Dear President of the Eurogroup,

In the Eurogroup of 20 February 2015 the Greek government was invited to present to the institutions, by Monday 23rd February 2015, a first comprehensive list of reform measures it is envisaging, to be further specified and agreed by the end of April 2015.

In addition to codifying its reform agenda, in accordance with PM Tsipras' programmatic statement to Greece's Parliament, the Greek government also committed to working in close agreement with European partners and institutions, as well as with the International Monetary Fund, and take actions that strengthen fiscal sustainability, guarantee financial stability and promote economic recovery.

The first comprehensive list of reform measures follows below, as envisaged by the Greek government. It is our intention to implement them while drawing upon available technical assistance and financing from the European Structural and Investment Funds.

Truly

Yanis Varoufakis Minister of Finance Hellenic Republic

I. Fiscal structural policies

Tax policies – Greece commits to:

- Reform VAT policy, administration and enforcement. Robust efforts will be made to improve collection and fight evasion making full use of electronic means and other technological innovations. VAT policy will be rationalised in relation to rates that will be streamlined in a manner that maximises actual revenues without a negative impact on social justice, and with a view to limiting exemptions while eliminating unreasonable discounts.
- Modify the taxation of collective investment and income tax expenditures which will be integrated in the income tax code.
- Broaden definition of tax fraud and evasion while disbanding tax immunity.
- Modernising the income tax code and eliminating from it tax code exemptions and replacing them, when necessary, with social justice enhancing measures.
- Resolutely enforce and improve legislation on transfer pricing.
- Work toward creating a new culture of tax compliance to ensure that all sections of society, and especially the well-off, contribute fairly to the financing of public policies. In this context, establish with the assistance of European and international partners, a wealth database that assists the tax authorities in gauging the veracity of previous income tax returns.

Public Finance Management – Greece will:

- Adopt amendments to the <u>Organic Budget Law</u> and take steps to improve public finance management. Budget implementation will be improved and clarified as will control and reporting responsibilities. Payment procedures will be modernised and accelerated while providing a higher degree of financial and budgetary flexibility and accountability for independent and/or regulatory entities.
- Devise and implement a strategy on the clearance of arrears, tax refunds and pension claims.
- Turn the already established (though hitherto dormant) Fiscal Council into a fully operational entity.

Revenue administration – Greece will modernise the tax and custom administrations benefiting from available technical assistance. To this end Greece will:

- Enhance the openness, transparency and international reach of the process by which the General Secretary of the General Secretariat of Public Revenues is appointed, monitored in terms of performance, and replaced.
- Strengthen the independence of the General Secretariat of Public Revenues (GSPR), if necessary through further legislation, from all sorts of interference (political or otherwise) while guaranteeing full accountability and transparency of its operations. To this end, the government and the GSPR will make full use of available technical assistance.
- Staff adequately, both quantitatively and qualitatively, the GSPR and in particular the high wealth and large debtors units of the revenue

administration and ensure that it has strong investigative/prosecution powers, and resources building on SDOE's capacities, so as to target effectively tax fraud by, and tax arrears of, high income social groups. Consider the merits of integrating SDOE into GSPR.

• Augment inspections, risk-based audits, and collection capacities while seeking to integrate the functions of revenue and social security collection across the general government.

Public spending – The Greek authorities will:

- Review and control spending in every area of government spending (e.g. education, defence, transport, local government, social benefits)
- Work toward drastically improving the efficiency of central and local government administered departments and units by targeting budgetary processes, management restructuring, and reallocation of poorly deployed resources.
- Identify cost saving measures through a thorough spending review of every Ministry and rationalisation of non-salary and non-pension expenditures which, at present, account for an astounding 56% of total public expenditure.
- Implement legislation (currently in draft form at the General Accounts Office GAO) to review non-wage benefits expenditure across the public sector.
- Validate benefits through cross checks within the relevant authorities and registries (e.g. Tax Number Registry, AMKA registry) that will help identify non-eligible beneficiaries.
- Control health expenditure and improve the provision and quality of medical services, while granting universal access. In this context, the government intends to table specific proposals in collaboration with European and international institutions, including the OECD.

