⁾The forecast was prepared taking into account information available up to the cut-off date 22 October 2020.

⁽¹⁵⁾On 14 July 2020, the Council of State issued a landmark ruling regarding legal claims for retroactive compensation for pension cuts introduced by previous pension reforms. The 2016 pension reform kept pensions of incumbent pensioners at the levels effective on 31 December 2014, i.e. factoring in the pension cuts implemented in 2012. However, the 2015 Council of State ruling decided that the 2012 pension cuts were unconstitutional from June 2015 onwards. Thus, the present ruling decided that pensioners needed to be compensated for the period starting from June 2015 (the publication date of 2015 Council of State) until May 2016 when the new pension reform put in place a new pension formula for future pensioners and introduced a new notional level of pensions for incumbent pensioners.

⁽¹⁶⁾See here:

<https://ec.europa.eu/eurostat/documents/1015035/2041357/Draft+note+on+statistical+implications+of+some+policy+measures+in+the+context+of+the+COVID-19+measures+-+09+April+2020/efc6d52f-39e0-fd92-c760-f27d90676ef0>.

temporary nature of the measures is consistent with the objective of ensuring sustainability of public finances in the medium term.

The General Escape Clause will also apply in 2021. In light of the need to support the economic recovery throughout 2021 and of the high prevailing uncertainty both regarding the development of the pandemic and its socio-economic consequences, the General Escape Clause, which was activated in agreement between the European Commission and the European Council in March 2020 and does not suspend the procedures of the Stability and Growth Pact, will remain active in 2021 as indicated in the Annual Sustainable Growth Strategy 2021 ⁽¹⁷⁾. The General Escape Clause allows for a temporary departure from the budgetary requirements, including Greece’s fiscal targets monitored under enhanced surveillance, provided that this does not endanger fiscal sustainability in the medium term.

The 2021 Draft Budgetary Plan expects the primary deficit monitored under enhanced surveillance in 2021 to reach 1.1% of GDP. The Draft Budgetary Plan’s forecast takes into account the new temporary measures described above aiming at supporting the recovery whose fiscal impact is estimated at 1.0% of GDP. Apart from the already announced measures, the Draft Budgetary Plan includes also a special reserve of 0.3% of GDP, which could be used to finance the needs that may arise from the evolution of the pandemic in 2021 such as the further strengthening of the health care system and the additional support of the economy. In addition, the Draft Budgetary Plan incorporates the cost of an ambitious defence-spending programme, which includes the acquisition of aircrafts, weapon systems and the recruitment of 15 000 new professional soldiers. This programme will be implemented over a 7-year period but a big part of the costs is projected to take place already in 2021. The authorities estimate that the additional fiscal impact of the new programme will reach 0.5% of GDP in 2021.

Table 3.1: Fiscal projections of the Commission 2020 Autumn Forecast and 2021 Draft Budgetary Plan (% of GDP)

Primary balance monitored under the enhanced surveillance		2020	2021
(1)	2021 Draft Budgetary Plan	-6.3	-1.1
(2)	Commission 2020 Autumn Forecast	-4.4	-3.4
(3)	Difference (3=1-2)	-1.9	2.3
	of which:		
	<i>Methodological differences</i>	-2.5	0.9
	<i>Impact of Recovery and Resilience Facility</i>		1.1
	<i>Deficit of Renewable Energy Source account</i>		0.2
	<i>Military deliveries</i>		-0.2
	<i>Use of different historical GDP levels</i>	0.2	0.1
	<i>Other</i>	0.4	0.2

Source: European Commission.

⁽¹⁷⁾ Also, communicated in the letter of 19 September 2020 from the Commission to the EU Ministers of Finance.

The authorities' fiscal projection is more optimistic than the Commission 2020 autumn forecast, which expects a primary deficit of 3.4% of GDP in 2021. Apart from methodological issues explained below, the differences between the two projections are mainly explained by the authorities' more favourable macroeconomic outlook, which takes into account the Recovery and Resilience Facility. The inclusion of the Recovery and Resilience Facility in the authorities' projections generates a substantial impact on growth, which then results in a positive impact on the fiscal balance of above 1% of GDP⁽¹⁸⁾. In addition, the authorities assume that the €200 million deficit of the Renewable Energy Source account in 2020 will turn into a surplus of equal size in 2021. The assumed improvement is not underpinned by concrete actions, thus the Commission 2020 autumn forecast projects that the same deficit will continue in 2021, deteriorating the balance by 0.2% of GDP compared to the authorities' estimate. On the other hand, the Commission 2020 autumn forecast assumes a more gradual implementation of the new defence programme, thus improving the fiscal balance by 0.2% of GDP in 2021 with a corresponding reduction in 2022 compared to the Draft Budgetary Plan.

The statistical recording of the emergency measures is based on Eurostat's 'Draft note'. This note clarified the application of the accrual recording of revenues with respect to measures that constitute only a temporary shift in revenues between years. Accordingly, the Commission 2020 autumn forecast includes as 2020 revenue the tax and social contribution payments deferred and expected to be collected in the coming years. As regards the repayable advance, the Commission forecast accounts only for the amount that is expected not to be returned to have a budgetary impact, while the remaining amount is treated as a loan. In addition, the measure that allows companies to pay only a fraction of their corporate income tax advances in 2020 is assumed to be broadly balance-neutral in accrual terms as it introduces only a temporary time-shift in the tax receipts. By contrast, the Draft Budgetary Plan follows the 'time-adjusted cash' method for the above-mentioned measures. The different statistical recording of these measures in the Commission 2020 autumn forecast has a balance-improving impact of 2.5% of GDP in 2020 and a balance-deteriorating impact of 0.9% of GDP in 2021 compared to the Draft Budgetary Plan.

The Commission 2020 autumn forecast does not take into account the impact of the new nationwide lockdown announced on 5 November. Following the growing number of cases, the government decided to introduce a general lockdown for at least 3 weeks starting from 7 November. The lifting of the restrictions will be assessed by end-November on the basis of the new epidemiological data. The government has already announced the prolongation of earlier measures in order to support both households and affected businesses. The impact of these prolongations depends on the duration of the lockdown and will be assessed in the context of the next enhanced surveillance report.

The inherent uncertainty in the current assessment and forecast is substantial. The magnitude and severity of the economic and fiscal downturn is subject to substantial

⁽¹⁸⁾The Commission forecast does not incorporate the impact of the Recovery and Resilience Plans as the full implementation is conditional upon their positive assessment by the Commission and endorsement through a Council implementing decision, as well as the achievement of milestones and targets. Furthermore, the Commission forecast does not account for any expenditure under the Recovery and Resilience Facility, as the Draft Budgetary Plan did not present such projects in sufficient detail.

uncertainty in view of the pandemic. A further escalation of the health crisis could trigger the need for additional fiscal measures which should be both of a targeted and temporary nature to contain the fallout and bolster the recovery in 2021. Other risks relate to a possible activation of state guarantees that have been issued as part of the emergency measures. Further risks refer to the litigation cases against the Public Real Estate Company (ETAD), remaining public service obligation claimed by the Hellenic Post, and potential additional costs related to health care expenditure of individuals without health insurance. Regarding court rulings on pensions, uncertainty around the full extent of the retroactive compensation to pensioners persists, as the 2020 Council of State ruling has not yet been published. So far, only cuts related to the ‘main’ pensions have been compensated and it remains open whether retroactive compensation should be extended to seasonal bonuses and supplementary pensions. On the positive side, Greece is expected to benefit greatly from the Recovery and Resilience Facility, which aims to support convergence and a sustainable economic recovery by providing large-scale financial support to growth-enhancing reforms and investments.

3.2. TAX POLICY

Progress towards completion of the nationwide reassessment of property tax values has slowed down. This was a mid-2020 specific commitment, whose finalisation has now been rescheduled for mid-2021. Inevitable delays occurred earlier in the year due to the coronavirus lockdown and further delays have taken place owing to the quality assessment required by successful appeals to the Council of State. This year’s ENFIA single property tax assessments has therefore been based on the previous property tax values. Nevertheless, the valuation process including an expansion of the number of value zones by some 30% is likely to be finished by March 2021 in time for the ENFIA tax assessment of August 2021. Technical support is provided by the European Commission through a new project to revisit key features of the immovable property valuation system, including a review of commercial properties valuation methodology, as well as to support the steps towards further modernisation and digitalisation of the existing system, in line with best practices.

3.3. REVENUE ADMINISTRATION

The supplementary wage grid legislation for the Independent Authority for Public Revenue, which is a key step towards completing its human resources reform, has been published for public consultation and is expected to be adopted by end-November 2020. The reform is expected to strengthen the Independent Authority’s ability to maintain and attract new high calibre staff, which at the end of the third quarter remained well below the staffing target set for end-2019 (11 947 compared to 12 500) with a slightly downward trend (11 696 at the end of the second quarter). It is expected that the overall human resources reform will become operational by 1 January 2021. It is encouraging that the necessary funds to implement the human resources reform have already been allocated to next year’s budget, while the authorities have confirmed that ongoing hiring procedures at the Ministry of Finance will not have a negative impact on the Independent Authority’s overall capacity.

A draft law to strengthen the anti-smuggling framework, including provisions to enhance the capacity of the Operational Coordination Centre, has been published

for public consultation. The draft law includes a number provisions aiming to strengthen the anti-smuggling framework and is expected to be adopted by November 2020. Further, the draft law includes provisions to enhance the capacity of the Operational Coordination Centre, which coordinates anti-smuggling efforts, and is part of the Independent Authority. The adoption of these provisions is expected to result in currently vacant posts being promptly filled. It is expected that additional resources will need to be assigned to the Independent Authority, as the implementation of a number of provisions is linked to the development and use of various digital tools. Finally, the new decentralised service of customs controls, including mobile units, which was established in early-2020 is yet to reach its capacity (167 out of 337 posts currently filled) and is expected to be fully operational in 2023.

Overall, there is good progress in meeting the targets set for the key performance indicators, including on debt collection, while work to further enhance the Independent Authority’s collection and audit capacity continues. The collection of old debt (KPI 1) for the second quarter yielded impressive results, considering the fact that the targets were set before the pandemic affected the economy (see table 3.1). In addition, the collection ratio of new debts (KPI 2) is higher than in the previous year, suggesting that most taxpayers had the necessary liquidity to cover their obligations on time, thereby also benefitting from the discounts provided for timely payments that were introduced after the pandemic outbreak. On audits, model audit centres are planned to be established in Attica and Thessaloniki by the first quarter of 2021. Finally, as concerns the social security contribution debt, €858 million was collected until end of the third

quarter compared to a target of €1 083 million, which implies a slightly lower performance than in the preceding quarter.

Table 3.2: **Key Performance Indicators of the Independent Authority for Public Revenue, second quarter 2020**

KPI			2020 Q2 Target	2020 Q2 Result	2019 Q2 Result
Debt collection	KPI 1	Collection of tax debts as of the end of the previous year (million EUR)	1 683	1400	1 629
	KPI 2	Collection of new debts in the current year (percent of new debt in the year)	22.5%	23.5%	23%
	KPI 3	Collection of debts by the large debtor unit (million EUR)	330	261.7	357.4
Audits of fresh tax cases by the whole IAPR	KPI 4	Percent of fresh tax audit cases in total completed audits	70% (*)	65.5%	64.7%
Tax audits and collection of large tax payers	KPI 5	Collection after audits in the year (percent of assessed tax and penalties)	40% (*)	100.9%	108.6%
Tax audits and collection of high wealth individuals	KPI 6	Collection after audits in the year (percent of assessed tax and penalties)	40% (*)	28.6%	807.2%
Tax refunds	KPI 7	Percent of VAT tax refund claims processed within 90 days	95%	95%	89.1%
Compliance and enforcement	KPI 8	Percentage of total tax paid on time for VAT, income and property taxes	84%	N/A	83.2%
Percentage of total tax paid on time for VAT, income and property taxes	KPI 9	Percentage of debtors under enforcement measures	68%	77%	68.9%
Pre-litigation phase	KPI 10	Percentage of cases closed by explicit decision of the DRU	80%	97.7%	78.9%
Prosecution audits by mobile units	KPI 11	Prosecution audits by mobile units (customs administration)	17 500	6 556	10 246

(*) End-2020 target, as no quarterly target has been set.

(1) DRU: Dispute Resolution Unit.

Source: Independent Authority for Public Revenue.

The authorities adopted settlement schemes for persons and companies benefitting from the tax deferrals that were put in place at the beginning of the pandemic. These liabilities will be allowed to be repaid after April 2021 in up to 24 instalments. The authorities also allowed affected debtors who defaulted on their settlement plans during the pandemic to re-enter them without the need to pay steep penalties as agreed in the context of the 2019 reform. For the remaining settlements that have been arranged before the entry of the 2019 settlement legislation, a similar ‘second chance’ arrangement is yet to be made operational and is expected to subject the debtors to a verification of the reasons of dropping out and compliance history. The precise verification mechanism will be determined through secondary legislation, putting in place safeguards for filtering out strategic defaulters, which, however, remains to be drafted. Such a provision will be key for strengthening payment discipline for future cases as well and it will be closely monitored that the second chance arrangement is not implemented before the provision is adopted. Similar to the above, the authorities have adopted a new settlement scheme of up to 24 instalments for the repayment of social security contributions deferred during the lockdown period. The introduction of the new scheme allows a deadline of end-July 2021 for the applications period.

The authorities have also created a settlement scheme for persons who defaulted on a bank loan secured with a state guarantee. These guarantees have been called by the

banks and are currently being processed by the authorities, with a view to allowing them being paid by the state on behalf of the original debtor (see section 6.2). In order to bolster payment discipline, the adopted provisions restrict the possibility for reintroducing these liabilities under other settlement schemes in case of dropping out from the new debt-repayment scheme. The developments with regards the existing and new settlement schemes will continue to be closely monitored under the enhanced surveillance framework.

3.4. PUBLIC FINANCE MANAGEMENT

The stock of arrears decreased since the last report but sustained efforts are required to meet the ambitious target for the end of the year. The slippages created early-2020 also due to the pandemic have been recovered, except for the backlog of unprocessed pension claims. Thereby, in September 2020, the stock of arrears amounted to €1.2 billion, which is equivalent to the level observed in December 2019. The set of additional measures designed to bring the implementation of the plan back on track have started to show positive results and the stock of arrears has improved since April 2020 in all areas except for the pension claims ⁽¹⁹⁾. At the same time, the stock of arrears remains currently €800 million above the renewed target set for December 2020 ⁽²⁰⁾, which calls for a sustained effort in the forthcoming months.

Table 3.3: Stock of arrears

General government arrears (million EUR)	December 2019	April 2020	September 2020
Total	1 222	1 530	1 216
of which:			
Social Security Funds	338	341	156
Main pensions claims	389	446	497
Extra Budgetary Funds	190	220	149
Local Governments	136	218	180
Tax refunds	115	120	81
State	54	95	74
Hospitals	0	90	78

(1) All data are adjusted according to the definition of arrears for the purpose of the enhanced surveillance.

Source: European Commission.

The revised clearance plan, updated to reflect the recent surge in unprocessed pension claims, keeps unchanged the December 2020 deadline for eliminating the bulk of the stock of arrears, with pension claims to be cleared by December 2021 instead of June, as previously foreseen. In the revised clearance plan adopted in October 2020, the authorities have reiterated their commitment to eliminate the stock of non-pension arrears by December 2020, which seems challenging. Nevertheless, the most problematic issue concerns delays with processing pension claims, where the stock of

⁽¹⁹⁾ Since April 2020, arrears have decreased by €314 million.

⁽²⁰⁾ The target set in the updated version of the October 2019 clearance plan is to eliminate the bulk of the stock of arrears by December 2020 with the exception of a €400 million backlog pertaining to pension claims.

arrears increased by more than €300 million since January 2019. This trend was triggered by two factors. An early-2019 legislation that allowed the self-employed to start settling their debts on social contributions in long settlement plans and subsequently apply for pensions on the one hand, and, on the other hand, difficulties with the timely recording of claims submitted manually, an issue that has been addressed since September 2019. The automation of the processing and awarding of the new pension claims, which is crucial for accelerating their clearance, is on track and the additional measures devised to clear the stock of manually processed claims have started to bear fruit. The clearance of pension claims is expected by December 2021. Nevertheless, the new restrictions on movement of people are expected to lead to further increases in arrears, in particular in the area of pensions, as the work cannot be done in a remote way.

New arrears continue to be created, which underlines the importance of implementing the Hellenic Court of Auditors recommendations, a mid-2021 specific commitment, amongst which strengthening the internal control system is key. August data shows that new arrears continue to be created, which calls for a swift implementation of the structural reforms recommended by the Hellenic Court of Auditors, which includes the reinforcement of the internal control system in the public finance management area. Such a reform would also be key for the sound management of the projects to be funded through the Recovery and Resilience Facility. A draft law on the conceptual framework regarding the internal control in the public administration is planned to be adopted by the end of the year and is also expected to strengthen integrity and anticorruption mechanisms across public administration (see section 9.4). The National Transparency Authority is substantially contributing to this work stream and has elaborated guidelines in order to operationalise the internal control conceptual framework as to meet actual public finance management needs. The challenge lies now in its full implementation by the financial services units across the public administration as well as in its effective supervision by the Ministry of Finance. At the same time, there are positive steps regarding the implementation and the operationalisation of internal audits units, an outstanding recommendation by the Hellenic Court of Auditors. The Court reinforced awareness by general government entities of their legal obligations, and has adopted a manual for auditing the internal control systems of the entities and services subject to its jurisdiction, with a view to scheduling a programme for auditing the implementation of internal control mechanisms and processes in 2021 ⁽²¹⁾. In addition, the authorities decided to launch work on the simplification of the legal and administrative framework for budget execution and payment procedure, with first results expected by early December 2020 ⁽²²⁾. This work stream will address the recommendations of the International Monetary Fund technical support report published in March 2020, and the outcomes of the forthcoming technical support provided through the European Commission on lean-management.

⁽²¹⁾ Law 4700 adopted in June 2019 has made the audit of the internal control systems one of the core competence of the Hellenic Court of Auditors and the Court decision 2014/2020, has reinforced the legal responsibility of officials in charge of implementing internal control systems.

⁽²²⁾ In the short-term the action is mainly aimed at reviewing procedures with respect to the Recovery and Resilience Facility but the work will continue to encompass the streamlining of budget execution and payment procedures, in view of the planned migration towards the upgraded central administration IT system.

The mid-2020 specific commitment on establishing the Treasury Single Account system has been successfully completed. The Treasury Single Account system is operational and offers an overview of the cash situation of the state as well as an efficient liquidity-monitoring tool. The general government entities that remain outside of the Treasury Single Account are not material in terms of total liquidity, and a legal provision is being prepared in order to exempt those with insignificant cash reserves from the obligation to join. The volume of electronic payments is growing and an increasing number of entities have joined the e-payment platform offered by the Bank of Greece for this purpose. The Ministry of Finance has set up a dedicated tool for the monitoring of the entities' cash forecasting. This tool also allows for the surveillance of the rules related to the maximum amount of liquidity that the entities are entitled to hold in commercial banks ⁽²³⁾. The regularity and quality of the submitted cash forecasts, which cover about 70% of Greece's liquidity, have improved and are now considered satisfactory. In 2021, the Ministry of Finance plans to extend the cash forecasting project to reach 90% coverage.

