

# Report on Greece's compliance with the Milestones for the disbursement to the Hellenic Republic of the third tranche of EUR 1.0bn of the EFSF instalment related to the fourth review under the second programme

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This report has been compiled by European Commission staff in liaison with ECB and IMF staff.

## Eurogroup decision on disbursement of the EFSF instalment related to the fourth review of the second adjustment programme for Greece

The Eurogroup of 1 April 2014 concluded that the necessary elements were in place for the approval of the EFSF instalment related to the fourth review under the second programme, which amounts to EUR 8.3 billion. Member States also agreed that the disbursement would take place in three tranches. A first tranche of EUR 6.3 billion was approved by the EWG and the EFSF Board of Directors on 24 April 2014 and was disbursed to Greece on 28 April 2014, following the full implementation of the related prior actions and finalisation of Member States' relevant national procedures. The disbursements of the second and the third tranches, amounting to EUR 1 billion each, were linked to the implementation of milestones agreed between Greece and the Troika institutions. Following the implementation of the first set of milestones, due by end-May 2014, the EWG and the EFSF Board of Directors approved respectively on 4 and 7 July the disbursement of the second tranche of EUR 1 billion. The disbursement to Greece took place on 9 July 2014 and was done conditional on a number of forward-looking commitments, including steps to fully implement these reforms through secondary legislation, other administrative acts, and complementary reforms (e.g., in the area of pharmaceutical spending, etc).

The disbursement of the third and final tranche of EUR 1.0 billion was made conditional upon the implementation of six milestones to be achieved by end-June as published in Table 12 of the April 2014 Compliance Report (Fourth Review of the Second Economic Adjustment Programme):

**Table 12. List of Milestones to be achieved by end-May and end-June 2014**

Milestones to be completed by **end-June 2014**

Milestone	Area	MoU Section
1. Adoption of the necessary legislation (1) to merge into ETEA all the supplementary pension funds under the public sector and (2) to apply the NDC and sustainability factor formulas to all the funds not currently in ETEA from 1 January 2015.	Pensions	2.8.1
2. Adoption of forestry law.	Spatial management and planning	5.1.3
3. Adoption of administrative burden legislation.	Procedural and administrative burden	5.1.2
4. Abolish effective 1 January 2015 all charges that finance auxiliary pensions under the Ministry of Labour.	Nuisance charges	5.1.1
5. Adoption of Small PPC law and clearance of all general government arrears with PPC.	Energy	2.1.1 & 6.1.4
6. Adoption of legislation on funding of political parties and legislation on declaration and monitoring of assets.	Anti-corruption	2.6.2

## **Assessment of compliance with the milestones to be completed by end-June 2014**

### ***Adoption of the necessary legislation (1) to merge into ETEA all the supplementary pension funds under the public sector and (2) to apply the NDC and sustainability factor formulas to all the funds not currently in ETEA from 1 January 2015***

(1) The Omnibus law (Law 4281/2014 FEK A 160/8.8.2014), approved by the Greek Parliament on 6 August 2014 includes the provisions to merge all supplementary pension funds under the public sector into ETEA. The authorities have argued that it is not possible to merge at this stage some of these funds currently under the public sector for technical reasons. The Omnibus law therefore provides that the merger for some of these funds will materialise on 1 July 2015, if these are still under public sector by 30 June 2015 (until when they may be transformed in the meantime into private funds outside the general government as defined by ESA 2010). For two of them, (TEAPASA and TEAPIEN) the merging will occur already on 1st January 2015, if they are still under the public sector (ESA 2010 definition) by end-2014. The details of such implementation will be determined by a ministerial decision. Implementation should ensure that no supplementary fund under the public sector (ESA 2010 definition) remain outside ETEA after 1 July 2015.

(2) The authorities have legislated on 7 April 2014 (Law 4254/2014, FEK A 85/7.4.2014 ) and on 6 August 2014 (art. 220 of the Omnibus Law 4281/2014 FEK A 160/8.8.2014) the implementation from 1 January 2015 of the sustainability factor formula and the NDC rules to all supplementary funds currently not in ETEA.

These important reforms will fit in the wider pension reform that will be agreed during the upcoming mission and legislated by November 2014 according to the MOU/MEFP.

### ***Adoption of forestry law***

The forestry law was approved by the Greek Parliament on 5 August 2014 (Law 4280/2014, FEK A 159/8.8.2014). The law includes a provision to issue a Presidential Decree (PD) with scientific criteria for the definition of forests and forest land within six months of the publication of the law. The Authorities have committed to submit the PD to the Council of State by end-November 2014 for approval by early February 2015.