Social security reform – Greece is committed to continue modernising the pension system. The authorities will:

- Continue to work on administrative measures to unify and streamline pension policies and eliminate loopholes and incentives that give rise to an excessive rate of early retirements throughout the economy and, more specifically, in the banking and public sectors.
- Consolidate pension funds to achieve savings.
- Phase out charges on behalf of 'third parties' (nuisance charges) in a fiscally neutral manner.
- Establish a closer link between pension contributions and income, streamline benefits, strengthen incentives to declare paid work, and provide targeted assistance to employees between 50 and 65, including through a Guaranteed Basic Income scheme, so as to eliminate the social and political pressure for early retirement which over-burdens the pension funds.

Public administration & corruption – Greece wants a modern public

administration. It will:

- Turn the fight against corruption into a national priority and operationalize fully the National Plan Against Corruption.
- Target fuel and tobacco products' smuggling, monitor prices of imported goods (to prevent revenue losses during the importation process), and tackle money laundering. The government intends immediately to set itself ambitious revenue targets, in these areas, to be pursued under the coordination of the newly established position of Minister of State.
- Reduce (a) the number of Ministries (from 16 to 10), (b) the number of 'special advisors' in general government; and (c) fringe benefits of ministers, Members of Parliament and top officials (e.g. cars, travel expenses, allowances)
- Tighten the legislation concerning the funding of political parties and include maximum levels of borrowing from financial and other institutions.
- Activate immediately the current (though dormant) legislation that regulates the revenues of media (press and electronic), ensuring (through appropriately designed auctions) that they pay the state market prices for frequencies used, and prohibits the continued operation of permanently loss-making media outlets (without a transparent process of recapitalisation)
- Establish a transparent, electronic, real time institutional framework for public tenders/procurement re-establishing DIAVGEIA (a side-lined online public registry of activities relating to public procurement)
- Reform the public sector wage grid with a view to decompressing the wage distribution through productivity gains and appropriate recruitment policies without reducing the current wage floors but safeguarding that the public sector's wage bill will not increase
- Rationalise non-wage benefits, to reduce overall expenditure, without imperilling the functioning of the public sector and in accordance with EU good practices
- Promote measures to: improve recruitment mechanisms, encourage meritbased managerial appointments, base staff appraisals on genuine evaluation, and establish fair processes for maximising mobility of human and other resources within the public sector

II. Financial stability

Instalment schemes - Greece commits to

- Improve swiftly, in agreement with the institutions, the legislation for repayments of tax and social security arrears
- Calibrate instalment schemes in a manner that helps discriminate efficiently between: (a) strategic default/non-payment and (b) inability to pay; targeting case (a) individuals/firms by means of civil and criminal procedures (especially amongst high income groups) while offering case (b) individuals/firms repayment terms in a manner that enables potentially solvent

enterprises to survive, averts free-riding, annuls moral hazard, and reinforces social responsibility as well as a proper re-payment culture.

- De-criminalise lower income debtors with small liabilities
- Step up enforcement methods and procedures, including the legal framework for collecting unpaid taxes and effectively implement collection tools

Banking and Non-Performing loans. Greece is committed to:

- Banks that are run on sound commercial/banking principles
- Utilise fully the Hellenic Financial Stability Fund and ensure, in collaboration with the SSM, the ECB and the European Commission, that it plays well its key role of securing the banking sector's stability and its lending on commercial basis while complying with EU competition rules.
- Dealing with non-performing loans in a manner that considers fully the banks' capitalisation (taking into account the adopted <u>Code of Conduct for Banks</u>), the functioning of the judiciary system, the state of the real estate market, social justice issues, and any adverse impact on the government's fiscal position.
- Collaborating with the banks' management and the institutions to avoid, in the forthcoming period, auctions of the main residence of households below a certain income threshold, while punishing strategic defaulters, with a view to:

 (a) maintaining society's support for the government's broad reform program,
 (b) preventing a further fall in real estate asset prices (that would have an adverse effect on the banks' own portfolio), (c) minimising the fiscal impact of greater homelessness, and (d) promoting a strong payment culture.
 Measures will be taken to support the most vulnerable households who are unable to service their loans
- Align the out-of-court workout law with the instalment schemes after their amendment, to limit risks to public finances and the payment culture, while facilitating private debt restructuring.
- Modernise bankruptcy law and address the backlog of cases

III. Policies to promote growth

Privatisation and public asset management – To attract investment in key sectors and utilise the state's assets efficiently, the Greek authorities will:

- Commit <u>not</u> to roll back privatisations that have been completed. Where the tender process has been launched the government will respect the process, according to the law.
- Safeguard the provision of basic public goods and services by privatised firms/industries in line with national policy goals and in compliance with EU legislation.
- Review privatisations that have not yet been launched, with a view to improving the terms so as to maximise the state's long term benefits, generate revenues, enhance competition in the local economies, promote national economic recovery, and stimulate long term growth prospects.
- Adopt, henceforth, an approach whereby each new case will be examined separately and on its merits, with an emphasis on long leases, joint ventures

(private-public collaboration) and contracts that maximise not only government revenues but also prospective levels of private investment.

• Unify (HRDAF) with various public asset management agencies (which are currently scattered across the public sector) with a view to developing state assets and enhancing their value through microeconomic and property rights' reforms.

Labor market reforms – Greece commits to:

- Achieve EU best practice across the range of labour market legislation through a process of consultation with the social partners while benefitting from the expertise and existing input of the ILO, the OECD and the available technical assistance.
- Expand and develop the existing scheme that provides temporary employment for the unemployed, in agreement with partners and when fiscal space permits and improve the active labour market policy programmes with the aim to updating the skills of the long term unemployed.
- Phasing in a new 'smart' approach to collective wage bargaining that balances the needs for flexibility with fairness. This includes the ambition to streamline and over time raise minimum wages in a manner that safeguards competiveness and employment prospects. The scope and timing of changes to the minimum wage will be made in consultation with social partners and the European and international institutions, including the ILO, and take full account of advice from a new independent body on whether changes in wages are in line with productivity developments and competitiveness.

Product market reforms and a better business environment – As part of a new reform agenda, Greece remains committed to:

- Removing barriers to competition based on input from the OECD.
- Strengthen the Hellenic Competition Commission.
- Introduce actions to reduce the burdens of administrative burden of bureaucracy in line with the OECD's input, including legislation that bans public sector units from requesting (from citizens and business) documents certifying information that the state already possesses (within the same or some other unit).
- Better land use management, including policies related to spatial planning, land use, and the finalisation of a proper Land Registry
- Pursue efforts to lift disproportionate and unjustified restrictions in regulated professions as part of the overall strategy to tackle vested interests.
- Align gas and electricity market regulation with EU good practices and legislation

Reform of the judicial system – The Greek government will:

- Improve the organisation of courts through greater specialisation and, in this context, adopt a new Code of Civil Procedure.
- Promote the digitisation of legal codes and the electronic submission system, and governance, of the judicial system.

Statistics – The Greek government reaffirms its readiness to:

- Honour fully the Commitment on Confidence in Statistics, and in particular the institutional independence of ELSTAT, ensuring that ELSTAT has the necessary resources to implement its work programme.
- Guarantee the transparency and propriety of the process of appointment of the ELSTAT President in September 2015, in cooperation with EUROSTAT.

IV. Humanitarian Crisis – The Greek government affirms its plan to:

- Address needs arising from the recent rise in absolute poverty (inadequate access to nourishment, shelter, health services and basic energy provision) by means of highly targeted non-pecuniary measures (e.g. food stamps).
- Do so in a manner that is helpful to the reforming of public administration and the fight against bureaucracy/corruption (e.g. the issuance of a Citizen Smart Card that can be used as an ID card, in the Health System, as well as for gaining access to the food stamp program etc.).
- Evaluate the pilot Minimum Guaranteed Income scheme with a view to extending it nationwide.
- Ensure that its fight against the humanitarian crisis has no negative fiscal effect.