The Chart of Accounts reform, including mid-2021 and mid-2022 commitments, is overall on track and its implementation in the Public Investment Budget is starting to advance. The administrative classification of the Chart of Accounts, already implemented for the ordinary budget in 2019, will be complemented with a functional classification, the design of which is currently being developed. The authorities intend to integrate the functional classification with the performance budgeting framework that is being developed. These are welcome and ambitious reforms. Technical support is being provided for the accounting reform through the European Commission and the International Monetary Fund. On the other hand, the full implementation of the Chart of Accounts in the Public Investment Budget is progressing. This is a prerequisite for the interoperability of the e-payment system of the Ministry of Development and Investment ⁽²⁴⁾ with the central IT system operated by the Ministry of Finance. The digitalisation of the Public Investment Budget execution and payment system and its interoperability with the central IT system are expected to speed up substantially the payment chain and reduce dramatically the scope for building up new arrears. Work on the e-invoicing application for public procurement, which is being developed under the wider framework of the accounting reform, is progressing according to schedule, and is expected to go in operation before the end of 2020 (see section 3.4). In the meantime, the procurement of the upgraded IT system, to support financial, budgetary, and fiscal reporting by the state, which is key for the success of the accounting and wider public finance management's reforms, is expected to be delivered without substantial delays, by March 2021.

⁽²³⁾ The 15 days liquidity buffer rule is stipulated in the law 4549/2018. The maximum liquidity that the entities are allowed to hold in commercial banks equals to the estimated net cash requirements for the next fifteen days.

⁽²⁴⁾ The e-system is called ePDE and is being implemented with technical support funded through the European Commission Reform.

Box 3.1: Revision of the public procurement framework

Substantial public procurement reforms were undertaken under the programmes, with a view to increasing transparency and efficiency in the use of public money, reinforcing public trust in the institutions, and improving the general functioning of goods and services markets. Public procurement reforms also aimed at ensuring a common approach across government authorities for tendering procedures and controls. The authorities initiated the reform of public procurement procedures, by setting up the Single Public Procurement Authority (SPPA) – an independent central body for the coordination, planning and implementation of procurement procedures, as well as the monitoring of public procurement policy. A legislative reform was concluded in 2016, encompassing the simplification, codification and consolidation of the national legislation. Other notable achievements include the reform in the area of the remedies system (with the setting up of the remedies review body) centralised procurement and e-procurement.

Despite these reforms, some deficiencies in the Greek public procurement market persist to date. For instance, lessons learnt from the application of the 2016 reform suggested that further legislative tools are needed to address the recurring problems of a high number of single bid procedures, as well as contracts awarded exclusively based on the lowest price and often with excessively high discounts compared to the originally estimated cost. Moreover, the still lengthy award procedures suggested that the deadline for some procedural steps were not sufficiently precise. The high number of complaints and related significant burden for the judicial system, contracting authorities and economic operators, was reported to be particularly problematic. As a result, a number of deficiencies were identified, namely the need to further streamline electronic procurement facilities and professionalise the procurement staff, as well as further promote central purchasing. These deficiencies have a particularly negative impact on small and medium-size enterprises. In addition, it was assessed that the delays in the absorption of available financial resources were also due to deficiencies in the public procurement framework.

Against this background, the authorities plan to amend the public procurement legal framework by early-December 2020. The reform aims at accelerating the award procedures, simplifying the public procurement legal framework, reducing the administrative burden for contracting authorities and economic operators, expanding the e-procurement to lower budget thresholds and alleviating the burden for the judiciary system. Under the new legal framework, the award procedures should be significantly simplified and accelerated.

Public tenders are expected to be more transparent and accessible to small and medium-sized enterprises thanks to the new legal framework that would also foster competition. Small and medium-size enterprises should particularly benefit from the simplification in the public procurement processes and judicial remedies. In order to address the phenomenon of excessively low offers, the method for identifying an offer as excessively low will be better specified and the economic operators will be required to provide justification. In addition, judicial dispute settlement will be accelerated. Finally, financial incentives for the participation in public procurement evaluation committees will be designed and will be linked to the professionalisation of the public procurement staff. The authorities committed to shortly proceed with enacting the secondary acts to implement these new provisions effectively.

The authorities plan to adopt a major public procurement reform by the end of the year (see box 3.1). This would be crucial for ensuring a quick absorption of available financial resources and supporting the recovery. The reform builds on the experience with implementing the rules put in place in 2016. In terms of ensuring a swift resolution of legal claims and avoiding that they burden the judiciary system, the authorities are planning to adjust the enabling provisions of the ‘remedies review body’. It would be important that the planned changes to the review body reinforce the principles of independence and impartiality, and the recruitment follows a transparent selection process for senior management. Progress is being made regarding the digitalisation of public procurement through the e-invoicing project (see section 3.4). In addition, the authorities are preparing a public procurement strategy for 2021-2025, which is expected to be adopted in February 2021. The strategy will reflect the main recommendations of

technical support provided by the World Bank (see section 7.2). It will be built on four strategic pillars and will encompass an anti-corruption component. The authorities also intend to conclude in early-2021 a partnership agreement with the European Commission, with a view to be supported in their endeavour.

3.5. PUBLIC INVESTMENT

In anticipation of the large amounts of funds that Greece is expected to receive under the next Multiannual Financial Framework (European Structural and Investment Funds and Recovery and Resilience Facility), the authorities have decided to create a Strategic Projects Pipeline for the selection of large infrastructure projects of national importance. The Strategic Projects Pipeline will be coordinated at the level of the Presidency of the Government, outside the core structure of the line ministries to avoid conflicts of interest.

In order to improve and accelerate maturation of investment projects of the strategic project pipeline, the authorities are in the process of establishing a Project Preparation Facility. This is an important and welcome initiative, which aims to address structural obstacles in the preparation and implementation of public investments documented in earlier reports. The Project Preparation Facility is expected to prepare priority investment projects having a budget in excess of €20 million in energy, environment, transport and digital sectors. The authorities expect the total number of projects to reach 40-45 and the median size of the projects to be around €120 million. The Project Preparation Facility is expected to become a new unit in the Hellenic Republic Asset Development Fund. The Fund's statute will need to be amended in order to add this new mandate and to allow it to prepare projects on behalf of the Hellenic Republic. Other changes to the Hellenic Republic Asset Development Fund law will be needed to safeguard the Hellenic Republic Asset Development Fund's original mandate related to privatisations and to ensure that the establishment of the Project Preparation Facility does not adversely affect the Hellenic Corporation of Assets and Participations, the Fund's holding company. An International Financial Institution will be selected as strategic partner.

The action plan to enhance the monitoring and forecasting of the Public Investment Budget is broadly on track. The enhanced exchanges of data between the Ministry of Development and the Ministry of Finance, the monthly updates on the total Public Investment Budget allocation of expenditure based on actual payments as well as the quarterly Public Investment Budget revenue forecast updates are conducted as planned. Other actions related to the electronic creation, management and finalisation of payment orders are still in progress, in line with the timetable (see section 3.4). Some delays were observed in the technical implementation of the interoperability of the information systems of the two ministries due to technical problems, which were more serious than initially anticipated. These problems are planned to be resolved by the end of December 2020 with the aim to complete the automatic data exchange by the end of March 2021. In the context of the action plan, technical support is being provided by the European Commission on automating and streamlining implementation procedures, while an additional project to support the collection, handling and reporting of the data related to the Public Investment Budget had started in July 2020.

4. SOVEREIGN FINANCING AND DEBT SUSTAINABILITY ANALYSIS

4.1. SOVEREIGN FINANCING

Greek sovereign yields remain low and the government's cash buffer is back at pre-crisis levels. The recent 15-year bond issuance on 21 October faced no sign of market pressures, with depressed yield and bid-to-cover ratio in line with auctions in previous months. The yield spreads of the long term sovereign bonds of Greece remain at historic lows. On the 10-year tenure, spreads over the German bund are hovering around 150 basis points, which is about 10 basis points below the September average. The general government's cash reserves were replenished through bond issuances in the previous months, and stood at €34.5 billion at the end of September. The cash buffer account ⁽²⁵⁾ balance remained at €15.7 billion. The overall general government cash reserves would be sufficient to cover around two years of financing needs even without further bond issuances. Sovereign financing conditions are expected to remain favourable, supported also by liquidity measures agreed at European level, including the European Central Bank's Pandemic Emergency Purchase Programme, and the availability of the European Stability Mechanism's Pandemic Crisis Support facility.

4.2. DEBT SUSTAINABILITY ANALYSIS

The European Institutions have carried out a comprehensive revision of the debt sustainability framework for Greece, as announced in the 5th enhanced surveillance report ⁽²⁶⁾. The revised framework includes a baseline scenario, which is aligned with the Commission framework applied to assess the debt sustainability for all other Member States ⁽²⁷⁾, and a country-specific scenario analysis to assess the risks. As in previous reports, we continue to show results over the extended horizon running up to 2060.

The main revisions of macroeconomic assumptions are as follows ⁽²⁸⁾:

- **Real GDP growth assumptions.** The current framework continues to build on the latest Commission forecast in the short term and on the assumption of output gap closure in the fifth forecast year. The long-term growth developments are anchored to

⁽²⁵⁾The cash buffer account was built also through disbursements under the European Stability Mechanism programme and dedicated to debt service. Greece may use this amount for other purposes as well, following an approval of the European Stability Mechanism's governing bodies.

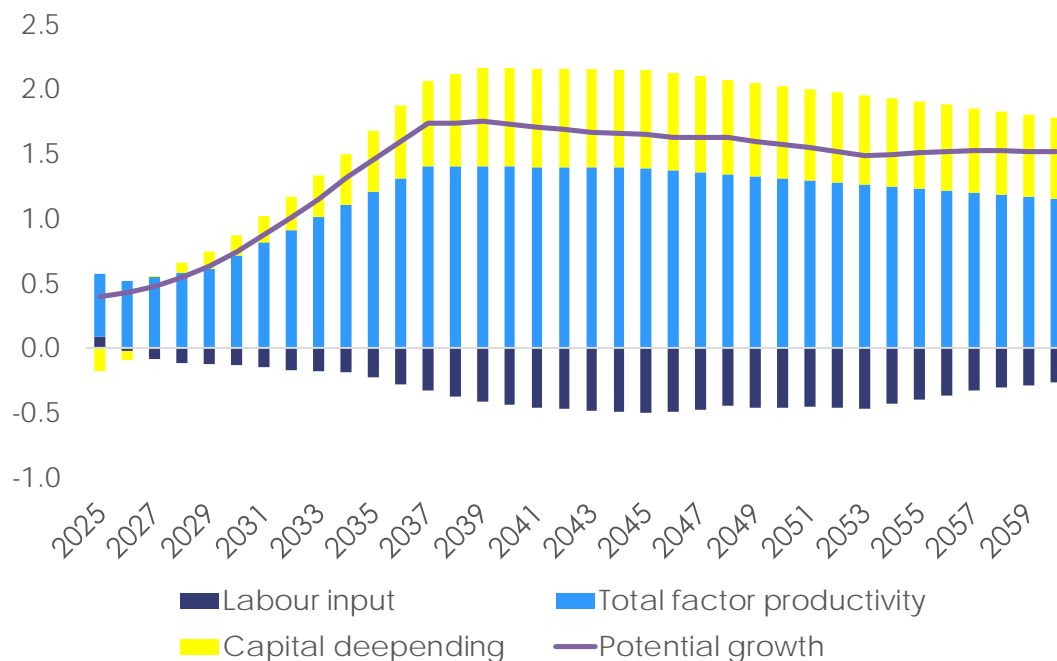
⁽²⁶⁾Until the current review, the assumptions for Greek debt sustainability analysis have followed the methodology described in the June 2018 Fourth Review Compliance Report, based on which Greece was put under enhanced surveillance as of August 2018.

⁽²⁷⁾The methodological details are published with every Debt Sustainability Monitor/Fiscal Sustainability Report update, and the long-term underlying macroeconomic assumptions with the 2021 Ageing Report.

⁽²⁸⁾The baseline includes the impact from the EU-level recovery instruments, including the ECB Pandemic Emergency Purchase Programme, only in so far as sovereign financing conditions are expected to remain favourable and stable over the medium-term and beyond, as well as foster convergence in euro area growth rates and spreads through confidence effects. No direct impact from the use of the Recovery and Resilient Fund is explicitly modelled in this DSA update.

the macroeconomic assumptions of the revised 2021 Ageing Report, which reflect the recent reforms affecting the sustainability of public finances in the long run (such as pension reforms, and health and long-term care measures), recent demographic projections with an impact on participation rates and labour market variables, and the assumption of convergence in labour productivity across Member States. The updated long-term growth is on average 0.4 percentage points higher compared to the one assumed before. Graph 4.1. shows an overview of the decomposition of potential growth, and a full description of labour, capital and total factor productivity contributions is provided in the 2021 Ageing Report (29). The projections do not take into account the potential positive impact on the growth potential of reforms and investments that could be implemented under the Recovery and Resilience Facility, given that plans are at an early stage of elaboration currently.

Graph 4.1: Long term real GDP growth (%)



Source: Commission services.

- **Inflation assumptions.** The short-term assumptions for the inflation rate build on the latest Commission forecast. Beyond that, in order to enhance consistency with inflation expectations as reflected by the markets in the sovereign’s financing costs, the country-specific GDP deflator was anchored to euro area inflation expectations measured by the ‘5-year 5-year’ inflation-linked swaps until the fifth forecast year, while assuming a gradual convergence to the 2% inflation target by 2030⁽²⁹⁾. The

⁽²⁹⁾See Commission (2020), The 2021 Ageing Report, “Underlying assumptions & projections methodologies”, November 2020.

⁽³⁰⁾The 5-year forward swap rate 5 years ahead measures the five-year inflation expectations five years from now. The information content of 5-year inflation-linked swaps in respect to inflation expectations is known to be affected by an inflation risk premium. However, when deflationary and inflationary risk are broadly balanced, the inflation risk premium is small, which seems to be the current situation in the

inflation differential observed between the euro area and Greece in the last year of the short-term (two-year-ahead) forecast is kept constant until the end of the fifth forecast year, and gradually eliminated by the tenth year. The baseline assumption on medium-term inflation path can be subject to further methodological improvements with the forthcoming 2020 Debt Sustainability Monitor.

- **Interest rate assumptions.** The revised framework moves away from modelling Greek market interest rates as a sum of the risk-free rate and a risk premium, which relied on two separate sub-models. Instead, the baseline assumption is aligned with the horizontal Commission framework for debt sustainability. Since the 2019 Debt Sustainability Monitor, the horizontal framework uses the forward rates on the short- and long-term interest rates for all Member States to set the interest rate levels on new debt issuances for the following ten years⁽³¹⁾. This revision to the methodology captures well the current low-inflation and low-interest-rate environment through market-based indicators that are readily available and well understood⁽³²⁾. Beyond the tenth forecast year, the new framework builds on the 2021 Ageing Report, which includes converging real interest rate projections across euro area countries in the long term (over a thirty-year horizon transition period). The long-term euro area real interest rate was revised to 2%, downwards from the historical average of 3%, in light of recent economic literature and evidence on the declining trend in interest rates in advanced economies⁽³³⁾. This is consistent with the assumption of an average growth rate of (real) potential GDP of 1.5% by the end of the projection period. The re-payment projections for the European Financial Stability Facility and European Stability Mechanism loans have been made consistent with the long-term euro area nominal interest rate that is converging to 4% by the end of the thirtieth forecast year. The 10-year rate for Greece averages 3% between 2020 and 2060.
- **Fiscal assumptions.** The fiscal path is based on the Commission 2020 autumn forecast up to 2022, and continues to be based on the conclusions reached at the June 2018 Eurogroup on measures to ensure debt sustainability thereafter. In line with the autumn forecast, Greece is expected to reach a primary deficit of 0.8% in 2022. Thereafter, the fiscal path is based on the conclusions reached at the June 2018 Eurogroup, where Greece agreed that its fiscal commitments remain in line with the EU fiscal framework, which, according to the analysis undertaken by the European Commission at the time, would imply a primary surplus of 2.2% of GDP on average in the period from 2023 to

euro area. Evidence shows that this indicator is less affected by inflation risk premium than in the past for the euro area (See e.g. Camba-Mendez, G. and T. Werner (2017), “The inflation risk premium in the post-Lehman period”, ECB Working Paper 2033, March 2017).

⁽³¹⁾For details see Box 3.1. “Revisions in the interest rate assumptions: rationale, description, and impact”, 2019 Debt Sustainability Monitor (DSM).

⁽³²⁾As Greece has started to be more present in the debt markets and is expected to issue along the yield curve over the medium term, the market-based indicators are considered to become increasingly relevant.

⁽³³⁾See for example Abbas, S. A., Pienkowski, A., and Rogoff, K. (Editors) (2020). ‘Sovereign Debt: A Guide for Economists and Practitioners’, Oxford University Press; Blanchard, O. (2019). ‘Public Debt and Low Interest Rates’, American Economic Review 190(4); and IMF Working Paper (2020), “It is Only Natural: Europe’s Low Interest Rates.”

2060. The revised methodology thus reflects the current application of the General Escape Clause.

To assess the sensitivity of the baseline assumptions, two alternative scenarios have been developed, which replace the single adverse scenario published in previous reports. The main elements are as follows:

- *Higher risk premium scenario.* This scenario links risk premia to the level of debt in the medium and long run, similar to past approach. This is captured by replacing the market-based projections for interest rates and their gradual convergence to horizontal levels in the long term, which are used in the baseline scenario, with a model-based projection after the fifth forecast year, building on the euro area ‘AAA’ interest rate and a risk premium. The euro area rate is assumed to gradually converge to 4% by 2050 as in the baseline. The risk premium follows the methodology used in previous enhanced surveillance reports, adjusted for the unique structure of Greek debt that features a large share of official debt⁽³⁴⁾. The 10-year rate for Greece averages 4.1% between 2020 and 2060 in this scenario.
- *Lower GDP growth and higher risk premium scenario.* In this scenario, growth rates remain below that of the baseline scenario in the long term, which also implies market interest rates remaining higher than the euro area rates in the long term. The refinancing rate on long-term debt would follow the same model-based projections as in the previous scenario, while nominal growth is assumed to remain at 3% once it converges to this level⁽³⁵⁾. This would be consistent with a lower growth rate of GDP per capita, indicating a lower reform effort in the medium term. The risk premium is considered to reflect lower growth and is steadily increasing during the transition to the long-term, as markets progressively start to price in the high level of debt on a different GDP growth path.

⁽³⁴⁾This feedback rule builds on several studies in the literature on the impact of increases in deficits and government debt on long-term interest rates, notably T. Laubach (2009), “New Evidence on the Interest Rate Effects of Budget Deficits and Debt”, *Journal of European Economic Association*, vol. 7, no. 4, pp. 858-885. The current formulation augments the work of T. Laubach (2009) by taking into account the unusual characteristic that a large share of the Greek debt is owned by the official sector. To account for this feature, we regress the Greek spread over the euro area ‘AAA’ interest rate on a constant that evolves across time/regime, on the debt-to-GDP ratio (minus 60%, following Laubach’s study) and on the level of the official funding expressed as a share of total debt. Finally, time variation is included in the constant to allow reflecting incidences not captured by the model (such as quantitative easing). Using quarterly data for Greece between the third quarter of 2010 and the second quarter of 2020, we estimate the following:

$$\text{Risk premium} = 0.6 + 0.03 * (\text{debt}_{t-1} - 60\%) - 0.03 * (\text{official debt}/\text{total debt})_{t-1}$$

⁽³⁵⁾A default ceiling of 6% for the refinancing rate on long-term debt was assumed as in previous DSA updates.

