

MEMORANDUM OF ECONOMIC AND FINANCIAL POLICIES [PARTIAL DRAFT]

1. **Program objectives:** Our new IMF-supported adjustment program, expected to cover the period of [date]-August 2018, will be focused on policies that can help restore macroeconomic stability and provide breathing space to mobilize broad political support for the fundamental reforms and modernization of the economy needed for Greece to succeed within the euro-zone. The program will also provide a framework for European partners to provide debt relief contingent on policy implementation to help facilitate a return to markets.
2. **Fiscal policies:** will focus on rebalancing policies to support growth and better social protection over the medium and long run. Given constrained financing options and an exceptionally high level of debt, we need to strike a balance in utilizing the fiscal space created by our reform efforts between reducing debt and supporting growth.
 - **Program targets (TMU X):** We commit to fully implementing already legislated reforms, which will help us achieve our primary surplus target of 1¾ percent of GDP in 2017. In 2018, we and our European partners believe that these reforms—together with legislation of additional identified measures financing our recently introduced welfare reform—will deliver a primary surplus of 3½ percent; the IMF staff considers that the surplus will reach [2.2] percent of GDP. If we are on track to achieve our 2017 targets and 2018 floors set by the IMF-supported program (based on performance relative to our quarterly performance criteria and on a forward-looking assessment of fiscal projections), we have reached understandings with our European partners that ESM disbursements will be made on the basis of implementation of agreed policies. If we fall short of our targets/ floors, we commit to taking prompt corrective action in the context of program reviews. [Given our fiscal performance to date and planned reforms (see below), we will deactivate the contingency mechanism requiring across-the-board spending cuts with immediate effect.]
 - **Post-program targets (TMU X):** With the objective of reducing our large debt burden, we have committed to reach and sustain annual primary surpluses of [3.5] percent of GDP in 2019-[21], and of [1.5] percent of GDP thereafter. To achieve and sustain these targets, while ensuring a more sustainable and growth-friendly structure of our budget, we will, as **prior actions** (Table 1), legislate:
 - **A pension reform** to be implemented in 2019 (net savings of 1 percent of GDP by 2019) that applies to current retirees the benefit formula introduced by the 2016 reform and
 - eliminating fully the “personal differences” [OR eliminating the personal differences while ensuring that pension reductions do not exceed [22] percent, while also reducing in 2019 the existing caps on the already legislated supplementary pension cuts], coupled with a freeze of inflation indexation for all pensions during 2019-21.
 - **A personal income tax reform** entering into effect in 2020 (net savings of 1 percent of GDP by 2020) that broadens the tax base by reducing the personal income tax credit by

[€650].¹The implementation of the income tax reform will be advanced to 2019 if, in the context of the final program review (June 2018) the IMF staff, in consultation with the European institutions, considers that, based on a forward-looking assessment, this would be needed to reach the agreed 3.5 percent primary surplus fiscal target in 2019 in a sustainable manner, without growth-detrimental measures (e.g. by ensuring compliance with our spending floors in the MTFs strategy, as noted below).

- ***A growth-friendly fiscal package***, which could enter into effect at the earliest in 2019, contingent on a forward-looking assessment by all institutions (to be undertaken in the final review of the arrangement) that points to expected sustained overperformance. The amount of measures to be implemented would be determined in line with the assessed permanent over-performance relative to our agreed medium-term targets, to secure achievement of these targets. Part of the package will be comprised of tax measures amounting to up to 1 percent of GDP, including: a reduction in CIT rates (cost of [0.2] percent of GDP); a reduction of the lower PIT rates and solidarity surcharge (cost of 0.8 percent); and a reduction of ENFIA rates (cost of 0.1 percent). The rest will be comprised of up to 1 percent of GDP in spending measures, including: (i) an increase in targeted social spending (housing allowance; GMI; child allowance; school meals; nursery/pre-school education; means-tested reduction in health co-payments (cost of 0.6 percent of GDP); (ii) high-quality public infrastructure investments (cost of [0.2-0.3] percent); and (iii) active labor market policies (cost of [0.1-0.2] percent).
- ***A medium-term fiscal strategy (MTFS) for 2018-21*** that reflects the reforms above and is in line with the above-mentioned targets, while ensuring a growth-friendly policy mix. Our strategy will aim to maintain our primary spending on goods and services—which has been substantially compressed in recent years and is no longer amenable to further reductions—at its current level relative to GDP through agreed floors (TMU X).

3. **Fiscal structural reforms (TMU X):** will aim to improve fiscal institutions and complement our fiscal adjustment efforts to support their economic and social sustainability.

