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**PROPOSAL**

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| From: | Secretary-General of the European Commission,<br>signed by Mr Jordi AYET PUIGARNAU, Director |
| date of receipt: | 2 June 2017 |
| To: | Mr Jeppe TRANHOLM-MIKKELSEN, Secretary-General of the Council of the European Union |
| No. Cion doc.: | COM(2017) 314 final |
| Subject: | Proposal for a COUNCIL IMPLEMENTING DECISION amending Council Implementing Decision 2015/1411/EU on approving the macroeconomic adjustment programme of Greece |

Delegations will find attached document COM(2017) 314 final.

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Brussels, 2.6.2017
COM(2017) 314 final

2017/0129 (NLE)

Proposal for a

**COUNCIL IMPLEMENTING DECISION**

**amending Council Implementing Decision 2015/1411/EU on approving the macroeconomic adjustment programme of Greece**

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## EXPLANATORY MEMORANDUM

In response to a request of 8 July 2015 from the Hellenic Republic to the Chairperson of the Board of Governors of the European Stability Mechanism (ESM) for stability support in the form of a loan with an availability period of three years, the ESM Board of Governors requested the European Commission, in liaison with the European Central Bank, together with the International Monetary Fund, to agree on a Memorandum of Understanding detailing the conditionality for a financial assistance facility covering the period 2015-2018 in accordance with Article 13(3) of the ESM Treaty and on a macroeconomic adjustment programme for Greece. The programme was prepared in accordance with the procedure provided for under Article 7(1) of Regulation (EU) No 472/2013. On 11 August 2015, those institutions reached an agreement at technical level on a macroeconomic adjustment programme (the "Programme") with the Greek government.

On a proposal by the Commission, the Council adopted Implementing Decision 2015/1411/EU approving the Programme.

In accordance with Article 1(2) of Decision 2015/1411/EU, the Commission, in liaison with the European Central Bank (ECB) and, where appropriate, with the International Monetary Fund (IMF), has conducted a second review to assess the progress with the implementation of the agreed measures as well as their effectiveness and economic and social impact. As a consequence of that review, an update has been made to the existing macroeconomic adjustment programme, reflecting the steps taken by the Greek authorities by the end of the first quarter of 2017.

Following discussions between those institutions and the Greek government, in accordance with the procedure provided for under Article 7(5) of Regulation (EU) No 472/2013 and the definition of the conditionality underpinning the Programme, the Commission has adopted a proposal for a Council Implementing Decision amending Implementing Decision 2015/1411/EU on approving the macroeconomic adjustment programme of Greece under Regulation (EU) No 472/2013.

2017/0129 (NLE)

Proposal for a

**COUNCIL IMPLEMENTING DECISION**

**amending Council Implementing Decision 2015/1411/EU on approving the macroeconomic adjustment programme of Greece**

THE COUNCIL OF THE EUROPEAN UNION,

Having regard to the Treaty on the Functioning of the European Union,

Having regard to 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[1], and in particular Article 7(5) thereof,

Having regard to the proposal from the European Commission,

Whereas:

(1) On 16 July 2015, the European Stability Mechanism ('ESM') Board of Governors invited the Commission, in liaison with the European Central Bank ('ECB'), the ESM, the Greek authorities, and, where appropriate, the International Monetary Fund ('IMF'), to agree on a macroeconomic adjustment programme for Greece in the form of a loan. The programme was prepared in accordance with the procedure provided for under Article 7(1) of Regulation (EU) No 472/2013. On 11 August 2015, those institutions reached an agreement at technical level on a macroeconomic adjustment programme (the 'Programme') with the Greek government. On a proposal by the Commission, the Programme was adopted by the Council in the form of a Council Implementing decision ([2]).

(2) Following that agreement, Greece adopted a comprehensive policy package, to be implemented in a three-year ESM macroeconomic adjustment programme, which would span from the third quarter of 2015 to the third quarter of 2018.

(3) The comprehensive policy package, laid down in an ESM Memorandum of Understanding on Specific Economic Policy Conditionality (the 'Memorandum of Understanding') of 19 August 2015, aims at restoring financial market confidence, re-establishing sound macroeconomic balances and enabling the economy to return to sustainable growth. It is structured on four pillars: restoring fiscal sustainability, safeguarding financial stability, enhancing competitiveness and growth, and modernising the State and the public administration.