### ***Adoption of administrative burden legislation***

The main legislation for the implementation of the 86 recommendations resulting from the OECD project to reduce administrative burden in 13 sectors of the Greek economy was approved by the Greek parliament through two laws. The Omnibus law was approved on 6 August 2014 (Law 4281/2014 FEK A 160/8.8.2014) including provisions on VAT, public procurement, company law, the coastline and other administrative burden recommendations. The tourism law was adopted on 29 July 2014 (Law 4276/2014, FEK A 155/30.7.2014). As a result, the Authorities have adopted legislation related to 80% of the administrative burden reduction which needed legislation. The Authorities have committed to a time-bound action plan for all pending legislation. This includes the adoption of the simplified VAT form with effect as of 1 January 2015 and the aquaculture law by end-August 2014 as the Parliament reconvenes after the summer recess.

### ***Abolish effective 1 January 2015 all charges that finance auxiliary pensions under the Ministry of Labour***

The Omnibus law (Law 4281/2014 FEK A 160/8.8.2014) approved by the Greek Parliament on 6 August 2014 abolishes three of the eight charges that finance auxiliary pensions under the Ministry of Labour effective as of 1 January 2015. The Authorities have committed to abolish the remaining five nuisance charges (those related to advertising fees) in the context of the reforms of the pension system and of advertising fees to be legislated by November 2014 as foreseen in the MoU, and this issue will therefore be discussed during the next review.

### ***Adoption of Small PPC law and clearance of all general government arrears with PPC***

The law for the creation and privatisation of small PPC was approved by the Greek Parliament on 11 July 2014 (law 4273/2014, FEK A 146/11.7.2014). This law constitutes a major reform in the energy sector in Greece. However, in order to overcome some resistances to the process, coming inter alia from local communities, the government has introduced in the final phase a requirement to keep the current stock of employees for five years (no firing for economic reasons). The law also sets the minimum sales price for the new company at its book value. Both of these provisions may need to be reviewed at a later stage before the actual sale takes place, if they present obstacles to the privatization.

With regard to the clearance of all general government arrears with PPC, the General Accounting Office has confirmed the transfer to PPC of an amount corresponding to all the outstanding arrears by the general government at the date of 30 June 2014. The transfer to clear the end-June stock has been made on 1 August 2014, and going forward the Authorities committed to ensure timely payment to PPC within 1 month from the due date.

### ***Adoption of legislation on funding of political parties and legislation on declaration and monitoring of assets***

The milestone includes legislation on two areas, drafted respectively by the Ministry of Interior and the Ministry of Justice under the coordination of the National Anti-corruption Coordinator.

The law on funding of political parties has been submitted to the Greek Parliament (draft law 2961/31.7.2014). The draft law improves existing rules on political parties financing and on electoral spending and follows a Council of Europe (GRECO) recommendation. However, as the law has not yet been adopted, the first component of this milestone remains unfulfilled at this stage: the Greek authorities have therefore provided additional assurances regarding its timely and full adoption. As confirmed in a letter by the Speaker of the Parliament, according to the article 72 of the Greek Constitution this law can only be adopted by the Parliament in Plenary session. This will not be possible until October, as until then, and since early June, the Parliament operates in “Department session” of 1/3 of the total number. In his letter, the Speaker of the Parliament has indicated that the law will be voted during the first week of the next Plenary session commencing on 7 October and certainly before 13 October 2014. Additional assurance has been received from the parliamentary whips of the two coalition parties, who have expressed the intention of their parties to adopt the draft law as submitted to Parliament. The Eurogroup of 13 October will therefore be in a position to verify that the law is adopted as expected. Consistency of the income tax code, as concerns tax deductibility of party donations, needs to be ensured by the time the law on funding of political parties is adopted.

The law on declaration and monitoring of assets was approved by the Greek Parliament on 6 August 2014 (art. 222-229 of Law 4281/2014 FEK A 160/8.8.2014). The law improves the existing system of declaration and monitoring of assets and provides for a list of government members and officials which will have a legal obligation to declare assets.

### **Recommendation**

On the basis of this report, all end-June 2014 milestones can be considered broadly met.

Forward looking commitments under the milestones discussed above need to be agreed as part of the forthcoming review mission. Also, the adoption of the law on funding of political parties, if does not take place in line with the assurances provided by the authorities, should become a necessary condition for completing the forthcoming review.

The Eurogroup Working Group is asked to endorse the disbursement to the Hellenic Republic of the third tranche of EUR 1.0 billion of the EFSF instalment related to the fourth review under the second programme. Following this endorsement, the EFSF Board of Directors will take the formal decision for the disbursement.