- ***Immediate priorities:*** In support of our newly legislated independent *revenue agency*, we will, as a **prior action**, adopt legislation to prioritize audit cases, strengthen collection enforcement, and define criteria to establish the viability and capacity to pay of tax debtors. Also as a **prior action**, we will issue remaining implementing legislation for our *pension*

¹We will provide assurances to the IMF staff that New Democracy supports the proposed income tax reform and will do all in its power to assure that the legislation is implemented in a form and on a schedule, that is consistent with Greece's commitments in its program documents. We have also consulted with the relevant highest legal authorities in Greece, including the Ministry of Justice and independent legal experts, which have confirmed that the contingent timing of implementation of the income tax reform (and of the growth-enhancing fiscal package) are in line with our constitution (as per an independent legal opinion furnished to IMF staff).

reform, repeal conflicting provisions, operationalize a single pension register, and merge the management of existing funds into the new single pension fund (Table 1).

- **Follow-up steps:** We will build on recently legislated *revenue administration* reforms by improving our risk-analysis system, addressing VAT fraud, ensuring adequate staffing for the revenue agency, and aligning the code of revenue collection procedures with the new Code of Civil Procedure, including regarding e-auctions. We will also finalize the recalibration of *pensions* and the electronic records of retirees and insured persons. We will reform our *property tax* by aligning property values with market prices. As to *public administration and public financial management*, we will legislate to ensure that temporary contracts are not used to circumvent attrition rules, fully integrate accounts of the general government into the Single Treasury Account, and conduct an assessment by an independent auditor of end-2016 government accounts payable and the arrears clearance program. We commit not to accumulate any new arrears and will establish a transparent system of monitoring arrears clearance, [on which basis we would restart their clearance with official funds by end program with the aim to fully clear them by [end-2019]]. Finally, we will complete *welfare reforms* by implementing a modern system of [housing], family, and disability benefits financed by rationalizing redundant and poorly targeted existing benefits. (**Structural benchmarks** in these areas are detailed in Table 2.)

4. **Financial sector reforms** (TMU X): will complement the supervisory strategy and actions led by the Single Supervisory Mechanism (SSM) by enhancing and operationalizing our legal framework to address non-performing loans (NPLs), ensuring adequate bank capitalization, and normalizing payment conditions as soon as possible, while safeguarding financial stability.

- **Immediate priorities:** Building on recent initiatives to strengthen our *NPL legal framework*, we will, as **prior actions**: (i) fully implement a new out-of-court workout (OCW) framework; (ii) implement legal amendments and infrastructure to allow for electronic on-line auctions; (iii) adopt legislation protecting creditors from civil and criminal liability for actions related to debt restructuring; (iv) adopt secondary legislation regulating insolvency administrators; and (v) streamline the licensing and supervision framework of NPL servicers. To ensure adequate bank capitalization, also as a **prior action**, the Bank of Greece (BoG) will require relevant less-systemic institutions that still need to reinforce their capital bases to do so. With the aim to normalize payment conditions, we will, as a **prior action**, publish a conditions-based roadmap outlining the steps toward full relaxation of restrictions (Table 1).
- **Follow-up steps:** To facilitate the *resolution of NPLs* and support credit growth, we will amend legislation to strengthen the position of secured creditors, simplify insolvency procedures for SMEs, and fully operationalize the profession of insolvency administrators. As to *bank capitalization*, the BoG will also require the completion of any remedial action regarding less systemic institutions and the coverage of potential capital shortfalls by cooperative banks (**Structural benchmarks** are detailed in Table 2). Regarding systemic institutions, we will request confirmation from the European partners that the remaining

resources under the ESM program foreseen for the banking sector will remain available for these purposes until end-program. The BoG remains committed to preserving sufficient banking system liquidity in line with Eurosystem rules and will closely monitor developments, including depositor confidence, to ensure that banks keep adequate cash buffers.

5. **Structural reforms (TMU X):** will focus on preserving the competitiveness gains from existing labor market reforms and advancing ongoing product and service market reforms supported by technical assistance from the World Bank and the OECD.

- **Immediate priorities:** In the *labor market area*, we will, as a **prior action**, adopt legislation to: (i) extend the 2011 collective bargaining reforms until end-program (with respect to the suspension of the extension of collective agreements and the favorability principle); and (ii) abolish the administrative approval of collective dismissals and replace it with a notification system without pre-approval requirements. As to *product markets*, we will, also as a **prior action**, adopt legislation to: (i) liberalize Sunday trade, addressing the concerns of the recent Constitutional Court ruling and liberalize over-the-counter trade of pharmaceuticals; (ii) submit legislation to remove restrictions on engineers (including public-works engineers) and stevedores; and (iii) implement a notification system for investment licensing in the food, beverage, and tourism sectors (Table 1).
- **Follow up steps:** In the *labor market area*, we will reform our industrial action framework by adopting legislation to increase the minimum quorum for voting on a strike. We will also follow up on *product market reforms* by implementing remaining actions in the OECD Toolkit III, removing remaining [advertising, geographical, and incorporation] restrictions for key professions, and taking steps to complete our investment licensing reform in [all] remaining sectors by end-program. (**Structural benchmarks** are detailed in Table 2).