Table 4.1: Assumptions in the baseline scenario

	2020	2021	2022	2023	2024	2030	2040	2050	2060	average 2020-2029	average 2030-2060
Primary balance (% of GDP)	-3.8	-3.6	-0.8	2.2	2.2	2.2	2.2	2.2	2.2	0.7	2.2
Real GDP growth	-9.0	5.0	3.5	2.2	1.9	0.7	1.7	1.6	1.5	0.6	1.5
Nominal GDP growth	-10.2	5.5	4.5	3.4	3.0	2.8	3.8	3.6	3.5	1.6	3.5
Re-financing rate (10 year maturity)	1.5	1.6	1.6	1.7	1.7	2.1	3.1	4.0	4.0	1.8	3.4

Note: The table report the primary balances in accrual term, but the calculations take into account cash-accrual adjustments for the short-term forecast.

Source: European Commission.

Table 4.2: Assumptions under the risk scenarios

		2020	2021	2022	2023	2024	2030	2040	2050	2060	average 2020-2029	average 2030-2060
Nominal GDP growth (%)	Baseline scenario	-10.2	5.5	4.5	3.4	3.0	2.8	3.8	3.6	3.5	1.6	3.5
	Higher risk premium scenario	-10.2	5.5	4.5	3.4	3.0	2.8	3.8	3.6	3.5	1.6	3.5
	Low growth scenario	-10.2	5.5	4.5	3.4	3.0	2.8	3.0	3.0	3.0	1.6	3.0
Re-financing rate (%)	Baseline scenario	1.5	1.6	1.6	1.7	1.7	2.1	3.1	4.0	4.0	1.8	3.4
	Higher risk premium scenario	1.5	1.6	1.6	1.7	1.7	3.6	4.3	5.4	5.4	2.4	4.7
	Low growth scenario	1.5	1.6	1.6	1.7	1.7	3.6	4.5	5.9	6.0	2.4	5.0

Source: European Commission.

The update of the debt sustainability analysis takes into account the deteriorated near- to medium-term macroeconomic outlook and other regular technical updates, and the risks highlighted by the scenario analysis Similar to previous analyses, the revised methodology continues to assume the full implementation of all medium-term measures agreed in June 2018. In particular, the income equivalents from the SMP-ANFA profits are, on a technical basis, assumed to be disbursed and used for debt service purposes only. The analysis also includes, as under the previous methodology, updated interest and amortisation payments on official and non-official loans, new issuances and plans, an updated privatisation schedule and an updated short-term macroeconomic outlook in line with the autumn forecast.

Results of the debt sustainability analysis

Despite the deteriorated short-term outlook, the baseline scenario shows a return to declining debt-to-GDP ratio. The pandemic is expected to have a sizeable impact on the Greek government debt, which is projected to increase from 180.5% of GDP in 2019 to over 207% of GDP in 2020. This would *a priori* increase medium-term sustainability risks. However, as the emergency fiscal measures taken during the pandemic are announced to be temporary and the economy is projected to start recovering in 2021, the debt-to-GDP ratio is expected to set on a declining trend, also supported by the favourable financing conditions⁽³⁶⁾. Nevertheless, until the mid-2040s the debt ratio would remain above 100%. The government gross financing needs are expected to hover around 15% of GDP for the next 20 years, before decreasing to about 13% of GDP by 2060. These long-term results are closely aligned with the projections presented in the 5th enhanced surveillance report. The unfavourable effects of the present increase in government debt and the deteriorated short-run macroeconomic outlook are now expected to be compensated by the assumed favourable financing conditions (Table 4.3).

⁽³⁶⁾The baseline includes the impact from the EU-level recovery instruments, including the European Central Bank's Pandemic Emergency Purchase Programme, only in so far as sovereign financing conditions are expected to remain favourable and stable, as well as foster convergence in euro area spreads, as the 'flight-to-safety' phenomenon within the euro area is being reduced.

The baseline assumptions are subject to uncertainty, which is increasing over the projection horizon. Financing conditions could turn out less favourable than assumed, in particular beyond the medium-term. Uncertainty is also related to the long-term growth assumptions, which becomes all the more relevant during the current pandemic, given the large uncertainties surrounding its duration and a potential long-lasting impact on economies. If the crisis proves to be more persistent than currently assumed under the baseline, potential growth could be lower than expected. These factors are captured in the alternative scenarios.

Table 4.3: **Decomposition of change of results on gross financing needs due to the revised assumptions**

	2020	2021	2022	2023	2024	2030	2040	2050	2060
5th report baseline	7.9	4.8	6.4	5.5	7.9	8.4	12.9	14.1	13.4
+ update of interest rates	0.0	0.0	0.0	-0.1	-0.1	-1.2	-4.8	-6.7	-7.3
+ update of growth	2.2	1.4	1.7	1.7	1.9	2.8	3.2	3.0	2.7
+ update of primary balance	12.0	7.4	4.3	7.3	3.8	3.9	4.0	3.8	3.6
+ other updates	-2.1	2.3	2.9	-1.7	-2.4	1.1	0.8	0.5	0.6
8th report baseline	20.1	15.9	15.3	12.7	11.1	15.1	16.0	14.7	13.0

Note: the table shows the incremental impact of changing each assumption *ceteris paribus*. The decomposition is mildly sensitive to the sequencing order.

Source: Commission services.

Table 4.4: **Decomposition of change of results on debt-to-GDP ratio due to the revised assumptions**

	2020	2021	2022	2023	2024	2030	2040	2050	2060
5th report baseline	165.5	157.1	149.2	140.4	135.6	111.8	101.7	85.1	67.7
+ update of interest rates	0.1	0.0	0.0	-0.1	-0.2	-3.4	-22.6	-32.4	-35.1
+ update of growth	32.3	28.3	25.4	23.9	23.5	28.7	21.5	15.2	12.9
+ update of primary balance	11.1	17.9	21.5	21.8	21.7	20.8	20.1	18.8	17.4
+ other updates	-1.8	-3.7	-3.0	1.3	1.7	2.4	0.0	-0.2	1.2
8th report baseline	207.1	199.6	193.1	187.3	182.2	160.4	120.6	86.4	64.0

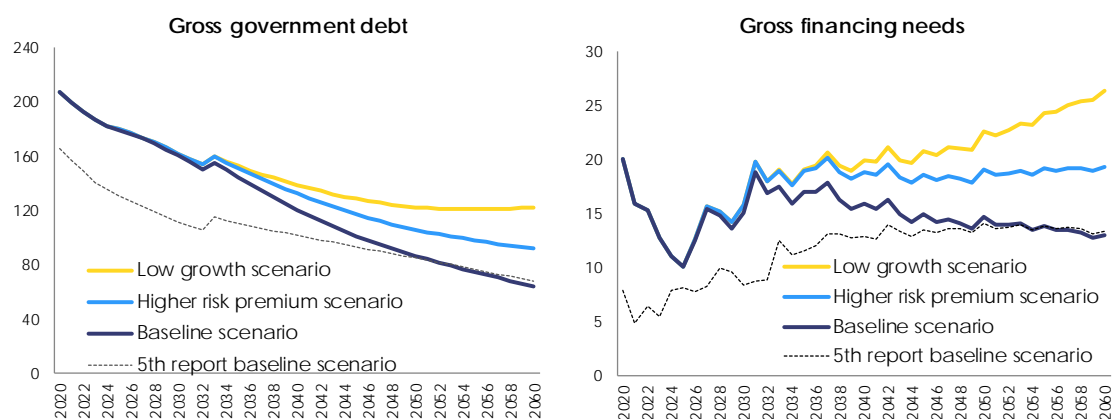
Note: The table shows the incremental impact of changing each assumption *ceteris paribus*. The decomposition is mildly sensitive to the sequencing order.

Source: Commission services.

The two alternative scenarios suggest that higher refinancing rates would deteriorate the outlook, and more so if combined with low growth underlining the importance of proceeding with an ambitious growth agenda. Under the higher risk premium scenario, the debt ratio, while on a declining path, remains significantly higher than in the baseline projections; the gross financing needs are also higher and remain marginally below 20% of GDP in the long run. However, under the higher risk premium scenario augmented with low-growth, GDP per capita does not converge to the euro area average and thus large spreads emerge and increase progressively over the entire horizon. As a result, the debt level remains high in the long run; the gross-financing-needs ratio is consequently persistently rising in the medium and long term, and is set to exceed 20% by the mid-2030s. The results of this scenario highlight the importance of delivering on the growth agenda whose draft was prepared by the ‘Pissarides Commission’ and published by the authorities in August 2020, especially considering that the long-term economic growth rate is by about ½ a percentage point lower than in the baseline. This underlines the importance of keeping up the reform momentum and continuing with an

ambitious reform agenda in the future. The Recovery and Resilience Facility will be a key opportunity in this respect.

Graph 4.2: Debt sustainability indicators (% of GDP)



Source: European Commission.

Additional mitigating/aggravating factors

The composition and maturity profile of government debt mitigates debt vulnerabilities, while additional risks could emerge from sizeable contingent liabilities. A large share of debt is financed at low rates by official lenders and the average maturity increased largely over the past years (average residual maturity on medium and long-term debt is about 21 years in 2020), effectively insulating the financing costs from short-term fluctuations and reducing rollover risks. The Recovery and Resilience Facility is also expected to be a mitigating factor that could support growth potential through investments and reforms. Aggregate interest expenditure would remain low in the baseline scenario by historical standards. The large share of government debt held by official lenders and the stable evolution of liquidity buffers also contribute to the resilience of the debt position to global market fluctuations. By contrast, risks stem from the uncertainty related to contingent liability from the private sector, including materialisation of state guarantees to firms and self-employed granted during the pandemic crisis. Finally, a reversal in the currently observed low-interest-environment over the medium-term could also be considered an aggravating factor, if it materialises.

5. SOCIAL WELFARE

5.1. PENSIONS

The authorities are making good progress in finalising the organisational and institutional setup of the Single Social Security Fund (e-EFKA), an end-2020 specific commitment. The merging of the public sector and supplementary pension functions has already been implemented including the physical move of offices; the remaining move concerns the employees of the former farmers' fund (OGA) and is expected to be fully completed by the end of the year.

The digital processing of pension applications has also progressed according to targets, albeit it is expected to slow down in the coming months. The digitalisation of the processing of survivor pensions and pensions for farmers has already been completed; the next step is to digitalise the processing of disability pensions and of the pensions for medical professionals. The pace of processing is expected to slow down in the coming months due to data availability issues and due to the coronavirus pandemic. The authorities' target for the digital processing of digitally submitted applications is therefore only 10 percentage points higher by end-March 2021 (40%) compared to the already reached end-June 2020 target. After this, the processing is expected to accelerate again and to reach 75% by end-June 2021. Achieving these targets underpins the December 2021 arrears clearance target on the processing of pension claims (see section 3.4).

5.2. HEALTHCARE

Greece is strengthening the preparedness of the health-care system for the current health emergency. Laboratory testing capacity is being strengthened, along with expanding the network of sampling points. In terms of staff, 6 000 new recruitments were made to tackle the coronavirus, including medical, nursing, paramedical and other staff. Approximately 1 400 permanent doctor positions were filled, which will be supported by an additional recruitment of more than 1 200 medical staff, including nurses and other categories. Alongside workforce capacity, physical infrastructure was expanded too. As of early October, 941 intensive care beds are operational, of which 272 dedicated to the treatment of coronavirus patients, with a target to reach the EU average of 1 200 by the end of the year. In terms of prevention, the authorities started influenza vaccinations in mid-October.

Clawbacks are still high but steps are being taken to improve their collection and to curb the generation of new ones. The authorities adopted legislation to complete the collection of the 2019 clawback for the pharmaceuticals and to start the collection of the providers' clawback for the years 2018 and 2019 ⁽³⁷⁾, which remains entirely uncollected so far. The timelines implied for the completion of the collection under the proposed schemes are considerably longer than those originally envisaged, but this may have been affected by the difficulties linked with to the pandemic. The issue of inefficient spending,

⁽³⁷⁾ A repayment plan based on 120 monthly instalments enabling the collection of the 2013-2019 clawback for providers was legislated with MD FEK 4613/19.10.2020. For pharmaceuticals, a repayment plan based on 36 instalments was legislated with Ministerial Decision KAD54221.

largely due to supply-driven overconsumption, persists, increasing the financial burden of patients. To tackle this, the authorities focus on measures that are mostly incremental, such as additional therapeutic protocols and stepped-up efforts in negotiation, many being continuations of already existing strategies that have so far been only moderately effective due to weaknesses in implementation and discontinuity of policies. The elimination of the vaccines from the clawback ceiling, the planned shift of public coverage of medicines for the uninsured⁽³⁸⁾ outside the budget of the National Organisation for the Provision of Healthcare Services (EOPYY) and a more precise identification of spending for non-permanent residents through social security numbers represent elements of novelty. As stressed by the authorities, the latter does not correspond to any change in the coverage of the uninsured and aims at a better identification of spending for non-permanent residents⁽³⁹⁾. However, at present, no plan is envisaged to include an element of risk sharing in the definition of the clawback (such as a cap to the clawed back amounts), the lack of which represents a weakness in its potential to effectively curb excess spending from a structural, rather than just fiscal, point of view.

Centralised procurement of 30% of the total hospital expenditure by the first quarter of 2021 and of 40% by mid-2022, a mid-2022 specific commitment, is moving forward, despite the current situation. The authorities are progressing towards the implementation of centralised procurement, with the intermediate target of 30% of the budget (approximately €305 million) to be centrally procured by the first quarter of 2021. This target is considered to be achievable, and it is reported that reaching the target of 40% by mid-2022 also remains achievable. Equally, the reactivation of the price observatory by January 2021 is in the pipeline. The draft law on the new legal status of the National Central Authority of Health Procurements (EKAPY) is due for adoption by the end of the year. Staffing is still critically low, especially in the key departments in charge of tenders, which implies currently limited capacity and raises concerns regarding set targets. To tackle this, the authorities have expanded fixed term appointments in of the Central Authority. Meanwhile, a new president has been appointed, following the departure of his predecessor shortly after inception.

The implementation of a fully-fledged and effective primary health care, which is a specific commitment, is proving a key element to deal with the pandemic. So far, 161 health centres were activated and can receive patients with coronavirus symptoms, which is key to limit unnecessary contact and patient exposure. Meanwhile, additional outpatient clinics were set up in the area of Athens and capacity for quarantine has been created making use of hotel infrastructure. Concerning the roll-out of the primary health care reform, the authorities are currently not fully implementing the 2017 reform (while formally, the legislation remains in place). The intention to reinstate the ‘fee-for-service’

⁽³⁸⁾ This refers to citizens who either don't have health care coverage, neither directly nor through a spouse or have lost it due to, typically long-term, unemployment. This group represents a high share of the population as, according to available estimates, they had been estimated to be around 2.5 million in 2014.

⁽³⁹⁾ As a result, the authorities expect approximately a €500 million reduction in the amount clawed back from the industry, but only €100 million (from price negotiations of new drugs) will represent a real saving. The other part of the reduction in the amount the industry needs to pay back (estimated at €200 million from vaccines and €300 million from the exclusion of the uninsured) have to be covered by other public budget lines.

system that existed before the 2017 reform, aiming at reconstituting the full stock of family doctors of the National Organisation EOPYY by re-attracting those who had dropped out and opted for a private regime has been put on hold. While beneficial in expanding the number of public (contracted) staff providing family medicine, this system may have hindered access for the vulnerable groups, as the budget for the fee-for-service system is likely to be exhausted over a few weeks and patients would need to pay extra to access services ⁽⁴⁰⁾. Instead, the authorities are about to launch a third call to staff the existing primary health care units (TOMYs). In the short term, the authorities plan to extend patient registration through the health care centres, that under the current plan complement/integrate the network of primary health care units and they opted for a simplification of the registration procedure. Rather than compulsory registration, the authorities currently envisage a system based on patients' consent, where patients can choose within a network of providers. While granting patients wider choice, this option has risks as it allows patients to duplicate visits with a view to getting the best prescription/referral. To counter this risk, the authorities intend to exploit the potential of the e-medical record, which they deem as a key component of the new system, although not fully implemented or functional as of now and currently planned by mid-December. Based on the latest reports, the plan is to implement a soft version of gatekeeping based on incentives. The authorities committed to the finalisation of the revisions to the legal framework by the time of the publication of the tenth enhanced surveillance report due in mid-2021.

5.3. SOCIAL SAFETY NETS

Overall, the implementation of social welfare reforms is progressing according to the agreed timelines. For what concerns transport subsidies, a mid-2020 specific commitment, the secondary legislation to allow a regular and objectively-based reimbursement of subsidised public transport tickets for vulnerable groups including disabled persons and members of large families has been adopted in October 2020, while the secondary legislation setting compensation levels for main transport operators is under preparation. Regarding the review of disability benefits, a policy paper is being finalised outlining the development of the new disability assessment process, and a pilot project is to be launched in March 2021. The guaranteed minimum income scheme, the reformed family benefit and the housing benefit continue to play an important role in protecting households' incomes. Expenditure on these benefits is expected to increase substantially in 2021, as the effects of the pandemic are reflected in the 2020 income tax declarations.

There has been little progress, however, with respect to the provision of labour market reintegration services for the beneficiaries of social assistance. The Guaranteed Minimum Income scheme should combine passive income support (first pillar) with the provision of social services (second pillar) and labour market reintegration services (third pillar). This requires, in particular, establishing appropriate interconnections between the benefit-paying institution, the local social services and the public employment service (OAED), as well as enhancing the capacity of the latter to deliver adequate services to jobseekers. During 2019, a pilot project was implemented to

⁽⁴⁰⁾Indeed, this system replaces the capitation system with minimum of weekly hours with a fee-for service combined with a maximum number of 200 visits per month reimbursed as part of the public regime.

test the procedures for providing labour market activation services to Guaranteed Minimum Income beneficiaries. The pilot project was evaluated at the beginning of 2020, and its findings should have guided the national implementation that should have taken place in 2020. The process stalled following the coronavirus outbreak, however, and the national rollout that was expected to begin in the autumn of 2020 has not taken place. According to a revised timeline, the national roll-out is now scheduled to begin in April 2021, after completion of the key preparatory steps. In particular, the new business processes ensuring effective cooperation and communication between the various implementing bodies and the necessary technical adjustments and interconnection of the respective IT platforms should be completed by March 2021 at the latest.

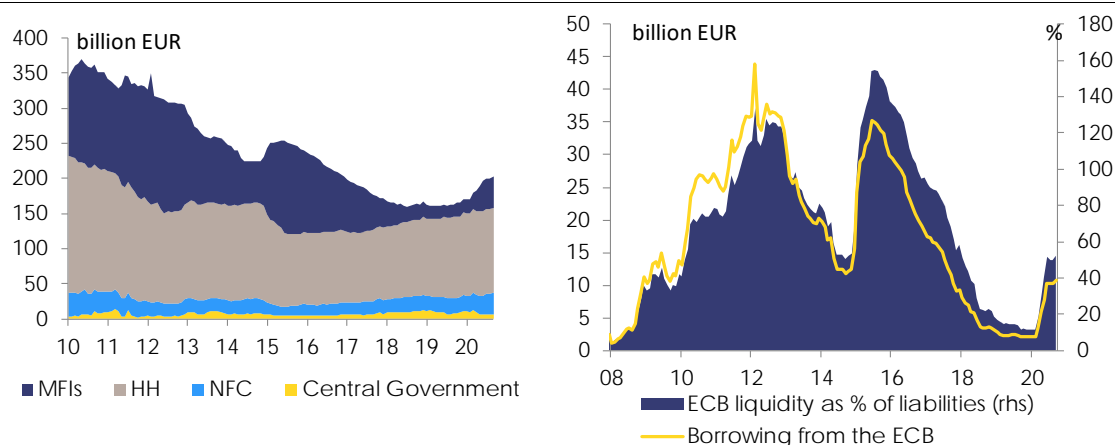
6. FINANCIAL SECTOR

6.1. FINANCIAL SECTOR DEVELOPMENTS

Liquidity and cost of funding in the banking sector

The accommodative monetary policy conditions have allowed Greek banks to benefit from favourable liquidity conditions at a low cost of funding. The temporary relaxation of collateral requirements for Eurosystem credit operations and conditions for targeted longer-term refinancing operations have led to a sharp increase in the use of Eurosystem funding by banks, which rose from €7.6 billion end-February to €39 billion end-September 2020. This has allowed banks to increase their cash buffers. Deposits in Greek banks exhibit an upward trend since March, despite a general decline in deposit rates. The trend was mainly bolstered by deposits from the private sector, driven by corporates seeking to accumulate liquidity amidst the pandemic and underpinned by a less pronounced but steady upward trend in household deposits. Together, Eurosystem funding and private sector deposits have allowed liquidity conditions to remain favourable. As a result, the four Greek systemic institutions have reached a liquidity coverage ratio higher than 100%. With respect to the cost of long-term unsecured borrowing, although the yields are still elevated, it is gradually returning to the levels seen prior to the pandemic. One Greek bank recently tapped the market with an issuance of €500 million of the first ever six-year green senior bond at a yield of 2.9%.