1 OJ L 140, 27.5.2013, p. 1.

2 Council Implementing Decision (EU) 2015/1411 of 20 August 2015 approving the macroeconomic adjustment programme of Greece (OJ L 219, 20.8.2015, p. 12).

(4) After a first review of the Programme was completed and following the Eurogroup statement of 25 May 2016, a positive assessment by the Commission and ECB of the implementation of the Programme and the approval of the ESM, on 16 June 2016 Greece and the Commission on behalf of the ESM signed a Supplementary Memorandum of Understanding. The Supplementary Memorandum of Understanding updates the policy conditions set out in the Memorandum of Understanding to reflect the progress achieved in the implementation of the Programme.

(5) The Eurogroup on 25 May 2016 also considered the sustainability of Greek debt. It agreed on a package of debt measures to be phased in progressively, as necessary to meet the agreed benchmark on gross financing needs. It agreed that the first set of measures would be implemented in the short term, that is, after the closure of the first review and up to the end of the Programme. On 23 January 2017, the Boards of Directors of the ESM and European Financial Stability Facility adopted the rules implementing the set of short-term debt relief measures for Greece, the implementation of which has begun. The Eurogroup of 25 May 2016 also agreed that after the successful implementation of the Programme by mid-2018, the Eurogroup expected the implementation of a possible second set of measures if needed to meet the agreed debt sustainability benchmarks.

(6) On 25 May 2016 the Eurogroup welcomed the intention of the IMF management to recommend to the Fund's Executive Board to approve a financial arrangement for Greece. The Eurogroup confirmed that position on 5 December 2016 and it also stressed the need for shared conditionality, agreed between all the institutions and Greece[3]. On 5 December 2016 the Eurogroup also called upon the institutions and Greece to swiftly resume negotiations in order to reach a staff level agreement (as soon as possible, based on such shared conditionality and mandated the Eurogroup Working Group to assess that staff level agreement. That conditionality includes the adoption of a pre-legislated fiscal package to help ensure a primary surplus of 3,5% of GDP over the medium term.

(7) The Greek economy has shown a high degree of resilience to the environment of elevated uncertainty and the imposition of capital controls, with GDP contracting by only 0,2% in 2015. In 2016, the Greek economy stagnated, as nascent growth in private consumption was offset by a decline in public consumption and net exports. The Commission Spring 2017 forecast projects the Greek economy to grow by 2,1% and 2.5% in 2017 and 2018 respectively, on the back of improving economic sentiment supporting investment and consumption.

(8) Under that forecast, the debt-to-GDP ratio would amount to 179,0% in 2016, 178,8% in 2017, 174,6% in 2018 and 165,2% in 2019. The debt-to-GDP ratio would therefore move to a declining path as from 2017. Greece achieved primary surpluses of 0,5% of GDP in 2015 and 4,2% of GDP in 2016, outperforming its Programme targets of -0,25% and 0,5% of GDP, respectively. The Greek authorities will pursue a fiscal path premised on primary surplus targets of 1,75% of GDP in 2017 and 3,5% of GDP in 2018 and over the medium term. The trajectory of the fiscal targets is consistent with expected growth rates of the Greek economy as it recovers from its deepest recorded recession.

[3] http://www.consilium.europa.eu/en/press/press-releases/2016/12/05-eurogroup-statement-greece/

(9) In light of the updated forecasts of the Commission services and of the results of the second review conducted by the Commission, in liaison with the ECB and, where appropriate, with the IMF, an update should be made to the existing Programme, reflecting the reforms undertaken by the Greek authorities by the end of the first quarter of 2017. On that basis, the updated conditionality should outline the range of policies needed for a successful implementation of the Programme in the future, with the aim to return the Greek economy to sustainable growth. It is, therefore, appropriate to modify Council Implementing Decision (EU) 2015/1411.