6. **Debt sustainability:** [to be completed].

7. **Financing:** [to be completed]

8. **Program monitoring:** Progress in the implementation of the policies that are part of our IMF-supported program will be monitored through quarterly reviews. All quarterly (and continuous) quantitative performance criteria (PCs), key performance indicators (KPIs), structural benchmarks and prior actions, as well as data and transparency requirements, are defined in the attached TMU. A safeguards assessment of the BoG and a fiscal safeguards review should be completed by the first review in accordance with the IMF safeguards policy. The existing MoU between the Ministry of Finance and the BoG will be updated by [end-May, 2017].

Prior Actions
1. Adopt a 2018-21 MTF5 consistent with agreed targets and underpinned by reforms: (i) reducing the personal income tax credit by [€650] implemented in [2020], with the possibility to be advanced to 2019; and (ii) applying the new benefit formula to current retirees and freezing pensions during [2019-21], implemented in 2019.
2. Adopt legislation to prioritize audit cases, strengthen collection enforcement, and define criteria for establishing the viability of tax debtors.
3. Issue all implementing legislation for the pension reform, repeal conflicting provisions, operationalize a single pension register, and merge the management of existing funds into the new single pension fund.
4. Adopt legislation and other steps to: (i) fully implement an out-of-court debt restructuring framework; (ii) allow electronic on-line auctions and operationalize the infrastructure to conduct e-auctions; (iv) protect creditors from civil and criminal liability for debt restructuring actions; (iv) establish the insolvency administrator framework; and (v) streamline the licensing and supervision framework of NPL servicers.
5. BoG will: (i) require less-systemic banks that still need to reinforce their capital base to do so; and (ii) publish a milestone-based roadmap for the liberalization of capital controls.
6. Adopt legislation to: (i) extend the 2011 collective bargaining reforms; and (ii) replace the administrative approval of collective dismissals with a notification process without pre-approval.
7. Adopt legislation to: (i) fully implement the notification system for investment licensing for food, beverages, and tourism; and (ii) liberalize Sunday trade and OTC. Submit presidential decrees to liberalize engineers' professional rights, including for public works engineers, and pass secondary legislation for stevedores

Structural Benchmarks	Deadline
Fiscal Sustainability	
1. Adopt legislation to set ceilings on temporary contracts for 2017-18 and include court-mandated conversions of temporary into permanent contracts in the existing attrition rule.	September 2017
2. Complete an independent assessment (by an independent auditor) of government accounts payable accumulated until end-2016 and the arrears clearance program.	
3. Finalize the recalibration of pensions and the automatic electronic records of retirees' service histories half of the records of insured persons.	December 2017
4. Ensure that the new revenue agency has adequate and qualified staffing.	
5. Amend the code of public revenue collection to align with the CCP, including for e-auctions.	
6. Fully integrate general government accounts into the Treasury Single Account.	
7. Adopt legislation to codify and simplify VAT legislation/administration and address VAT fraud.	March 2018
8. Align property assessment values with market prices.	June 2018
9. Legislate and implement a modern and streamlined system of housing, family, and disability benefits, financed by rationalizing redundant social programs.	
10. Implement a transparent system for the monitoring of the clearance of government arrears.	
Financial Stability	
11. Amend legislation to simplify and accelerate the insolvency procedures for SMEs.	July 2017
12. Complete the qualification and registration process for insolvency administrators.	
13. BoG to complete remedial action regarding less-systemic institutions and ensure that cooperative banks cover potential capital shortfalls.	
14. Amend legislation to strengthen the position of secured creditors.	Sept. 2017
Competitiveness and Employment	
15. Complete the implementation of OECD Toolkit III competition assessment.	July 2017
16. Adopt legislation to raise minimum quorum share for voting on a strike to 50 percent of union representatives.	Sept. 2017
17. Adopt horizontal measures to facilitate investment licensing.	
18. [Adopt legislation to remove remaining advertising restrictions (for dentists, physiotherapists, lawyers, and notaries), geographical restrictions (for notaries, dentists, physiotherapists, and taxi drivers) and incorporation and equity participation restrictions (for law and notary firms).]	December 2017
19. Fully implement the investment licensing reform covering remaining sectors.	June 2018