Graph 6.1: Bank deposits (left) and total borrowing from the Eurosystem (right)



(1) MFIs: Monetary Financial Institutions; HH: Households; NFC: Non Financial Corporations.

Source: European Central Bank, International Monetary Fund.

Profitability and capital

The economic effects of the coronavirus are expected to continue to put pressure on banks' already low profitability, through lower net interest income and high loan loss provisions, particularly if demand for corporate credit weakens next year. In the first half of 2020, recurring operations continued to generate one of the lowest returns on equity in the euro area, as increasing provisions due to a worsening macroeconomic environment took their toll on profits. Moreover, securitisation of non-performing loans and non-performing loans inflows, which demand high loan loss provisions, are expected

to have a major impact on banks' profitability. Securitisations, despite their positive impact on the banks' cost-of-risk, will not only result in an initial one-off capital loss but also a recurring loss on net interest income in case of loan de-recognition. Going forward, it is doubtful that the reduced funding cost and the expected income from new loans may fully offset this effect in the short run, particularly if new corporate loan volumes fall short of expectations next year.

Low profitability, coupled with the cost of upcoming securitisations and the gradual phasing out of transitional prudential arrangements may pose challenges for the banks' capital position, while reliance on state-related assets is set to increase. Banks' average Common Equity Tier 1 ratio on a consolidated basis stood at 14.7% of risk-weighted assets at the end of June 2020, above the minimum capital requirements. However, banks' capital position is impacted in the short to medium-term by (i) the capital cost of the upcoming non-performing loan securitisations, (ii) the new rules on the treatment of own funds held under Pillar II Guidance ⁽⁴¹⁾ and (iii) the expected phasing out of transitional prudential arrangements ⁽⁴²⁾. Moreover, these capital expenses will push up substantially the already high share of deferred tax credits in the banks' Common Equity Tier 1 capital (€15.4 billion or 60.4% as of June 2020). At the same time, banks have increased their overall sovereign bond holdings in the first half of 2020, in an effort to boost their trading gains. Together with the retained senior notes of the securitisations benefiting from the guarantee under the Hercules asset protection scheme, this implies a tighter sovereign-bank linkage.

Table 6.1: Main financial stability indicators

	2014 Q4	2015 Q4	2016 Q4	2017 Q4	2018 Q1	2018 Q2	2018 Q3	2018 Q4	2019 Q1	2019 Q2	2019 Q3	2019 Q4	2020 Q1	2020 Q2
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	35.5	34.4	30.9
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	40.6	40.0	37.0
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	38.2	37.1	33.3
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	43.5	43.4	41.5
Coverage ratio	43.5	48.5	48.2	46.7	49.5	49.0	47.8	48.0	47.7	46.7	45.0	44.5	44.9	44.3
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	0.7	1.3	-6.6
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	0.1	0.1	-0.7
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	17.0	16.2	16.4
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	15.9	14.6	14.7
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	15.9	14.6	14.7
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	74.8	72.8	67.2

(1)As % of total loans.

(2)Annualised data.

Source: ECB - CBD2 - Consolidated Banking data; own calculations.

Asset quality trends and non-performing loans deleveraging

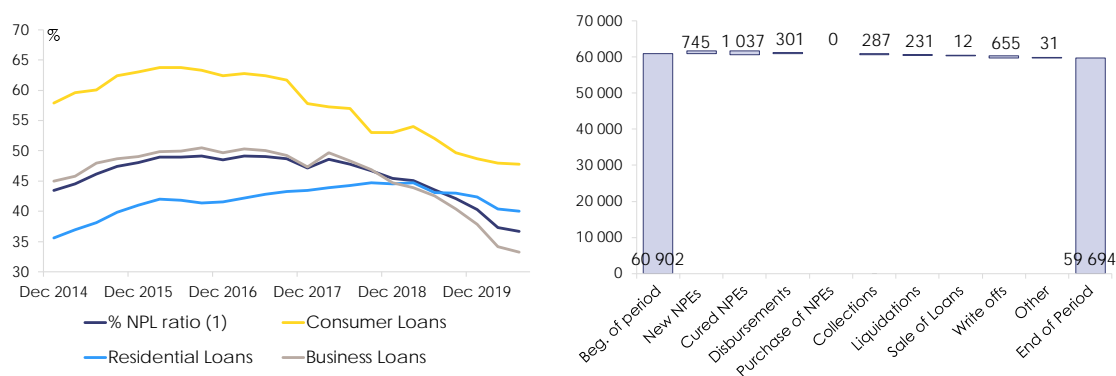
The reduction of non-performing loans continued in the first half of 2020, albeit at a slower pace than earlier, while the banks' internal capacity to restructure loans

⁽⁴¹⁾From January 2021, banks' own funds held under Pillar II Guidance will no longer be eligible to meet any other regulatory requirement.

⁽⁴²⁾These transitional arrangements refer to the phasing in of the new accounting standards 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 and relevant supervisory guidance. In the medium-term, banks will also need to issue bail-in-able debt to meet the minimum requirement for own funds and eligible liabilities.

viably remains a challenge. The gradual downward path in non-performing loans was less pronounced in the second quarter of 2020 compared to the previous quarter and 2019, with non-performing loans dropping by €1.2 billion ⁽⁴³⁾, reaching €59.7 billion. As a result, the share of non-performing loans to total customer loans fell to 36.7% at the end of June 2020 ⁽⁴⁴⁾, remaining the highest in the euro area. At the same time, write-offs and a sharp reduction in the default rate due to the moratoria in place have led on average to a lower amount of newly created non-performing loans compared to the amount of ‘cured’ non-performing loans, i.e. the rate of non-performing loans for which repayments have re-started. This has offset the fall in liquidations due to court closures and auction suspensions, as well as the banks’ limited organic non-performing loan reduction through effective loan restructuring.

Graph 6.2: **Non-performing loans as a % of total customer loans (left) and changes in their stock in the second quarter of 2020 (right: million EUR)**



(1) NPEs: Non-performing exposures.

Source: Bank of Greece.

Debt payment moratoria, coupled with the temporary supervisory flexibility in place, have been instrumental so far in shielding the banks’ balance sheet from the impact of the pandemic on the credit risk of their loan book. However, banks have to prepare for a possible cliff effect when these measures expire. According to the data submitted by the Greek systemic banks as of 30 September 2020, €20.2 billion of loans have been covered by the non-legislative moratoria in place by servicers and banks for debtors affected by the coronavirus outbreak ⁽⁴⁵⁾. This amount represents more than 12% of the banks’ domestic loan portfolio, with €10.9 billion granted to households and €9.3 billion to businesses. The moratoria have mitigated so far the impact of the pandemic on the banks’ asset quality, as supervisory guidance allowed public and private moratoria announced and applied before 30 September 2020 not to be automatically classified as

⁽⁴³⁾ Source: Bank of Greece, solo level. As a result, it does not include the securitisation of a €7.5 billion portfolio of mainly non-performing exposures, which was already reflected at solo level in the previous quarter.

⁽⁴⁴⁾ Source: Bank of Greece, solo level.

⁽⁴⁵⁾ Source: Bank of Greece, data at solo level. The moratoria in place by servicers and banks for debtors affected by the coronavirus outbreak have been recently extended until end-December 2020 and apply to principal payments for businesses and principal and interest for natural persons.

forbearance measures ⁽⁴⁶⁾. However, the large share of the performing loan book under moratoria points to a significant risk of future loan reclassifications to non-performing status, leading to increased provisioning needs and deteriorating asset quality ratios when moratoria expire.

Banks have started to adjust their non-performing loans reduction strategies but loan loss provisions booked so far might only partially capture the eventual effect of the pandemic on banks' asset quality. The banks, in cooperation with the supervisory authorities, are revising their non-performing loan strategies, taking into account the coronavirus impact and their own corporate transformation plans i.e. 'hive downs' ⁽⁴⁷⁾. These interim strategies will be further refined and re-submitted to the supervisor at the end of March 2021, as requested by the supervisor for all euro-area banks. Moreover, in line with supervisory expectations communicated to euro-area banks, Greek banks are in the process of identifying and monitoring high-risk pockets within their loan book. The aim is to identify and address credit risk and facilitate a gradual return to normal loan instalment levels in 2021 for viable borrowers. Banks have increased their provisioning, particularly in the first quarter of 2020, to reflect the deteriorating macroeconomic projections. However, they have not incorporated a loan-specific analysis of the potential increase in credit risk or migration to non-performing loan status after the expiry of the moratoria, which implies a downside risk for 2021 credit provisioning and profit projections.

A key element of the banks' strategy to tackle non-performing loans remains to move ahead with delayed securitisations under the Hercules scheme. One systemic bank has recently concluded the first transaction under the scheme ⁽⁴⁸⁾, while the other three systemic banks, after a brief pause due to the pandemic, are now advancing with the securitisations, which are expected to be concluded in the first half of 2021. The result of these planned transactions will be a significant reduction in non-performing loans and an erosion of available capital buffers. However, even in the case of a successful implementation of all planned securitisations, the average non-performing loan ratio of Greek banks will remain in double-digit levels and well above the EU average both as an absolute amount and as a share of total loans. The risk of higher non-performing loan inflows due to the pandemic, combined with the potential capital cost of further securitisations, points to a need for complementary, potentially systemic solutions, that facilitate the resolution of non-performing loans.

⁽⁴⁶⁾The criteria published by the European Banking Authority allow public and private moratoria not to be automatically classified as forbearance measures for the purposes of the International Financial Reporting Standard 9 and the definition of default.

⁽⁴⁷⁾Under the hive-down process, the initial entity will transfer its banking business, including all deferred tax credits, to an operating company, which will be a licensed credit institution and 100% subsidiary of the original entity, which will become a holding company without a banking licence.

⁽⁴⁸⁾The transaction involved securitising a €7.5 billion portfolio of mainly non-performing exposures. It made use of €2.4 billion of state guarantees out of the total €12 billion envelope available under the Hercules scheme. The scheme, which is open and voluntary for all banks, runs over an 18-month period from October 2019.

Financing of the economy

The authorities successfully implemented or extended support measures to sustain access to finance for coronavirus affected businesses. The Hellenic Development Bank has launched two schemes, which appear to be successful in supporting bank credit. The first one is a guarantee scheme ⁽⁴⁹⁾, under which €3.4 billion of loans have been approved until end-August, with actual disbursements reaching €2 billion. The scheme is now rolling out its second tranche of €780 million of guarantees, primarily targeted to small and medium-sized enterprises and aiming to leverage an additional €2.5 billion of loans. The second scheme, called TEPIX II, is offering co-financing and interest subsidy for new corporate loans ⁽⁵⁰⁾ and has mobilised over the same period another €1.8 billion of approved loans, with €1.5 billion of disbursements. This scheme was expanded by an additional €180 million, aiming to leverage about €0.8-1 billion of new loans, starting from October 2020 ⁽⁵¹⁾.

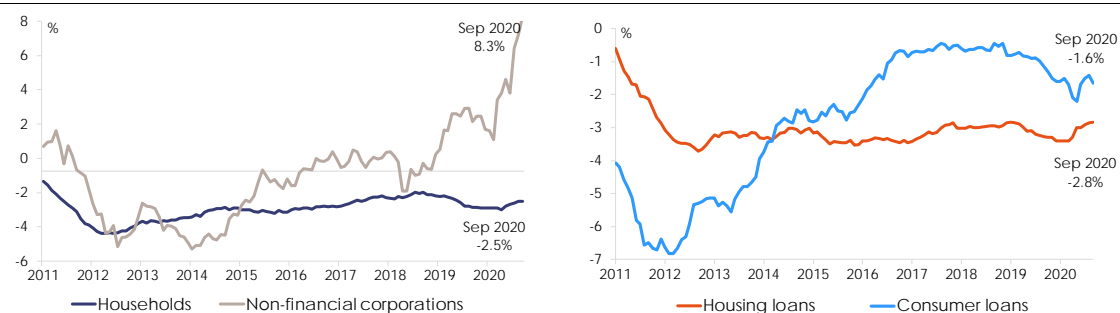
State support measures reinforce the increase in bank credit to large corporates and, more recently, small and medium-sized enterprises, while bank credit to households is contracting at a slower pace. The net average monthly flow of credit in Greece to non-financial corporations has increased from €10 million in 2019 to €723 million in the period March to September 2020, with a corresponding increase in gross loan flows. This trend has accelerated significantly in July-September on the back of disbursements of the two schemes by Hellenic Development Bank, without any apparent crowding out of normal bank lending flows to corporates. As a result, in September 2020, the annual rate of growth in bank credit to non-financial corporations reached 8.3%, posting for the third consecutive month the highest value attained since mid-2009 (see graph 6.3). Although most of this credit growth is directed to large corporates, there has also been a pick-up in net credit flows to small and medium-sized enterprises. The annual growth rate of household loans remained negative but has gradually improved relative to its recent low point in April 2020, standing at -2.5% in September 2020. This milder decline is due to a return to positive monthly net credit flows in consumer credit and other lending, particularly to owners of non-incorporated businesses. By contrast, mortgage lending has continued to contract, albeit at a more moderate pace relative to recent quarters.

⁽⁴⁹⁾The “COVID-19 Enterprise Guarantee Fund”, is a capped Portfolio Guarantee scheme. The guarantee rate is set at 80% per loan, with a cap rate set at portfolio level for its two distinct sub-portfolios, one for small and medium-sized enterprises (cap rate 40%) and one for large enterprises (cap rate 30%).

⁽⁵⁰⁾“TEPIX II” is a co-financing loan fund offering a 2-year interest grace period, with TEPIX II co-financing the capital of a loan by 40% and the relevant bank by 60%.

⁽⁵¹⁾The increase in the financing envelope will be accompanied by a change in the co-financing shares, from 40% to 5% for the Hellenic Development Bank and from 60% to 95% for the banks.

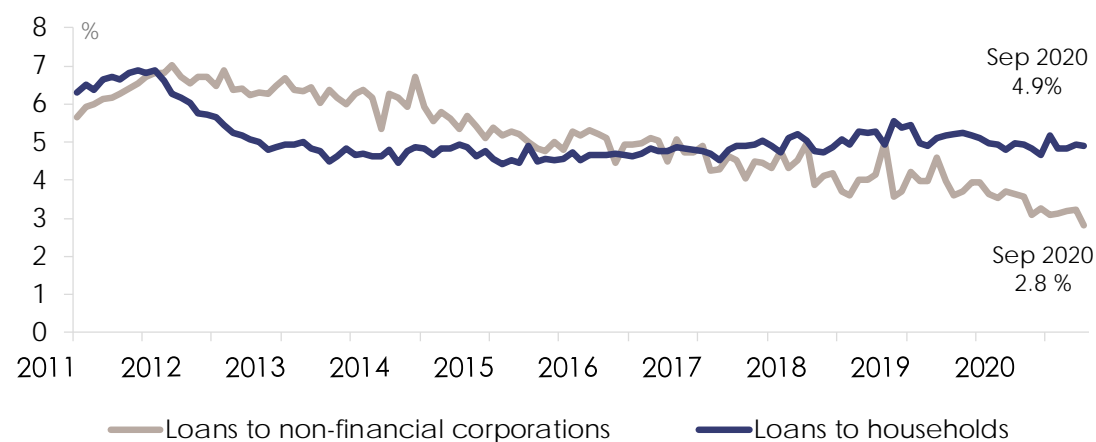
Graph 6.3: Bank credit to non-financial corporations and households, annual % change



Source: Bank of Greece.

Nominal lending rates continued their downward trend, stabilising near historical lows for non-financial corporations. The average nominal lending rate for non-financial corporations in the first nine months of 2020 has been 3.2% compared to 3.9% in 2019 (see graph 6.4), with a similar trend over all loan sizes, as a result of the very accommodative monetary policy, as well as the various state support schemes for credit to households and firms. On the other hand, the average nominal lending rate for household credit has only marginally declined in the first nine months of 2020 and remains at significantly higher levels than for corporate credit.

Graph 6.4: Bank interest rates of new loans to euro area residents, annual percentages, weighted averages



Source: Bank of Greece.

6.2. FINANCIAL SECTOR POLICIES

Following the adoption of the insolvency framework reform, the authorities are now focusing on its swift implementation, having introduced legal amendments to accelerate the clearance of the household insolvency backlog and improve the effectiveness of e-auctions. The swift implementation of these measures will provide banks with new tools to tackle legacy non-performing loans and the new challenges implied by the coronavirus pandemic for the banks' asset quality and for the accumulation of private debt in the economy as a whole. Further reforms, which are in the pipeline, aim

to improve the Code of Civil Procedure and the efficiency of the e-auctions framework and should further support a reduction in the cost of credit during the recovery, while contributing to lower non-performing loan inflows. The actions outlined below are monitored and assessed under the enhanced surveillance framework, 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*”.

Insolvency law reform

In view of the upcoming entry into force of the new Insolvency Code⁽⁵²⁾, the authorities are preparing the secondary legislation and the necessary infrastructure. The code foresees the adoption of at least 53 administrative decisions (mostly ministerial and joint ministerial decisions), which are instrumental for the implementation of the framework. The authorities intend to proceed incrementally, aiming at completion of the process by the end of December 2020. Work on the ministerial decisions on the loan subsidy, sale and leaseback mechanism and the algorithm for the computation of restructuring proposals is proceeding and the authorities intend to share advanced draft texts with the European institutions by 15 November 2020. The authorities are aiming at having the electronic platform that will underpin the implementation of the procedures stipulated by the code in working order by the end of November 2020, so that it may be used in the context of the provision of training to magistrates, courts’ clerical staff and legal stakeholders, scheduled to take place in December 2020.

The new insolvency framework is an important step forward and its effectiveness will depend on the quality of its implementation. The implementation of the new out-of-court workout (OCW) mechanism for restructuring debt should be closely monitored, especially with regard to its prudential aspects and its potential impact on payment culture, as well as the capacity of credit institutions to perform in a timely manner the relevant due diligence for the applications received under the scheme. The focus should be to ensure that the incentives provided to debtors and creditors (of both public and private sector) are well balanced and to establish whether the restructurings achieved via the mechanism are viable in the medium- and long-term. Moreover, the fiscal and financial effects of the new sale-and-lease-back scheme and the shorter pre-discharge period of one year envisaged under certain conditions, related to the composition and value of the bankruptcy estate, should be followed-up closely. It is crucial that the entire legal framework, including secondary legislation, as well as the necessary infrastructure are in place in time for the new Insolvency Code’s entry into force, so as to ensure the successful operationalisation of the new framework and avert any unintended negative effects on the financial sector and payment culture in general.