(10) Any form of financial assistance received by Greece to help it implement the policies under its Programme should be in line with the legal requirements and policies of the Union, in particular the Union's economic governance framework and the Charter of Fundamental Rights. To the extent that any of the measures envisaged in the macroeconomic adjustment programme limit the exercise of the rights and freedoms recognised by the Charter of Fundamental Rights, those limitations are in conformity with Article 52(1) thereof. Any intervention in support of financial institutions should be carried out in accordance with the Union's rules on competition. The Commission should ensure that any measures laid down in a Memorandum of Understanding in the context of requested ESM financial assistance is fully consistent with this Decision,

HAS ADOPTED THIS DECISION:

*Article 1*

Article 2 of Council Implementing Decision (EU) 2015/1411 is replaced by the following:

1. Greece shall pursue fiscal consolidation by means of high-quality permanent measures while minimising the impact on disadvantaged people. The Greek authorities commit to ensuring sustainable public finances and achieving sizeable and sustainable primary surpluses over the medium-term that will reduce the debt-to-GDP ratio steadily. Greece shall accordingly pursue a fiscal path premised on primary surplus targets of 1,75% of GDP in 2017 and 3,5% of GDP as of 2018 and over the medium-term. The authorities commit to take further structural measures yielding 0,3% of GDP by 2018 in order to secure the targeted primary surplus path. Measures to achieve those primary surplus targets, and agreed as part of the second review of the Programme, shall include: the streamlining of welfare benefits and abolition of tax expenditures based on the recommendations of the World Bank's Social Welfare Review; rationalization of healthcare spending through widening the scope of the closed budget framework and the reduction of claw-back ceilings; the introduction of a tax on short-term tourist accommodation rentals; and the rationalization of certain performance incentives and allowances in the public sector.

2. In support of rebalancing the budget toward more growth-friendly and distributionally fair policies, while ensuring that medium-term fiscal targets are met, the authorities shall legislate the following actions:

   i. medium-term fiscal strategy for 2018-2021 in line with agreed medium-term targets, which should be reached without growth-detrimental measures;

ii pension reform delivering net savings of 1% of GDP over the medium term and a personal income tax reform to be implemented and delivering net savings of 1% of GDP in 2020 and over the medium term;

iii growth-enhancing tax package matching, in net terms, the yield from the personal income tax reform encompassing: (i) a reduction in personal income tax rates and the solidarity surcharge with a medium-term fiscal impact of 0,8% of GDP; (ii) a reduction in corporate income tax rates with a medium-term fiscal impact of 0,1% of GDP, and (iii) a reduction in property tax (ENFIA) with an impact of 0,1% of GDP;

iv targeted spending package matching, in net terms, the yield from the pension reform composed of: (i) an increase in spending on targeted welfare benefits (housing allowance; child benefits; school meals; early childhood education and care/pre-school education; means-tested reduction in health co-payments) of 0,7% of GDP, (ii) high-quality public infrastructure investment of 0,15% of GDP, and (iii) active labour market policies of 0,15% of GDP;

v the personal income tax measures will be implemented in 2019 if, based on a forward-looking assessment in the context of the final programme review, a frontloaded implementation is needed in order to reach the agreed 3,5% of GDP primary surplus fiscal target in 2019, which should be reached without growth-detrimental measures;

vi the expansionary package will be implemented starting in 2019, contingent on an assessment and agreement in the final programme review, following a transparent process, with the amount to be implemented in line with the institutions' projected over-performance relative to the agreed medium-term targets in order to ensure that these are achieved.

3. The authorities shall complete the framework needed for the full implementation of the Independent Authority of Public Revenue and for its effective operation. They shall take further measures to improve tax compliance, including legislation for the promotion and facilitation of the use of electronic payments. Measures to strengthen the fight against tax evasion shall, inter alia, aim at improving the model of cooperation between the justice and tax administrations.

4. The authorities shall take measures to further strengthen the budget process and public financial management. They shall ensure that national legislation is fully in line with the Treaty on Stability, Coordination and Governance in the Economic and Monetary Union (Fiscal Compact). The authorities shall also present a medium-term action plan to ensure that payments are made in compliance with Directive 2011/7/EU of 16 February 2011 of the European Parliament and of the Council on combating late payment in commercial transactions.[4] They shall strengthen the public procurement framework, including by fostering central procurement.