In view of its low take-up, the authorities extended the deadline for applying for the temporary instalment subsidy scheme for debtors affected by the coronavirus outbreak by a month, following consultation with the European institutions. According to the latest data provided by the authorities, take-up was lower than expected throughout the period up to end-October 2020, with a total of 160 467 submitted applications against an estimate of 300 000 applications. As the extension is only for a

⁽⁵²⁾Law 4738/2020, OJ A 207/27 October 2020.

short period, the authorities do not expect it to affect their projections materially as to its fiscal impact. It is important that all applications are assessed and fully processed by the time the subsidies are envisaged to start.

Clearing the backlog of household insolvency cases

The authorities have adopted a set of new provisions⁽⁵³⁾ to enable the processing of long-standing backlogs, whose success is dependent on effectively addressing staff shortages and infrastructure challenges. The law stipulates a fixed time schedule for the replacement of distant hearing dates by dates close to the present. Given that the implementation will be carried out in accordance with the internal regulations of individual courts, and will thus be subject to compliance with stipulations on the number of available dockets and the maximum number of cases that may be assigned per judge, it will be up to the administrative councils of the courts to design and take the relevant measures in order to maximise the processing capacity of the latter. The authorities anticipate that the rescheduling of dates and the submission of all relevant documentation and written arguments by the parties will have taken place by 15 September 2021. This would allow for the hearings to take place by the end of October 2021, and for the decisions to be issued within the mandatory six-month deadline, i.e. by the end of April 2022. Close monitoring of the implementation is therefore warranted, especially in courts that have accumulated a significant backlog, to assess whether additional measures will be needed. Regarding staff shortages, the Ministry of Justice is examining, jointly with judicial authorities, the possibilities of proceeding swiftly to the completion of vacancies by means of internal secondments.

E-auctions

The authorities have adopted the first set of measures aimed at enhancing the functionality and user-friendliness of the e-auctions platform⁽⁵⁴⁾. As described in the previous report, the adopted measures provide for uploading to the e-auctions platform of the property's valuation report as well as photographs. Regarding further identified issues, mainly related to the mechanism for adjusting the reserve price and the interoperability of the e-auctions platform with other state databases, the authorities confirmed that these would be considered in the context of the Code of Civil Procedure review (see below). The authorities confirmed that the revised Code will enter into force at the beginning of the next judicial year in September 2021.

Clearing the backlog of called state guarantees

The implementation of the agreed plan for the clearance of called state guarantees is on track, while the backlog of called guarantees remains considerable. The examination and payment of claims for the third quarter of 2020 has accelerated, following the shortfalls registered during the lockdown, and is in line with targets for natural persons' loans and only marginally below target for corporate loans. Following the change of the relevant legal framework at the beginning of June, the electronic files repository is operational and credit institutions have already uploaded 60 300 loan files in relation to claims. Creditors are in a position to receive a protocol number automatically

⁽⁵³⁾ Article 1 of Law 4745/2020, OJ A/6 November 2020.

⁽⁵⁴⁾ Articles 29 and 30 of Law 4745/2020, OJ A/6 November 2020.

from the system, for each claim submitted. Interoperability with local tax offices is in its testing phase and is expected to enter in productive operation by November. The relocation of the State Guarantees and Capital Movement Directorate to its new premises should also be completed in November. Most importantly, 30 employees are currently in the process of being recruited and should become operational in November. They are expected to work on the basis of concrete performance targets to reinforce the two departments dealing with called state guaranteed loans. These important steps are expected to ensure the envisaged significant acceleration in the clearance of guarantees during the remainder of 2020.

Other initiatives

Work on the revision of Code of Civil Procedure is ongoing and is expected to be completed, in early 2021 – later than initially foreseen but well in time ahead of September 2021, when it is due to enter into force. Following the reconstitution, in October 2020, of the law-drafting committee and the assignment of drafting tasks to sub-committees, the authorities committed to submit a progress report, including on e-auctions relevant issues, by the end of November 2020.

A limited amendment of the primary legislation on deferred tax credits has been voted in September to safeguard the loss-absorbing capacity of the banks' capital in all cases, including resolution. Work is ongoing on further technical aspects in the form of secondary legislation, in order to operationalise all aspects of the framework, including in the context of resolution and special liquidation.

6.3. HELLENIC FINANCIAL STABILITY FUND (HFSF)

The Fund continued its efforts to support the systemic banks in meeting their non-performing loans reduction and business enhancement goals in view of the challenges brought about by the pandemic. The Fund supported the systemic banks in the preparation of their updated non-performing loan reduction plans until 2022, submitted to the Single Supervisory Mechanism in September. The Fund is assisting two out of the four systemic banks in the preparations for their corporate transformations (hive-down), to be accompanied by large-scale non-performing loan securitisations, which are envisaged to take place in the coming months. The Fund is in the process of revisiting its shareholder expectations by taking into consideration the various effects stemming from the pandemic – including the moratoria and its consequences on the banks' profitability, asset quality, capital position and liquidity – as well as the banks' corporate transformations currently being prepared. The divestment strategy of the Fund needs to be finalised in the near future, including the potential involvement of the authorities in the final stage of the divestment, the legal protection for the governing bodies and staff of the Fund, and with regard to the implications stemming from the banks' corporate transformations. With respect to the revision of the Relationship Framework Agreements, that became necessary among others due to the banks' corporate transformations, it is important to preserve all statutory rights of the Fund. Preserving the Fund's independence remains a cornerstone in the process toward restoring the health of the banking sector.

7. LABOUR AND PRODUCT MARKETS

7.1. LABOUR MARKET

The Greek labour market has proved particularly resilient in the wake of the coronavirus outbreak, but the extended duration of the pandemic poses serious risks in terms of employment. Contrary to the experience of the 2008-2010 crisis, the severe contraction in output has not led to extensive job destruction so far. Employment levels declined mildly between February and May, recovering partially in June-July with the late start of the summer holiday season. The initial fall in employment was matched by an increase in inactivity with the unemployment rate actually falling again in July following a temporary increase during April-June. The swift adoption of emergency measures aimed at supporting businesses and protecting jobs (notably, emergency income support and job retention schemes) contributed to this result. As the pandemic endures, however, restructuring in the most-affected sectors may become unavoidable.

The government has presented its proposals to modernise some aspects of the labour legislation. These concern in particular: the simplification and modernisation of the rules concerning working time and annual leave, including the extension of paternity and parental leave and the institutionalisation of telework, the removal of any distinction between blue-collar workers and white-collar employees with respect to employment protection legislation, the introduction of new limits to the reinstatement of dismissed employees, the introduction of an obligation for trade unions to be registered, and the revision of the rights and privileges of trade union members. These reform proposals are currently under consultation with the social partners. The codification of the labour legislation, and end-2020 commitment, has been delayed by the pandemic but it is still expected to be adopted by the end of 2020.

While active labour market programmes are being reviewed to improve their efficiency and attractiveness, the system still suffers from capacity constraints. A well-performing public employment service and an effective system of active labour market policies are needed to deliver effective labour market support to jobseekers and help the labour market reintegration of beneficiaries of social assistance (see section 5.3). The initial pilot project of the new delivery model for active labour market policies, implemented in 2018-2020, will be evaluated by the end of 2020. Preliminary results have revealed the need to review the module of training programmes. While the expansion of the pilot project to several other geographical areas is foreseen in the near future, the national rollout of the model is not planned at this stage due to OAED capacity constraints and disruptions caused by the pandemic.

Education

The authorities continue to pursue their comprehensive education policy plans, and this has been reflected in the government's growth strategy. In particular:

- *The new framework for the operation and autonomy of the higher education institutions is under preparation and will be completed in the next three months.* The statute of the university councils will be re-established, whereas the management of the higher education institutions will be overseen by the university councils that will

give directions, approve strategies and budgets, and monitor the administration of the universities. Already with previous legislation, greater autonomy was given to the universities to manage their own funds, in particular those related to research. Another legislative act allowed the internationalisation of the universities and restricted the role of the ministry in developing education programmes. The accreditation of degrees is performed by the accreditation agency, the role of which was upgraded.

- *The authorities have prepared the new draft law on vocational education and training, which is expected to be adopted by December 2020.* Vocational schools run by the Greek employment agency (OAED) will continue providing training at level 3 of the European Qualifications Framework. Professional Lyceums (EPAL) provide education at level 4 and 5 in case of post-school one-year apprenticeships, while the Institutes of Professional Training (IEK), which are both public and private and provide education at level 5, will be enhanced. Model and experimental Professional Lyceums and Institutes of Professional Training will be created and will start operating in the academic year 2021-22, in line with regional labour needs. The vocational education and training reform will be fully deployed within a horizon of four years.
- *Following the introduction of internal evaluation of school units, reforms in school education are giving a particular emphasis to soft skills, such as social empathy, human rights, volunteering, environmental protection, creative thinking, and road safety.* The enhancement of digital skills for both, teachers and pupils, is a priority of the current reform efforts. Foreign language teaching has also increased and teaching of English language was introduced for the first time in nursery schools. During the current academic year, the evaluations of school units apply for the first time, starting with setting the objectives in October. The authorities are planning to extend the evaluation to teachers in the academic year 2021-22. This is a major step forward as they faced a strong resistance in the past.

7.2. PRODUCT MARKETS AND COMPETITIVENESS

The authorities are advancing with most specific commitments under investment licensing and remain committed to implementing a widened reform agenda. All reform areas continue to benefit from technical support provided through the European Commission and delivered by the World Bank. Specifically, the authorities are expected to submit for public consultation a bill to simplify licensing procedures in most remaining sectors of the economy by end-November. They also set concrete timelines for the remaining work, specifically to simplify investment licensing procedures in all remaining sectors by mid-2021, and to implement the inspections framework fully by April 2021. The successful completion of the remaining work critically depends on the timely inputs by all ministries involved and the commitment of all stakeholders.

- *Good progress is recorded as regards the simplification of the investment licencing procedures in the agreed remaining sectors, a mid-2020 specific commitment. The remaining work will be completed by mid-2021.* Following the adoption of primary legislation on the primary production sector in July 2020, the authorities are proceeding with relevant secondary legislation, with a view to fully adopting it shortly. Further, by end-November, they aim to submit for public consultation a bill that will

simplify most of the remaining sectors ⁽⁵⁵⁾ by reducing requirements and the extent of ex-ante control currently imposed on businesses. Secondary legislation on these will be adopted by April 2021, along with primary legislation on the simplification of the activities that remain. The commitment is expected to be fully completed by mid-2021, with the adoption of secondary legislation on the latter. In parallel, the authorities continue to simplify and fine-tune areas related to sectors already reformed, assisted by ongoing technical support provided through the European Commission.

- *The starting tools concerning the implementation of the inspections framework law, a mid-2020 specific commitment, are almost complete in the agreed priority inspection areas ⁽⁵⁶⁾ but further actions on enforcement and compliance are required for the new framework to be fully operational.* Specifically, the relevant checklists, risk assessment framework and complain management system are either finalised or at a mature stage and are all expected to be set fully in practice without delay, in tandem with the full roll-out of training. The last remaining elements in the said areas, namely the enforcement management model and the amendment of the legislation on sanctions, along with some remaining enabling legislation, will be developed by April 2021, after a period of testing of the new framework. In the meantime, the authorities began work on the extension of this framework to the four remaining areas ⁽⁵⁷⁾ by end-2021, starting with consumer protection and health and safety of workers, as per the action plan they prepared. Lastly, the authorities drafted provisions to define the roles and responsibilities of inspecting authorities for environmental protection with a view to adopting these shortly, which is key to avoiding overlaps. Respective provisions for food safety are at a less advanced stage.
- *The full deployment of the relevant IT system to support the investment licensing framework, originally an end-2019 specific commitment, continues to be delayed by further complications in the tender process.* Given that ongoing legal uncertainties pose a major risk to the implementation of the reform as a whole, the consideration of all available interim technical solutions and securing the appropriate financial resources would be instrumental with a view to enabling the piloting of at least some inspections and licensing functionalities – beyond notifications. Meanwhile, the authorities proceeded with the mapping and gap analysis of IT systems currently in place ⁽⁵⁸⁾, which is expected to greatly facilitate the work of the contractor once the tender is awarded.

⁽⁵⁵⁾ Namely transport and transport-related activities (sale, repair and maintenance of vehicles), education (post-secondary education, vocational training, life-long learning, language centres), social welfare, physical well-being, rent of leisure and sport equipment, and amusement sector activities.

⁽⁵⁶⁾ These concern food safety, environmental protection and product safety.

⁽⁵⁷⁾ These concern consumer protection, safety and health of workers, public health, and safety of infrastructures and construction.

⁽⁵⁸⁾ This work concerns the identification and description of the public sector ICT systems currently operational that play a role in approval and/or inspection processes in business activities and how these could be integrated in the new ICT system, as well as the identification of the administrative steps that would need to be captured in the electronic notification process.

The authorities are advancing with the implementation of key business environment reforms initiated under the programmes. Draft Presidential Decrees for the certification of external environmental assessors -which has been pending since the third programme- and for the certification of external environmental inspectors, respectively, were prepared with a view to submitting them for approval to the Council of State shortly. Other complementary secondary legislation to define payment, training and registry issues is also underway. These constitute key steps towards complementing scarce public resources with private resources in environmental licensing and enforcement processes, as well as creating new jobs. Further, the authorities prepared amending provisions in the area of tourism ⁽⁵⁹⁾ to improve the said framework and streamline it with the principles of the investment licensing reform, with a view to adopt these by end-2020, with some delay as compared to the original timeline which was September 2020. Nonetheless, the administrative burden on producers and buyers of milk ⁽⁶⁰⁾ identified in previous months is yet to be addressed, an action which was due by September 2020.

Along with notable reforms in the frameworks of insolvency and dispute resolution, and upcoming reform in public procurement (see sections 6.2 and 3.4, respectively), the authorities are advancing on further actions to improve the competitiveness of the Greek economy. In the area of tax administration, the authorities took measures to expedite the processing of VAT refunds and reduce the backlog of pending applications ⁽⁶¹⁾, and introduced the electronic submission of VAT refund claims. Key interventions scheduled by March 2021 aim to accelerate the issuance of building permits and of business start-up procedures, including via the interoperability of key registries, and reduce the requirements for obtaining an electricity connection and registering property. Further, with technical support from the Commission provided through the World Bank, the authorities plan additional measures in key areas, including trading across borders, contract enforcement, protecting minority investors, and facilitating access to credit. Fully capitalising on digital transformation initiatives (see section 9.2) would be key to this end.

The government has taken further steps to reform product markets and improve market surveillance. In November, the authorities submitted to Parliament a bill introducing market regulation provisions to implement the relevant EU regulation ⁽⁶²⁾ concerning the functioning of online intermediation services to promote fairness and transparency for business users in the area of e-commerce, and ensure effective market surveillance mechanisms, including to combat illegal trade. In addition, the bill provides for and an extension, on a voluntary basis, of Sunday retail trading, allowing small-sized local shops in low-population areas to open throughout the year, if certain conditions are met, including on opening hours. Further, the law also paves the way for more flexibility for shops in other touristic areas, irrespective of size and population criteria, starting on a pilot basis and following consultation with social partners. Similarly, more flexibility is

⁽⁵⁹⁾ Law 4582/2018 (OJ A 208/11.12.2018).

⁽⁶⁰⁾ This refers to the review of secondary legislation on measures to control the milk market (Joint Ministerial Decision issued by the Ministry of Finance and the Ministry of Agricultural Development and Food on 21 March 2019).

⁽⁶¹⁾ <https://www.aade.gr/open-data/vat-ref>.

⁽⁶²⁾ Regulation (EU) 2019/1150.

provided to open markets that may operate on a six-day basis per week, including on Sundays.

Despite progress with setting up a new strategy on promoting trade and foreign direct investment, institutional arrangements remain incomplete, which hampers efforts to increase extroversion and leverage Greece's potential in key sectors and export markets. While the new strategy of the Ministry of Foreign Affairs is expected to strengthen the country's export potential and facilitate inward foreign direct investment, it is yet to be published. Moreover, full and effective implementation of this strategy hinges on the adoption of legislation concerning the mandate and responsibilities of the Ministry of Foreign Affairs, which is still pending. Work at operational level faces delays, notably in terms of putting in place the governance structures, the adjustment of the trade facilitation roadmap to reflect new priorities, and pursuing further simplification efforts, including at pre-customs level. Meanwhile, work is underway with the tendering process of several export promotion projects led by the Ministry of Foreign Affairs, while some others have encountered procedural delays due to legal issues. The authorities are taking steps to promote e-commerce through a number of dedicated IT platforms, while the tender for the integrated Single Window system that will automate imports and exports procedures was launched in October.

Cadastre

Steady progress has been achieved in the cadastre in the current reporting period; however, the target for completing the mapping for 45% of property rights has been rescheduled to end-2021. The cadastral mapping proper is progressing with 35% of property rights completed by the end of October, up from 33% achieved in May 2020. The target of 45% coverage is expected to be achieved by December 2021. With a view to accelerating the collection of the remaining rights, a bill introducing fines for late declarations of property rights will be submitted to Parliament in November 2020. From the remaining five cadastral mapping contracts, four have been signed and one will be signed in December 2020. The technical specifications and tender documentation for the digitalisation of the mortgage deeds have been completed and the tender is ready to launch, when financing is secured. This project has been identified as a potential project to be funded by the Recovery and Resilience Fund.

The cadastral agency will also be fully operational by end-2021, in line with the road map for the cadastre project. This is later than envisaged under the original mid-2020 commitment and reflects delays encountered due to the pandemic, but also earlier on. The appointment of the management team has been completed and the recruitment of the migration team, a team necessary to implement the transition from the mortgage offices to the cadastral offices, is progressing smoothly. The Corporate Strategy for the operation of the Hellenic Cadastre after the completion of the cadastral mapping and the integration of the mortgage offices is under preparation and a first draft will be completed by the end of the year. By October, 14 cadastre offices (out of 92) have been established. The set-up of the agency will be fully completed by December 2021.

Regarding the forest maps, 80% of the remaining ones have been prepared by October 2020 and will start gradually to be uploaded for public consultation. The

authorities committed to upload all the remaining maps by December 2020 and the ratification of all forest maps will be completed by July 2021.

Energy

A major energy market reform was achieved as the Target Model, a mid-2020 specific commitment, went live on 1 November, which is a big step towards Greece fulfilling the obligations of the EU energy acquis. The new format of the markets with separated day-ahead, intra-day and balancing elements, will allow for better price discovery and wider participation and market access of different services – away from a ‘produce and forget’ system, to one favouring flexibility. It remains to be seen how this combines with Greece’s already established – yet currently underused – forward market. This and the correct application with the EU rules in the new markets will be closely monitored. The new market design is compatible with other EU markets, allowing for the swift day-ahead and intraday coupling with the neighbouring markets of Italy and Bulgaria, which in turn will increase energy security, support further renewable energy sources integration and wholesale price competition. Several players are expected to enter the market on these new terms. Efforts to ensure that distortions in the wholesale market are completely removed, and that the market is effectively monitored in view of the market power of the incumbent (see below) and is brought fully in line with the EU energy *acquis* (e.g. further integration of demand response) will be important. Greece received formal approval for the Interruptibility and Flexibility schemes as bridging mechanisms until the necessary reforms take place in the coming months. As the new market is further established, these mechanisms will cease to apply within a transitional period.

The authorities submitted on 23 October a final proposal for an anti-trust remedy related to the Public Power Corporation’s lignite generation, constituting a key step towards fulfilling this specific commitment. However, the Commission is still waiting for final authorisation from the authorities to start carrying out a market test of the proposed remedy, so that the measures can be implemented in the market in 2021. The implementation of the remedy would fulfil the specific commitment and comply with a longstanding ruling by the EU Courts. Considering the very tight timeline for the implementation of the remedy, the European Institutions encourage the Greek authorities to cooperate more effectively during the next reporting period. The market share of the incumbent stands at 64.3% ⁽⁶³⁾, which marks a continued downward trend, but still some distance away from the envisaged 50% market share as set out in national legislation. The high voltage sector remains concentrated with the incumbent, although some positive developments have occurred through new entrants providing energy supply also for this market segment. As a number of the Public Power Corporation’s bilateral contracts with high voltage customers, expires end-2020, it is expected that any new contracts will better reflect market conditions and facilitate the liquidity of the new electricity market, while providing balanced safeguards for both contracting parties. On the generation side, the energy national mix continued its shift away from lignite, representing about 10% of the overall energy mix and a 66% drop in overall production to a year before. Gas showed the biggest annual growth and continues to represent the highest share as energy source.

⁽⁶³⁾Hellenic Energy Exchange ‘Monthly DAS Trading System Report, September 2020’.

There are growing concerns in relation to the Renewable Energy Sources Account⁽⁶⁴⁾ and a sustainable approach is needed to address its structural deficit.

Given Greece's ambitions for increasing renewables uptake, it is important to find a predictable and robust approach, not reliant on ad-hoc interventions and fully consistent with EU legislation⁽⁶⁵⁾. This includes safeguarding the level and conditions to renewable energy projects that have been granted support. Another cash-flow issue in the market is the sizeable arrears related to Transmission System Operator payments (both to and from the operator, but particularly regarding the due payments to the system operator from the incumbent) as well as to the Renewable Energy Sources Account. This is a source of concern, as the stock of arrears drain the market's liquidity and could limit its effectiveness. Another issue, where progress has been made was the decision adopted by the national energy regulator on a long-standing case on the compensation measures to industrial consumers regarding gas distribution tariffs, but the actual implementation of this decision is yet pending.

Greece carried out a public consultation on its transition Master Plan, the basis for the territorial strategies and future reforms to help areas affected by the lignite decommissioning by end-2023.

The draft plan, written in consultation with key stakeholders, looks at the approach to take for Western Macedonia and Megalopoli in the context of the plan to decommission lignite plants and mines. Based on the five pillars of clean energy, industry, smart agricultural production,; sustainable tourism, and of technology and training, the plan will examine the investments, infrastructure, training and incentives needed to help the regions find their competitive advantage following the closure of one of their major economic source. Greece's decommissioning plants continues, and this year will see several plants taken off line.

Transport and logistics

The authorities have improved the governance of the steering committee for the rationalisation of implementation of railway investment projects. The steering committee's mandate was modified with the double objective to a) be more streamlined with a smaller number of participants and b) strengthen its capacity to take decisions. It convened for the first time on 4 November 2020. The steering committee provides strategic supervision and guidance, coordinates the preparation of the action plan for railways and makes proposals to the minister for infrastructure and transport for all matters relating to the plan and the reform of the sector. The action plan will have three strands:

- **Strand 1:** Recommendations on investment planning, financial requirements, mechanisms, maturity and implementation of railway projects with financial allocation tools/sources, timing, risk assessment/management for 2020-2030.

⁽⁶⁴⁾The RES Special Account (ELAPE) is a specific fund set up to pay producers of renewable energy and is funded by various sources, such as a share of Emissions Trading Revenues and consumer charges.

⁽⁶⁵⁾This includes also EU Directives that will need to be transposed into national legislation in the coming months (e.g. Directive 2018/2001 and Directive 2019/944).

- **Strand 2:** Digital transformation and adaptation of the rail to the challenges of climate change, with a focus on the integration of systems and the modernisation of the services.
- **Strand 3:** The organisational transformation of the Organisation of railways of Greece (OSE) and its subsidiary implementing infrastructure projects (ERGOSE) to create adequate prerequisites for growth, rational planning and efficient management and implementation of railway projects and infrastructure.

By the end of the year, a detailed implementation plan for the transformation of the two companies will be prepared. The technical support project financed by the European Commission is in the contracting phase. In the meantime, no progress has been observed in the implementation of railways projects.

The authorities have revised the legal framework for sustainable urban mobility plans according to best European practices. Following this revision, a report on the progress of the elaboration of sustainable urban mobility plans for the main urban centres will be submitted by 15 November.

The authorities are taking steps to improve the investment climate in the logistics sector. To this end, they have established an inter-ministerial committee with the participation of the ministries of Development, Transport and Maritime Affairs, with a view to addressing possible legislative gaps. In the previous months, the focus of the Committee was on the seamless movement of goods during the pandemic. During the summer period, the volumes of imports and exports decreased substantially compared to the same period in 2019, partly due to the lower demand for tourism services, but exact figures are not yet available. A study will be undertaken with technical support from the European Commission to propose ways to increase the added value of goods transiting through Greece.

8. HELLENIC CORPORATION OF ASSETS AND PARTICIPATIONS (HCAP) AND PRIVATISATION

8.1. HELLENIC CORPORATION OF ASSETS AND PARTICIPATIONS

The Corporation released its 2019 annual report and financial results end-September 2020. A significant improvement in financial figures was registered across most of the corporation's subsidiaries, and in the consolidated financial results for 2019, which was the second year in which the state-owned enterprises' portfolio was managed by the Corporation. The results therefore reflect the impact of the Corporation's first two years of governance and operational improvements. The Corporation's after-tax profit for 2019 was €7.2 million on dividend revenue of €2 million, up from 2018 profit of €3.1 million. The Corporation's consolidated equity rose by 4.7% to €3.7 billion. While it is expected that the 2020 results will be affected by the pandemic, the governance and operational improvements in the Corporation's portfolio of companies appear to have improved their abilities to weather the impact of the pandemic.

The updated Ministerial Guidance, which will clarify the expectations of the authorities for the financial performance of the portfolio of companies held by the Corporation, is being drafted and is expected to be finalised by end-2020. Specifically, the Ministerial Guidance is expected to set out targets and benchmarks per asset category, as provided for in the law and internal regulation governing the functioning of the Corporation.

Following the adoption of the mandates of the respective state-owned enterprises by the Cabinet Committee in March 2020, the next phase of the implementation of the Coordination Mechanism – the statements of commitments – is expected to be finalised by December 2020. The statements of commitments, which are agreed between the Corporation and each state-owned enterprise, will set out financial, operational and other objectives for each state-owned enterprise. Following that, the final phase of this initial implementation of the Coordination Mechanism will be the preparation of performance contracts setting out public service obligations for a limited set of state-owned enterprises.

The Corporation has continued its work on corporate governance, in particular regarding the review of the boards of the state-owned enterprises, a mid-2019 specific commitment. Implementing international standards of governance is a critical objective of establishing the Corporation and a key value driver. Of the thirteen state-owned enterprises in the Corporation's portfolio, only the assessment of the Board of Directors for the Hellenic Exhibition Organisation (HELEXPO) remains pending and is expected to be finalised by December 2020. The appointment of a new Board of Directors for Greek Saltworks was completed at the end of October. So far, the Corporation has identified and appointed more than 80 board members (executive and non-executive) in its portfolio enterprises through open, professional and transparent procedures.

The Public Real Estate Company (ETAD) is taking various concrete steps to enable stronger performance in identifying its portfolio and actively managing its assets.

The recent acquisition of a comprehensive information management system is expected to facilitate the Company's efforts to develop and commercially exploit its assets. The Company has also developed a pipeline of flagship transactions for the coming 18 months. The authorities have provided support to the Company in relation to former assets of Hellenic Shipyards, one of the packages in that pipeline. These initiatives should enable greater transparency around the Company's progress toward effective real estate management. Strong performance of the real estate portfolio is critical to the overall long-term success of the Corporation in facilitating investment and debt reduction, also considering that the Public Real Estate Company continues to face certain legal cases, which could lead to a significant fiscal impact.

The authorities are slowly progressing with the evaluation and screening of real estate assets included in the package of 10 119 assets identified for transfer to the Public Real Estate Company in 2018. Following the decision by the Council of State in May 2020 to cancel the transfer of these 10 119 assets to the Public Real Estate Company, on the ground that the process followed was not the correct one, the authorities are working on setting up a legally solid process for the transfer ⁽⁶⁶⁾ once the full screening of the package is finalised.

The authorities also intend to proceed with a comprehensive study that will help them in the elaboration of a holistic and coherent strategy aiming to optimise the functioning of the Greek real estate market. Structural initiatives that will in turn improve the performance of publicly held real estate will be welcome, though any initiatives will need to be consistent with the independent asset management mandates of the Corporation and, in turn, the Public Real Estate Company.

The transfer of the Olympic Athletic Centre, which was a specific end-2018 commitment, proves to be very complex, seeing progress despite delays. Preparatory work for the tender, which will assess the works needed for maintenance or overhauling of each installation of the Athletic Centre, has received a further extension, and it is expected to be completed by November 2020. Concurrently, the recently appointed management committee of the Olympic Athletic Centre already started carrying out a series of maintenance works in parts of the premises to enable their exploitation. The authorities are planning to prepare a development master plan for this extensive and important site in coordination with the Hellenic Corporation of Assets and Participations.

The authorities have recently also proposed adding a mandate to the Hellenic Republic Asset Development Fund to assume the function of the Project Preparation Facility (see section 3.5). This is potentially a major new mandate for the Fund in terms of both, headcount and responsibility. It will be important to ensure that adding this mandate to the Fund will not require the Corporation to divert attention from its core mandate, nor affect the Corporation's independence, while maximising the contribution of the Project Preparation Facility to accelerating the absorption of EU funds in Greece.

⁽⁶⁶⁾The transfer will concern all assets eligible for transfer except those that are excluded via the relevant provisions of the Law on the Hellenic Corporation of Assets and Participations.

8.2. IMPLEMENTATION OF THE ASSET DEVELOPMENT PLAN

Progress with specific transactions and due specific commitments since the last report has been as follows:

Hellinikon: The authorities continued the strong engagement and efforts to complete the prerequisites for the financial closing of the transaction. Following the Council of State decision of 18 September, rejecting the petition for annulment in relation to the ongoing tender for the award of the casino license, the way for the financial closing of the transaction has been established. The current state of play on key elements is as follows:

- *The tender process for awarding the casino licence is at an advanced stage. The Council of State decision of 18 September has allowed the opening of the financial offer of the only bidder remaining in the tender on 7 October and the selection of the provisional preferred bidder by the Hellenic Gaming Commission on 13 October 2020.*
- *The relocation of the public users is almost completed with only a few arrangements to be made for users staying on site. There have been no new developments since mid-September.*
- *The partition of the Hellinikon site agreed in February 2020 is currently being enshrined in a binding document (Partition Deed and Surface Rights Establishment Deed). The binding document is being drafted with the aim to be finalised for execution by end November.*
- *Pending legal cases. Petitions for annulment have been filed before the Council of State for a number of cases. All cases have been set for discussion in November 2020.*
- *Demolition of current buildings on the site was launched on 3 July. The demolition process of the first batch / cluster of illegal buildings has been completed involving more than 90 building structures over the site.*

Marina of Alimos concession: The Marina of Alimos is one of the largest marinas in the South-Eastern Mediterranean, located on the South-Eastern waterfront of Athens. Despite some technical issues, the transaction is expected to be financially closed before the end of the year.

Hellenic Petroleum: The transaction is subject to significant delays following the failure of the first tender in mid-2019. The Fund is considering all options. However, following the significant fall in the capitalisation value of the company over the past months due primarily to the impact of the coronavirus on the oil and gas markets, the Fund considered appropriate to delay further the launching of the transaction to a later point in time.

Sale of 30% of Athens International Airport: The tendering process was proceeding well prior to the coronavirus outbreak, with nine investment parties qualified to proceed to the Binding Offers Phase. However, the pandemic has impacted severely the air transport sector. The Fund will determine next steps once the situation improves, likely late in 2021.

Public Gas Corporation – DEPA: Tenders for both companies were launched in December 2019 for DEPA Infrastructure and in January 2020 for DEPA Commercial, attracted strong investment interest and progressed well despite the pandemic. Access of prequalified bidders to the Virtual Data Room was granted in early August for DEPA Infrastructure, whereas for DEPA Commercial access was given by the end of September. On 22 October 2020, the Regulatory Authority for Energy took a decision providing clarity on the tariffs 2019-2022 ⁽⁶⁷⁾. The Authority also contributed towards further clarity on the DEPA Infrastructure asset perimeter to ensure it remains a cohesive and attractive asset through approving the 2020-2024 development plan of the Public Gas Distribution Networks S.A. (DEDA). For DEPA Commercial there is a pending issue on the final outcome of the court case regarding an industrial customer of DEPA, who was awarded compensation for damages caused by DEPA imposing abusive contractual terms upon it during the period 2010-2015. DEPA has appealed the decision before the Court of Appeals of Athens.

Egnatia: The privatisation process for the Egnatia motorway entails the award of a long-term concession for the operation and maintenance of the motorway and its three vertical axes. The deadline for the submission of binding bids had been further extended to 11 December 2020 as significant open issues remained pending. The authorities and Egnatia S.A. proceeded to the implementation of some of the remaining pending actions over the past two months, namely: A significant number of toll stations were completed and put in operation at the beginning of November and an additional number is expected to be completed and put in operation before the date of the submission of binding bids as this will secure revenue streams for the project and demonstrate the authorities' commitment to proceed with its implementation. The Ministry of Infrastructure committed to putting all the toll stations in operation before the commencement of the concession agreement. Additionally, some progress was made over the past two months in relation to the required works (the installation of safety barriers) for the remaining 14 tunnels to be licenced under category E (i.e. excluding the transport of dangerous cargo). Thus, though progress may have been slower than expected, the recent actions taken constitute significant steps towards the conclusion of this privatisation transaction, namely the operation of a large number of toll stations for the first time after almost one year. Close monitoring will continue.

Regional ports: Following the launch of tendering processes for the sale of shares for the ports of Alexandroupolis and Igoumenitsa (sale of a majority stake of at least 67% in the share capital of the company) and the sub-concession of a multi-purpose terminal for the port of Kavala on 17 July 2020, the phase of the invitation for the expression of interest was concluded by the end of October for all three transactions and attracted strong investors' interest.

Underground natural gas storage South Kavala: The South Kavala gas field is an almost depleted natural gas field located in the North Aegean Sea. On 22 June 2020, the Fund launched an international public tender for the award of a concession agreement for the use, development and operation of an underground gas storage facility in the South Kavala natural gas reservoir for a period of up to fifty years following the licensing of the project. The phase of the invitation for expression of interest was concluded on

⁽⁶⁷⁾OJ B 4925/09.11.2020.

19 October 2020 and expression of interest has officially been submitted by 3 parties. The pending decision of the Regulatory Authority for Energy on the tariff-setting framework is expected by end November 2020.

Further actions related to state-owned enterprises

Outside the scope of the Asset Development Plan implemented by the Fund, the authorities are working towards addressing long-standing weaknesses of certain state-owned-enterprises, through consolidation and privatisation. In the case of the Hellenic Aerospace Industry (HAI), efforts are focused on operational improvements to address long-standing structural problems. The sale of the assets of the Hellenic Vehicle Industry (ELVO), a company placed under special liquidation in accordance to Law 3429/2005, is progressing, following the launch of the tender in March 2020. Lastly, the authorities have taken steps to resolve the pending issues related to Larco, a loss-making ferronickel production company, and the Public Power Corporation's biggest debtor. These include resolving the ownership status concerning some of its assets, a precondition to the next steps of the special administration procedure, which was enacted via Law 4664/2020 in the context of recovering incompatible state-aid, as declared by the Commission's decision in 2014.

9. PUBLIC ADMINISTRATION AND JUSTICE

9.1 PUBLIC ADMINISTRATION

The modernisation of human resource management is progressing and the vast majority of public sector entities has now completed their digital organigrams, an end-2020 specific commitment. Digitalisation of the organisational structure of public entities constitutes a key element for the ongoing work to establish a Human Resources Management System. Until end-October, more than 80% of general government entities had completed their digital organigrams. Good progress has especially been made during this reporting as concerns the larger entities (more than 20 employees) with more than 100 completing their digital organigrams. The authorities expect that nearly all entities, including most of the remaining 45 larger entities⁽⁶⁸⁾ (e.g. Hellenic Broadcasting Corporation, Organisation of Railways of Greece and the Management Organisation Unit of Development Programs), to complete this task by end-2020. The preparation of job descriptions for each of the posts is also progressing and, to date, 71% of them have been completed⁽⁶⁹⁾. Continued progress is also expected to be made by the authorities in establishing a link between the job descriptions and the jobholder, which would establish a connection to the Single Payment Authority, and is planned to be completed by end of this year. Further, the tender on Human Resources System Support Services (EU-funded through the National Strategic Reference Framework) is expected to be awarded by end of this year. The authorities are progressing on a number of other actions due by the end of the year, which include adoption of a law to further strengthen the Supreme Council for Civil Personnel Selection (which is expected to be published for public consultation in November), completion of the performance assessment round for 2019 (record high participation is expected and the authorities are working towards linking individual objectives to the annual action plan of each ministry), and completion of a study to draw lessons learned from the mobility cycles performed so far (the latest one has been launched in October 2020).

The authorities are taking steps to control the size of the public sector, although the envisaged reduction of temporary posts due to their conversion into permanent posts has been slow and is yet to materialise. The evolution of personnel in 2020, both permanent and temporary, remains in accordance with the hiring plans. However, the envisaged reduction of temporary posts following their conversion to permanent positions⁽⁷⁰⁾ is yet to become evident in the staffing figures. The European Institutions encouraged the authorities to step up efforts for the reduction in temporary posts to be evident in the end-2020 staffing figures, recalling that the exclusion of these permanent posts from the annual attrition rule had been made on this basis. The authorities are working on establishing an annual ceiling on temporary staff by end-2020. In an effort to learn from past lessons, the authorities are documenting deviations from the hiring procedures and the unified wage grid, with an initial focus on the period from July 2019,

⁽⁶⁸⁾ These 45 entities employ around 9 300 staff in total.

⁽⁶⁹⁾ Approximately 225 500 job descriptions out of a total of 316 000 (as uniformed personnel and teaching staff are excluded).

⁽⁷⁰⁾ Concerns 4 500 special teachers and 3 257 for the 'Home Assistance' programme.

while the previous years would be covered in the second stage. The ambition of the authorities is to complete the work in the first half of 2021, including specific suggestions on how to address the identified deviations in a systematic manner. Finally, the ongoing review of the existing allowance scheme for hazardous and dangerous work is expected to be further delayed and not completed before April 2021.

Table 9.1: Evolution of public sector staff (2009-2020)

Year	Permanent staff	Temporary staff burdening the budget ⁽¹⁾	Elected staff	Other categories	Total
2009	730,234	153,087	21,286	3,366	907,973
2010	700,962	109,968	21,286	3,262	835,478
2011	674,012	57,853	12,113	3,088	747,066
2012	654,781	41,869	12,031	3,053	711,734
2013	618,572	22,626	13,252	3,103	657,553
2014 ⁽²⁾	576,856	12 833 ⁽³⁾	6,188	2,891	598,768
2015	600,484	56,385	7,149	4,773	668,791
2016	598,870	58,053	8,057	4,851	669,831
2017	602,908	59,731	8,248	5,728	676,615
2018	601,789	64,911	8,887	6,027	681,614
2019	604,564	72,032	10,280	6,320	693,196
2020 ⁽⁴⁾	603,130	70,784	10,780	6,343	691,037
Change to 2009	-17.4%	-53.8%	-49.4%	88.4%	-23.9%

(1) Includes all temporary contracts in General Government entities and legal entities under private law. For 2009-2013, the figure refers to the stock at the end of each year, whereas for 2014-2019 the figure is a yearly average (Jan-Dec). For 2020, the figure is the average of the period January-September 2020 and does not include the staff involved in the treatment of the coronavirus.

(2) 2014 figures are not comparable because data on personnel of legal entities of private law (permanent & temporary) are not available in census database.

(3) Data on temporary staff not burdening the budget is not available for 2014. The figure of temporary staff for 2014 derived based on the census database comment that the number of temporary staff not burdening the budgets is 45 000 for 2014 (which equals the approvals of 2013 for this type of personnel).

(4) 2020 figures refer to the September 2020 data.

Source: Apografi database.

Further progress has been made towards the depoliticisation and professionalisation of the public administration, through completing all senior management appointments at ministries and adopting a new legislative framework for other public entities. A uniform selection process for senior management posts at public sector entities has come into effect ⁽⁷¹⁾. The adopted selection process will cover more than 450 general government entities, including hospitals and a significant number of large entities (e.g. Single Social Security Fund), while also allowing for candidates from the private

⁽⁷¹⁾OJ A 197/12.10.2020, Articles 20-23.

sector to apply. The appointment of all Permanent Secretaries has been completed ⁽⁷²⁾, while some progress is being made on the ongoing selection procedures at ministries for middle management posts with the authorities planning to take steps to speed up the process.

With a view to enhancing legal certainty and access to law, the authorities are preparing a new Labour Law Code and Code of Labour Regulatory Provisions, an end-2020 specific commitment, and agreement on further areas for codification has been reached. The codification process is distinct from the modernisation of some aspects of the labour legislation mentioned above (see Section 7.1), and has suffered delays due to the pandemic. The codified labour law is expected to be adopted by the end of 2020. The annual codification plan for 2021 was adopted by the Council of Ministers and includes an ambitious programme, including on spatial and town planning, trading of goods and services, collection of public revenue and party financing. Finally, the tender for the flagship project to set up the national gateway for legal codification, a mid-2022 specific commitment, is progressing and is expected to be awarded by end of this year.

9.2. DIGITAL GOVERNANCE

The authorities are advancing with key reforms to improve Greece’s digital performance, aided by a comprehensive digital strategy which is underway, and a newly adopted unified legal framework on digital governance. The new national digital strategy (‘Digital Bible’), which is expected to be submitted for public consultation shortly, will outline Greece’s ambitious digital transformation agenda and reform priorities for the next four years. The adoption of the Code of Digital Governance on 22 September 2020, a key milestone for Greece concerning the transposition of the relevant EU Directive ⁽⁷³⁾ on the establishment of a European Electronic Communications Code, usefully unifies the legislative framework on key elements, including digital networks, 5G technologies, and transacting within and with government services. The Greek administration aims to shortly present an action plan on the steps needed to operationalise the new Code fully, both in terms of secondary legislation and administrative actions.

Improvements in digital skills, connectivity and the take up of new technologies by businesses remain key priorities for Greece. The authorities continue implementing their strategy on digital upskilling through the National Digital Academy and the National Coalition for digital skills and jobs. These initiatives respectively aim towards the gradual introduction of tailored digital skills programmes to meet the needs of specific target groups, as well as increase the digital talent pool needed for the twin transition (and mitigate the impact of delignification in the most affected areas, among others). In terms of addressing connectivity issues and promoting 5G roll-out, the auctioning of the 5G

⁽⁷²⁾The final of the 14 Permanent Secretary posts was appointed on 21 October 2020 at the Ministry of Migration and Asylum.

⁽⁷³⁾The new law regulates issues of digital governance and electronic communications in the public sector, and includes, inter alia, the transposition of the European Union Directive (EU) 2018/1972 on the establishment of a European Electronic Communications Code, codifying more than 125 provisions, previously scattered in Greek legislation.

pioneer bands ⁽⁷⁴⁾ is scheduled for end-2020 and the authorities expect to eventually reach 96% 5G coverage, which will require large investment in very-high capacity networks ⁽⁷⁵⁾. The innovative scheme for a National Fund for 5G in Greece, established through the recently adopted Code of Digital Governance, is expected to play a pivotal role in the development of the 5G ecosystem. This aims to channel funds to innovative small and medium-sized enterprises, thus helping create a market of 5G products and promoting the development of vertical industries such as transport, logistics and supply chain, manufacturing, utilities, grids and health care.

Tangible progress is recorded with respect to the simplification and digitalisation of public sector processes and data, and the interoperability of public systems and registries. Specifically:

- The work on process simplification and digitalisation continues through the implementation of the National Programme for Process Simplification, notably in the areas of transport and justice. To structure this work, the authorities aim to deliver shortly an action plan to prioritise the simplification areas and web services to be launched over the next year.
- The authorities are on track with the implementation of the roadmap for the development of the integrated transactions portal (gov.gr), which to date features more than 670 services, i.e. some 60 more since September.
- Work continues on promoting the interoperability of public registries and systems, with the first steps towards the creation of a “master interoperability registry” completed ⁽⁷⁶⁾.
- Work progresses on ensuring the robustness and business continuity of key public IT systems ⁽⁷⁷⁾.
- The tender for the digitalisation of geospatial data, which is an ambitious reform ⁽⁷⁸⁾ to be rolled-out within two years, namely for the development of the Single Digital Map and the State Infrastructures Registry, was launched.

⁽⁷⁴⁾ 700 MHz, 3.6 GHz and 26 GHz.

⁽⁷⁵⁾ This includes rural areas and islands, securing 5G networks, including corridors for connected and automated mobility, and international connectivity (e.g. project on submarine cables with Cyprus and Italy).

⁽⁷⁶⁾ The first steps taken concern the consolidation of citizen records among four core registries (citizens, tax, insurance and identity).

⁽⁷⁷⁾ This concerns the launching of the tender for database private cloud computing services and database backup infrastructure, which took place in October.

⁽⁷⁸⁾ The reform aims within a two-year horizon to digitally capture and make publically available all land use rules concerning licensing and construction covering all of Greece’s territory (e.g. concerning forest, offshore and coastal areas, archaeological sites), in addition to creating digital records for all key public infrastructures, to be used as an infrastructure management tool by the administration.

9.3. JUSTICE

Steady progress has been made with the transition to mandatory electronic filing and processing of documents throughout the Courts. Electronic filing and processing of documents and the electronic issuance of court decisions are key steps towards improving the efficiency of the judiciary, whereas the distribution of digital signatures to court officials and staff, as well as to the members of legal professions (see below), is a prerequisite for the implementation of all above activities. The authorities committed to submit shortly an action plan on e-filing-related initiatives, containing an overview of the current situation and detailing planned actions, including an implementation timetable. Next steps include the adoption of legislation, by the end of 2020, allowing for electronic filing in instances where this is not yet expressly allowed and for the remote submission of declarations of attendance of a hearing by lawyers. With regard to the electronic issuance of court decisions, the authorities plan to distribute to all courts, by the end of January 2021, a software developed for this purpose by the Piraeus Court. Further progress has been made regarding the electronic issuance of court certificates. Regarding the project for the consolidation of approximately forty insolvency-related certificates into a few more encompassing ones, the authorities submitted a progress report, according to which the project will be completed by February 2021. The penal extract certificate is henceforth available online and the authorities expect the procedure for its issuance to become fully automated by June 2021, while the authorities committed to deliver a progress report on the fully electronic implementation of the consensual divorce procedure (as opposed to the mere delivery of related certificates) by January 2021. The authorities intend to adopt legislation allowing for the use of printouts of e-certificates as certified copies by the end of December 2020. They are also in the process of establishing an interconnection between the Athens, Thessaloniki, Piraeus and Chalkida courts on one hand and local bureaus for the provision of administrative services to citizens on the other, allowing for the delivery of e-certificates by the latter.

Work is ongoing regarding the distribution of electronic signatures to judges and members of the legal professions. Concerns about private data protection resulted in a temporary halt of their distribution to judges and court clerical staff but the problem was subsequently resolved and the authorities expect it to be completed by November 2020. As for the members of the legal professions, the authorities confirmed that the Ministry of Justice stands ready to take legislative initiative to facilitate and accelerate the proceedings, should such a course be warranted in view of the entry into force of mandatory e-filing in administrative jurisdictions in January 2021.

The evaluation of offers in the context of the tender for the second phase of the Integrated System for the Processing of Civil and Penal Cases, an end-2020 specific commitment, continues and the authorities confirmed their intention to award the contract to the selected bidder in December 2020. Following the submission of an assessment of the technical part of offers to the Ministry of Justice for approval, the authorities foresee completion of the assessment of the financial part of the offers by end-November 2020, in time for proceeding as planned with awarding the contract in December 2020.

Other reforms in the judicial system have marked steady progress as follows:

- *The authorities took a number of initiatives to support the function of mediation.* The Central Committee for Mediation is putting in place a help desk for legal professionals and citizens, to provide legal guidance and support to stakeholders. The authorities are monitoring the take-up of mediation. Regarding progress recorded so far covering the first two quarters of 2020, while the number of litigants who chose to proceed with mediation in the context of mandatory mediation, did not exceed 18%, the number of the cases in question eventually resolved in this manner amounted to 70%, and the duration of the mediation proceedings did not exceed two days. In the context of optional mediation, a 35% increase in cases subjected to it was recorded from the first to the second quarter of 2020 (from 191 to 250 cases), of which approximately 50% were successfully resolved within two days on average. These results are encouraging and highlight the need for the further dissemination of information and the provision of training to stakeholders.
- *The implementation of the legislation on special chambers in civil and administrative courts will be detailed in a progress report, which will be provided by December 2020.* On 1 October 2010, the plenary formation of the Athens Court of appeal resolved unanimously to form two special chambers to deal with competition cases (actions for damages for transgressions of competition law) and private disputes related to national and EU law in the fields of electronic transactions, energy and the protection of personal data. Moreover, regarding first-instance courts, following the appointment of their newly elected administrations in October 2020, the next steps are expected to be determined by their respective relevant administrative formations. The authorities committed to deliver a progress report to the European institutions by December 2020.
- *The work stream on improving the working methods in courts, which is an important part of the ongoing justice reform, is proceeding as planned.* The Code of Judicial Staff is set for adoption in December 2020. According to information given by the authorities, it will set exacting professional standards through cultivating a heightened sense of duty on the basis of objective evaluation criteria and meritocratic promotion; moreover, two new branches of judicial clerks will be established, one for judicial documentation and assistance and one for judicial communication and international relations. Each branch will have its own hierarchy and specifically tailored promotion criteria, recruitment process and introductory training. Finally, the quality of service and the maintenance of a high level of professional skills will be ensured by the provision of lifelong training in areas such as administration and organisation of the service, digital skills, procedural and substantive law.
- The revision of certain sections of the draft Code on the Status of Judges and the Organisation of Courts, which are expected to bring improvements to the methodology for the evaluation and professional advancement of judges and to the treatment of disciplinary matters, will be entrusted to a law-drafting committee in January 2021 with a view to its adoption in time for the start of the next judicial year in September 2021. Its work will be informed by technical support provided through the European Commission on best practices in various Justice-related matters, whose relevant

aspects will be prioritised in view of a timely submission of its conclusions to the law-drafting committee.

- *The launch of the tender for the ‘JustStat’ project for the creation of the statistical information unit for judicial data is expected to take place by the end of December 2020.* Concurrently, the authorities confirmed that secondary legislation is in preparation, in cooperation with the Hellenic Statistic Authority, regarding the provision of technical know-how.

9.4. FIGHT AGAINST CORRUPTION

The National Authority for Transparency is now fully operational, which is expected to improve coordination and a number of important steps have been taken regarding the fight against corruption in the political field. Good progress is being made on several work streams⁽⁷⁹⁾. The Authority oversees the implementation of the National Anticorruption Plan, which shows encouraging results. For instance, it has supported the Ministry of Health in the drafting of a dedicated anticorruption strategy, which is planned to deliver results before the end of the year⁽⁸⁰⁾. A number of important steps have also been made regarding the fight against corruption in the political field. First, the legislation on political party financing will benefit from a codification project in 2021, which should contribute to making the legal framework more coherent and clear. Secondly, the draft law on lobbying activities is planned to be adopted by the end of this year and to be implemented as of mid-2021⁽⁸¹⁾. As regards asset declaration audits, one of the four bodies in charge has introduced a risk-based methodology to plan its audits, which is a positive development. Some of these bodies reported that a swifter access to databases, such as the one held by the Independent Authority for Public Revenue, would reinforce their operational capacity. In this context, the authorities are yet to align the list of politically exposed persons subject to asset declaration with the updated definition of politically exposed people, as well as with the persons entrusted with top executive functions at national level. Last, a major reform, which aims at implementing sound internal control systems across the public administration, is overseen by the Authority and is expected to have a major impact in the fight against corruption in the public administration as well as improving the monitoring of the public finance management area (see section 3.4).

The implementation of the recommendations made by the Group of States against Corruption regarding the softening of sanctions for bribery of public officials is

⁽⁷⁹⁾For a more complete overview, see the Rule of Law Report for Greece https://ec.europa.eu/info/sites/info/files/el_rol_country_chapter.pdf.

⁽⁸⁰⁾It also provided support in the design of an updated anti-corruption strategy in the public procurement sector (see section 3.4).

⁽⁸¹⁾This reform would help addressing the recommendation (vii) that the Group of States against Corruption made in its 4th evaluation: <https://rm.coe.int/fourth-evaluation-round-corruption-prevention-in-respect-of-members-of/168078f072>.

ongoing. The recommendations ⁽⁸²⁾ referred to June 2019 changes in the Criminal Code and the Criminal Code of Procedures that downgraded the criminal offence of bribery of public officials from a felony to a misdemeanour. Addressing these recommendations in a consistent way requires a comprehensive review of the legal framework for the fight against corruption of public officials. The Committee in charge is expected to draft new amendments by mid-2021. The Group of States against Corruption has invited the authorities to submit a report on measures taken to implement its recommendations by end-October 2021. A swift adoption of the provisions addressing these recommendations would enable Greece to fight corruption of public officials more effectively and also to abide by the Criminal Law Convention on Corruption and its Additional Protocol.

⁽⁸²⁾ Ad hoc Report on Greece (rule 34) December 2019 <https://rm.coe.int/ad-hoc-report-on-greece-rule-34-adopted-by-greco-at-its-84th-plenary-m/1680994dc0> and follow-up report.

ANNEX

Progress with the implementation of due specific commitments and relevant continuous commitments (*) given to the Eurogroup ([Annex to the Eurogroup statement, 22 June 2018](#))

Commitment	State of play and next steps
<p>(*) Fiscal. Achieve a primary surplus of 3.5% of GDP over the medium-term.</p>	<p>The 2021 Draft Budgetary Plan expects the primary deficit monitored under enhanced surveillance in 2021 to reach 1.1% of GDP. The fiscal policy setting planned for 2021 takes into account the continued application of the General Escape Clause in 2021.</p>
<p>Public financial management. Complete the cash monitoring and forecasting for the General Government Treasury account system.</p>	<p>The commitment has been successfully completed. The Treasury Single Account system is operational and offers an overview of the cash situation of the state as well as an efficient liquidity-monitoring tool. The Ministry of Finance has set up a dedicated tool for the monitoring of the entities' cash forecasting, which will be gradually rolled out.</p>
<p>(*) Arrears. The authorities will implement the arrears clearance plan and avoid the accumulation of new arrears.</p>	<p>The stock of arrears has decreased since the last report but sustained efforts are required to meet the ambitious target for the end of the year. While the stock of arrears remains above the levels envisaged in the October 2019 action plan, the slippages created in early-2020 also due to the pandemic have been recovered, except for the backlog of unprocessed pension claims, where the automatic processing and awarding of pensions is expected to deliver fully only next year. While the stock of arrears decreases, new arrears continue to be created, which underlines the importance of implementing the Hellenic Court of Auditors recommendations, a mid-2021 specific commitment, amongst which strengthening the internal control system is key.</p>

Commitment	State of play and next steps
<p>Tax administration. Reach the agreed permanent staffing positions at the Independent Authority of Public Revenue (IAPR) of 12 500.</p>	<p>The supplementary wage grid legislation for the Independent Authority for Public Revenue, which is a key step towards completing its human resources reform, has been published for public consultation and is expected to be adopted by end-November 2020. The reform is expected to strengthen the Independent Authority’s ability to maintain and attract new high-calibre staff, which at the end of the third quarter remained well below the staffing target set for end-2019 (11 947 compared to 12 500). The authorities have confirmed that ongoing hiring procedures at the Ministry of Finance will not have a negative impact on the Independent Authority’s overall capacity. It is expected that the overall human resources reform will become operational by 1 January 2021.</p>
<p>Tax policy. Greece will undertake a nationwide valuation exercise of property tax value based on market values and will update property tax values for ENFIA and other taxes fully in line with market values.</p>	<p>Progress towards completion of the nationwide reassessment of property tax values has slowed down; this was a mid-2020 specific commitment, whose finalisation has now been rescheduled for mid-2021. Inevitable delays occurred earlier in the year due to the coronavirus lockdown and further delays have taken place owing to the quality assessment required by successful appeals to the Council of State. The reassessment and expansion of the existing value zone system is now planned to be finalised in March 2021, in time for the property tax assessment of August 2021.</p>
<p>(*) Health care. The authorities will complete the full offsetting and collection of the clawback by June every year for the previous calendar year.</p>	<p>Clawbacks are still high but steps are being taken to improve their collection. The authorities adopted legislation to enable the collection of the 2019 clawback for the pharmaceuticals and to start the collection of the providers’ clawback for the years 2018 and 2019. The authorities are making incremental steps to tackle the supply-driven overconsumption of health services. However, deeper revisions appear necessary to effectively</p>

Commitment	State of play and next steps
	counter supply-induced demand and to curb the generation of new clawbacks.
<p>Health care. Greece will ensure the rollout of the primary health care system, in particular by opening all 240 primary health care units.</p>	<p>Greece is strengthening the preparedness of the health-care system for the current health emergency, and the implementation of a fully-fledged and effective primary health care would be key in that respect given the positive results already achieved by putting to use the existing primary health care units. The authorities committed to finalise the new legal framework by the time of publication of the 10th enhanced surveillance report due in mid-2021.</p>
<p>Health care. Achieve a share of centralised procurement in total hospital expenditure of 30%.</p>	<p>Centralised procurement for health care expenditure is moving forward despite the current situation. The authorities are progressing towards the implementation of this target, with an intermediate goal of 30% to be centrally procured by the first quarter of 2021. The authorities have also agreed to re-activate the price observatory from January 2021 and to adopt the new legal status of the National Central Authority of Health Procurements by the end of 2020.</p>
<p>Social welfare. Complete the rollout of all three pillars of the Social Solidarity Income scheme.</p>	<p>The completion of the third pillar of the Social Solidarity Income scheme, stalled following the coronavirus outbreak, needs to restart. The provision of labour market reintegration services for the beneficiaries of the Guaranteed Minimum Income scheme should be based on the findings of the pilot project undertaken in a number of municipalities in 2019. The authorities have adopted a revised timeline, according to which the nationwide rollout should start in April 2021.</p>

Commitment	State of play and next steps
<p>Social welfare. Review the system of subsidies for local public transport.</p>	<p>The implementation of this commitment is overall progressing according to the agreed timeline. The secondary legislation to allow a regular and objectively-based reimbursement of subsidised public transport tickets for vulnerable groups including disabled persons and members of large families has been adopted in October 2020, while the secondary legislation setting compensation levels for main transport operators is under preparation.</p>
<p>Social welfare. Complete the set-up of the single pension fund EFKA.</p>	<p>The authorities are making good progress in finalising the organisational and institutional setup of the Single Social Security Fund (e-EFKA). The merging of the public sector and supplementary pension functions has already been implemented including the physical move of offices; the remaining move concerns the employees of the former farmers fund, which is expected to be fully completed by the end of the year.</p>
<p>(*) Financial stability. Greece will continue to implement reforms aimed at restoring the health of the banking system, including non-performing loans resolution efforts by ensuring the continued effectiveness of the relevant legal framework (i.e. household and corporate insolvency, out-of-court workout, non-performing loans sales, e-auctions) and taking all necessary actions to this effect.</p>	<p>Following the adoption of the new Insolvency Code, the authorities are preparing the secondary legislation and the necessary infrastructure. In view of the entry into force of the Code in January 2021, the authorities aim at completing the process incrementally – along with the development of the underlying electronic platform – by the end of December. Work on the key ministerial decisions on the loan subsidy, sale and leaseback mechanism and the algorithm for the computation of restructuring proposals will receive priority and the authorities committed to share advanced drafts with the European institutions by mid-November.</p> <p>The authorities have adopted a set of new provisions to enable the processing of the long-standing backlog of household insolvency cases.</p>

Commitment	State of play and next steps
	<p>Given that the implementation will depend on the case-processing capacity of individual courts, close monitoring is warranted. The success of these provisions will depend on the authorities' ability to address staff shortages and overcoming infrastructure challenges.</p> <p>The authorities have also adopted the first set of measures aimed at enhancing the functionality and user-friendliness of the e-auctions platform. Regarding further identified issues, the authorities confirmed that they would be considered in the context of the Code of Civil Procedure review. The authorities committed to submit a progress report in November 2020.</p> <p>The implementation of the agreed plan for the clearance of called state guarantees is on track while the backlog of called guarantees remains considerable.</p> <p>A limited amendment of the primary legislation on deferred tax credits has been voted in September to safeguard the loss-absorbing capacity of the banks' capital in all cases, including resolution. Work is ongoing on further technical aspects in the form of secondary legislation.</p>
<p>(*) Labour markets, product markets and competitiveness.</p>	<p>In light of the coronavirus pandemic, the authorities decided in agreement with the social partners to postpone the annual update of the statutory minimum wage, from June 2020 to January 2021.</p>

Commitment	State of play and next steps
<p>Investment licensing. Complete the investment licensing reform, and to this end fully deploy the relevant ICT.</p>	<p>The full deployment of the relevant IT system, which is critical to support the new investment licencing framework, continues to be delayed due to legal challenges.</p>
<p>Investment licensing. Greece will finalise inspection legislation.</p>	<p>In the area of inspections, all starting tools in the three agreed priority areas are expected to be swiftly put in action, in tandem with the full roll-out of training. Remaining elements to ensure effective enforcement and compliance on these areas are expected to be fully addressed by April 2021, in parallel to the roll-out of the inspections framework in the remaining four areas, which is expected to be completed by end-2021. The successful completion of the remaining work critically depends on the timely inputs by all ministries involved and the commitment of all stakeholders.</p>
<p>Investment licensing. Greece will finalise the simplification of investment licensing procedures in the agreed remaining sectors.</p>	<p>The authorities are expected to submit for public consultation by end-November a bill that will simplify licensing procedures in most sectors that have not been reformed thus far, and developed a timeline to fully complete the simplification of investment licensing procedures in all remaining activities by June 2021. In parallel, they continue to simplify and fine-tune areas related to sectors already reformed.</p>
<p>Cadastral. Greece will fully establish the cadastral agency and complete 45% of cadastral mapping.</p>	<p>The cadastral agency is expected to be fully operational by end-2021, in line with the roadmap for the cadastre project. This is later than envisaged under the original mid-2020 commitment and reflects delays encountered due to the pandemic but also earlier on. The authorities have progressed in the area of forest maps and cadastral mapping. While the original target of 45% coverage of cadastral mapping had to be delayed to December 2021</p>

Commitment	State of play and next steps
	due to the pandemic and other technical difficulties, the authorities will submit to Parliament a bill with a view to accelerating the collection of the remaining rights, scheduled to be adopted in November 2020. By October 2020, 35% of the cadastral maps have been completed.
Energy. With a view to completing reforms in the energy sector, implement the measures agreed as part of the joint assessment on the NOME auction system.	The authorities submitted on 23 October a final proposal for an anti-trust remedy related to the Public Power Corporation's lignite generation, constituting a key step towards fulfilling this specific commitment. However, the Commission is still waiting for final authorisation from the authorities to start carrying out a market test of the proposed remedy, so that the measures can be implemented in the market in 2021.
Energy. Launch the Target Model.	A major energy market reform was achieved as the Target Model, a mid-2020 specific commitment, went live on 1 November, which is a big step towards Greece fulfilling the obligations of the EU energy acquis.
(*) HCAP. The Strategic Plan of HCAP will be implemented on a continuous basis.	The authorities are in the process of updating the Ministerial Guidance, which is expected to be finalised by end-2020. The strategic plan will be updated following the issuance of the Ministerial Guidance. The Corporation and the state-owned enterprises are carrying out the next phase of the implementation of the Coordination Mechanism: the statement of commitments, which will set out the state-owned enterprises' financial, operational and other objectives and are expected to be finalised by December 2020. The review of the boards of the state-owned enterprises is close to completion.

Commitment	State of play and next steps
<p>Privatisation. The Asset Development Plan will be implemented on a continuous basis.</p> <p>With a view to swiftly attracting investment to support a sustained economic recovery, complete the transactions on Hellinikon, HELPE, marina of Alimos, Egnatia, DEPA commercial, regional ports of Alexandroupoli and Kavala, AIA shares, EYDAP and EYATH.</p>	<p>The authorities continued their strong engagement and efforts to complete the prerequisites for the financial closing of the <i>Hellinikon</i> transaction. Following the Council of State decision of 18 September, the way for the financial closing of the transaction has been established. However, there are still some pending legal cases set for discussion in November 2020.</p> <p>Despite some technical issues, the <i>Marina of Alimos concession</i> is expected to be financially closed before the end of the year.</p> <p>While progress on the pending actions necessary for the <i>Egnatia motorway concession</i> has been slower than expected in the past months, the authorities have recently taken significant steps towards the conclusion of this transaction. In particular, a significant number of toll stations were completed and put in operation at the beginning of November, and the Ministry of Infrastructure committed to putting all the toll stations in operation before the commencement of the concession agreement. Additionally, some progress was made over the past two months in relation to the required works necessary for the licencing of remaining 14 tunnels.</p> <p>Progress was made on a number of other ongoing transactions. This includes the transaction of the <i>Public Gas Corporation – DEPA Infrastructure</i>, for which the Regulatory Authority for Energy provided clarity on the tariffs framework for distribution system operators, as well as on the asset perimeter to ensure it remains a cohesive and attractive asset. The phase of the invitation for the expression of interest was concluded in October for three <i>regional ports</i> and the <i>underground natural gas storage South Kavala</i>, attracting strong investors’ interest.</p>

Commitment	State of play and next steps
	<p>Some transactions needed to be delayed following a significant fall in the assets' capitalisation value due to the pandemic. This is in particular the case of <i>Hellenic Petroleum</i>, which had previously already suffered significant delays following the failure of the first tender in mid-2019, and the Fund now considered appropriate to delay the launching of the transaction to a later point in time. Similarly, the <i>sale of 30% of Athens International Airport</i> has been postponed and the Fund will determine next steps once the situation improves, likely late in 2021.</p>
<p>Public administration. Complete the integrated HR Management System (digital organigram for all public entities and link with single payment authority).</p>	<p>The modernisation of human resource management is progressing well as the vast majority of public sector entities has by now completed their digital organigrams, an end-2020 specific commitment. Until end-October, more than 80% of general government entities had completed their digital organigrams and the authorities expect that nearly all entities will complete this task by end-2020. The preparation of job descriptions and the establishment of links between job description and jobholder is also progressing which will allow for a connection to the Single Payment Authority by end of this year.</p>
<p>Legal codification. In view of enhancing legal certainty and access to law through legal codification, adopt the Labour Law Code and Code of Labour Regulatory Provisions.</p>	<p>With a view to enhancing legal certainty and access to law, the authorities are preparing the codification of the labour market legislation and identified further areas for codification. The process has suffered delays due to the pandemic. The annual codification plan for 2021, adopted by the Council of Ministers, includes an ambitious programme including on spatial and town planning, trading of goods and services, collection of public revenue and party financing.</p>

Commitment	State of play and next steps
<p>Justice. In the context of implementing the Three-Year Action Plan on Justice, implement the electronic filing of legal documents throughout the Courts, having completed the tendering procedure.</p>	<p>Steady progress has been made with the transition to mandatory electronic filing and processing of documents throughout the Courts and work is ongoing regarding the distribution of electronic signatures to judges and members of the legal professions. The authorities committed to submit shortly an action plan on <i>e-filing-related initiatives</i>, containing a mapping of the current situation and detailing planned actions, including an implementation timetable. With regard to the <i>electronic issuance of court decisions</i>, the authorities plan to distribute to all courts, by the end of January 2021, a software developed for this purpose by the Piraeus Court. Further progress has been recorded regarding the <i>electronic issuance of court certificates</i>.</p>
<p>Justice. In the context of implementing the Three-Year Action Plan on Justice, complete phase II of the establishment of the e-justice system (OSDDY-PP).</p>	<p>The evaluation of offers in the context of the tender for the second phase of the Integrated System for the Processing of Civil and Penal Cases continues and the authorities confirmed their intention to award the contract to the selected bidder in December 2020.</p>

Complementary commitments undertaken by Greek authorities in May 2020

Complementary commitment	State of play and next steps
<p>Better regulation. Achieve improvements in the regulatory framework for doing business in the areas of construction permits, obtaining access to electricity, registering property, resolving</p>	<p>Work continues to further ease doing business. In addition to notable improvements in the frameworks of insolvency and dispute resolution, and an upcoming reform of public procurement, the authorities improved and</p>

Complementary commitment	State of play and next steps
<p>insolvency, accessing credit, protecting minority investors, contracting with the government, enforcing contracts, starting a business, paying taxes, and trading across borders by mid-2021.</p>	<p>accelerated the refund process for the value added tax. Key interventions scheduled by March 2021 aim to streamline and accelerate administrative processes, including those related to building permits, business start-ups, electricity connections, and registering property. Moreover, with technical support from the Commission provided through the World Bank, the authorities are designing additional measures in key areas.</p>
<p>Labour law. Improve and modernise the framework for individual labour law, including tackling the issues of highly restrictive overtime rules, unnecessary sectoral differentiation, white collar/blue collar rules, and take account of flexible and home working, as well as implement these measures through secondary legislation, by September 2020.</p>	<p>The government has presented its proposals to modernise several aspects of the labour legislation. The legislation, currently under consultation with the social partners, foresees substantial changes, modernising, amongst others, the rules concerning working time and annual leave, employment protection legislation, dismissals and trade union law.</p>
<p>Justice. Introduce an action plan for the creation of specialised court chambers for specific categories of cases to improve the delivery of justice, particularly in areas of high economic impact, and introduce the adequate legislation by mid-2020.</p>	<p>On 1 October 2010, the plenary formation of the Athens Court of appeal resolved unanimously to form two special chambers to deal with cases in the fields of competition, electronic transactions, energy and personal data protection, and other courts are expected to follow suit, following the appointment of the newly elected court administrations in October 2020. A progress report detailing the next steps in view of the implementation of the legislation on special chambers in civil and administrative courts will be provided by December 2020.</p>
<p>Justice. Enact the new Code of Judicial Staff and present a timetable for the adoption of the New Code for the Organisation of Justice and the Status of Officers of the Courts by May 2020.</p>	<p>The work stream on improving the working methods in courts, which is an important part of the ongoing justice reform, is proceeding as planned. The Code of Judicial Staff is set to be adopted in December 2020. The revision of certain sections of the draft Code on the Status of Judges and the Organisation of Courts</p>

Complementary commitment	State of play and next steps
	will be entrusted to a law-drafting committee in January 2021 with a view to its adoption in time for the start of the next judicial year in September 2021.
<p>Justice. Present an action plan for the Creation of a specialised ‘JustStat’ unit for data collection and processing to measure and improve the performance of the judicial system by mid-2020; introduce the relevant legislation by June 2020.</p>	<p>The launch of the tender for the ‘JustStat’ project for the creation of the statistical information unit for judicial data is expected to take place by the end of December 2020.</p>
<p>Public administration. Strengthen the efficiency of the personnel selection system through improving the capacity of the Supreme Council for Civil Personnel Selection (ASEP), including in the areas of competition procedures, scoring classification procedures, temporary staff hiring procedures, and the Council’s organisation by end-2022.</p>	<p>The authorities have finalised a law to further strengthen the Supreme Council for Civil Personnel Selection, which is expected to be published in November and adopted before end of 2020.</p>
<p>Public administration. Strengthen the hiring control of the public sector through setting an annual ceiling of temporary staff by end-2020, which will be applied from 2021.</p>	<p>The authorities are working on establishing an annual ceiling on temporary staff by end-2020. In an effort to learn from past lessons, the authorities are documenting deviations from the hiring procedures and the unified wage grid, with an initial focus on the period from July 2019, while the previous years would be covered in the second stage.</p>
<p>Transport. Revise the legal framework for approving the sustainable urban mobility plans according to best European practices by September 2020. Following this revision, report on the progress of the elaboration of sustainable urban mobility plans for the main urban centres by October 2020.</p>	<p>The authorities have revised the legal framework for sustainable urban mobility plans according to best European practices. Following this revision, a report on the progress of the elaboration of sustainable urban mobility plans for the main urban centres will be submitted by 15 November.</p>

Complementary commitment	State of play and next steps
<p>Management of public real estate. Draw up a holistic and coherent strategy aiming to optimise the protection, management and investment-oriented exploitation of public real estate, including all organisations involved with public real estate management, without prejudice to their mandates, by September 2020.</p>	<p>The authorities intend to proceed with a comprehensive study that will help them in the elaboration of a holistic and coherent strategy aiming to optimise the functioning of the Greek real estate market. Structural initiatives that will in turn improve the performance of publicly held real estate will be welcome, though any initiatives will need to be consistent with the independent asset management mandates of the Hellenic Corporation of Assets and Participations and, in turn, the Public Real Estate Company.</p>
<p>Strategic project pipeline. Fully develop a Strategic Project Pipeline of large infrastructure projects with the objective to better coordinate and monitor future public expenditures and maximise complementarities between private, public and EU funded projects by January 2021.</p>	<p>The Strategic Projects Pipeline will facilitate the selection of projects of national importance and will be coordinated at the level of the Presidency of the Government, outside the core structure of the line ministries.</p>
<p>Project preparation facility. Develop and fully operationalise an improved support and delivery mechanism for project preparation and implementation to ensure efficiency and quality of both public sector infrastructure projects as well as Public Private Partnerships by March 2021.</p>	<p>The Project Preparation Facility is expected to accelerate the preparation of projects included in the Strategic Projects Pipeline, to take them efficiently from a concept stage to an implementation stage. The Facility will be established within the Hellenic Republic Asset Development Fund, where appropriate safeguards will be put in place to ensure that the Fund will continue to independently exercise its existing core mandate. The Facility will be supported by an international financial institution as a strategic partner.</p>
<p>Public procurement. Adopt a new public procurement strategy for 2021–2025 by end 2020.</p>	<p>The authorities plan to adopt a major public procurement reform by the end of the year. The reform builds on the experience with implementing the rules put in place in 2016 and aims to address, among others, the high observed number</p>

Complementary commitment	State of play and next steps
	of single bid procedures or contracts awarded exclusively based on the lowest price offered. It also further streamlines the still lengthy award procedures.
<p>E-Health. Develop an electronic Medical Health Record to streamline the use of existing electronic medical record applications and update as necessary the design and use of agreed electronic medical record standard across public (and private) healthcare institutions by end-2020.</p>	<p>The authorities intend to exploit the potential of the e-medical record, which they deem as a key component of the new primary healthcare system. The e-medical record is not fully implemented or functional as of now but is currently planned by mid-December.</p>
<p>E-Health. Extend the application of the electronic prescription project (2nd phase), including through therapeutic protocols, back-end integrations, artificial intelligence driven inquiries, necessary interconnection with information systems, and enabling electronic request and access to medicine for all outpatients with chronic diseases by end-2020.</p>	<p>The authorities shared the most recent update of their Digital Health Strategy, which envisages actions on the following areas: National Electronic Health Record Network, Cancer Treatment eHealth Program, Acute Care Digital Transformation, National Telemedicine Network National Expansion, On line Medical Appointment Scheduling System. No timeline was made available for these actions.</p>
<p>Health care strategy. Develop a National strategic policy framework for healthcare by end-2020.</p>	<p>In progress. This action will be assessed in the 9th enhanced surveillance report.</p>
<p>Health care planning. Map health and long-term care needs with available human and technical resources, and take measures to ensure the efficiency, sustainability, accessibility and affordability of health and long-term care services, as well as promote community-based services, by end 2020.</p>	<p>In progress. This action will be assessed in the 9th enhanced surveillance report.</p>

Complementary commitment	State of play and next steps
<p>Education. Enhance the autonomy of higher education by strengthening the accountability and transparency framework and through the introduction of the University Council by end-2020.</p>	<p>The new framework for the operation and autonomy of the higher education institutions is under preparation and will be completed in the next three months. The statute of the university councils will be re-established, whereas the management of the higher education institutions will be overseen by the university councils that will give directions, approve strategies and budgets, and monitor the administration of the universities. The accreditation of degrees is performed by the accreditation agency, the role of which was upgraded.</p>
<p>Education. Improve vocational education through the establishment of the National System of Vocational Education and Training by end-2020.</p>	<p>The authorities have prepared the new draft law on vocational education and training, which is expected to be adopted by December 2020. The vocational education and training reform will be fully deployed within a horizon of four years.</p>
<p>Education. Introduce internal school-unit evaluations, institutionalise external assessment of schools, and design new curricula for all subjects across all school levels by end-2021.</p>	<p>Following the introduction of internal evaluation of school units, reforms in school education are giving a particular emphasis to soft skills, such as social empathy, human rights, volunteering, environmental protection, creative thinking, and road safety.</p>
<p>E-governance. Develop the single digital portal (gov.gr) to integrate all electronic transactions for citizens and businesses with the state and related information, unify the legal framework on digital policy, and safeguard business continuity by ensuring sufficiency of digital infrastructure mid-2021.</p>	<p>The authorities are on track with the implementation of the roadmap for the development of the integrated transactions portal (gov.gr). The Code of Digital Governance was adopted on 22 September 2020.</p>
<p>E-governance. Implement the National Programme for Process Simplification in key policy areas and promote the</p>	<p>The authorities have completed the set up for the National Programme for Process Simplification, which aims to ease the administrative burden for citizens</p>

Complementary commitment	State of play and next steps
interoperability of registries, data and IT systems to ease the administrative burden for businesses and citizens by end-2021.	and businesses. The work on process simplification and digitalisation continues, notably in the areas of transport and justice.
Digitisation of geospatial data. Develop a State Infrastructures Registry to encapsulate technical and geospatial information about all public infrastructure projects to enable better planning and management of these projects, including for construction and maintenance purposes by end-2021.	The tender for the digitalisation of geospatial data, which is an ambitious reform to be rolled-outed within two years, namely for the development of the Single Digital Map and the State Infrastructures Registry, was launched.
Digitisation of geospatial data. Develop an Integrated Geospatial Data Mapping tool (Single Digital Map) to increase transparency to investors concerning land use rules across Greece and reduce unpredictability in relation to investment licensing decisions by end-2021.	See above.

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