5. The authorities shall fully implement the new legislative provisions of the comprehensive pension reform of 2016. To rationalize public health expenditure, the authorities shall take structural measures focusing on improving efficiency, including a closed budget (clawback ceiling) to cover items previously not under clawback.

[4] OJ L 48, 23.2.2011, p. 1.

They shall publish an updated price bulletin to reduce pharmaceutical prices, update and publish on a regular basis the positive and the negative lists, and adopt further measures to improve generics penetration.

6. The authorities shall ensure the smooth roll-out and implementation of the new Social Solidarity Income scheme. They shall undertake a major reform of the welfare system, based on the relevant recommendations of the Social Welfare Review provided by the World Bank. That reform shall aim at streamlining the system and better targeting the needs of the most vulnerable, including the re-direction of resources to the financing of the national roll-out of the new Social Solidarity Income scheme.

7. To safeguard financial stability, the authorities shall publish a roadmap for the relaxation of capital controls, avoiding undue delays without compromising financial stability. They shall assess and address impediments to the secondary market for non-performing loans identified in the report on the review of implementation of Law 4354/2015, in order to streamline the licencing process for servicers of non-performing loans. The authorities shall establish an out-of-court workout scheme for non-performing loans and ensure its smooth implementation, allowing for both large and smaller debtors with a debt above a minimum threshold into the mechanism, and subjecting all elements of debt, including private and public debt, excluding social security contributions and withheld taxes, to the debt-restructuring mechanism. The authorities shall also modernise the corporate insolvency framework and ensure its effective implementation, with a key focus on the role of insolvency administrators. They shall review the Code of Civil Procedure, with a view to bringing it in line with Union best practices.

8. To promote growth, competitiveness and investment, the authorities shall continue to design and implement a wide range of reforms in product markets that aim at achieving Union best practices. Reforms shall include: further implementation of OECD Toolkit recommendations to remove impediments to competition across a wide range of sectors; reforms to liberalise investment licensing and reduce the administrative burden of starting a business; further steps in the liberalisation of regulated professions; reforms to modernise the framework for land use, including spatial planning and cadastre; and measures to enhance the functioning of the water and transport sectors.

9. Regarding labour markets, Greece shall adopt legislation to clarify that the 2011 collective bargaining reforms will be extended until the end of the Programme. The authorities shall replace the current administrative framework for collective dismissals with a notification procedure of no more than three months which shall not involve *ex-ante* approval, and shall amend legislation on industrial action. They shall also take further steps to combat undeclared work, strengthen vocational education and training, and implement the three-year action plan on education.

10. The authorities shall continue the implementation of wide-ranging reforms in the energy markets, to bring them in line with Union legislation and policies, make them more modern and competitive, reduce monopolistic rents and inefficiencies, promote innovation, favour the wider adoption of renewables and gas, and ensure the transfer of benefits of all those changes to consumers. In the electricity market, in order to bring the market share of the incumbent to the agreed targets, the authorities shall

continue the implementation of electricity auctions, and propose unconditional structural measures to divest a share of the generation capacity of the incumbent, in line with the relevant Decisions of the European Commission[5]. The authorities shall also continue the process leading to the full ownership unbundling of the transmission system operator from the incumbent, continue the implementation of the reform of incentives for renewable energies, and ensure the timely implementation of other market reforms. In the gas market, continued implementation of the existing reforms shall, inter alia, lead to full eligibility to switch supplier for all customers by 2018, as scheduled. The authorities shall take further action to remove remaining obstacles to effective competition in the wholesale and retail gas markets, and to promote interconnections, as well as the diversification of the sources of supply.

11. The authorities shall continue to implement an ambitious privatisation programme and policies that support investment. The authorities commit to facilitate the privatisation process and complete all needed government actions to allow tenders to be executed successfully. In that respect the authorities shall complete all actions needed as agreed on a quarterly basis between the Hellenic Republic Asset Development Fund ('HRADF'), the institutions and the government. The List of Government Pending Actions has been approved by the Board of Directors of the HRADF. Following the establishment of the Hellenic Corporation for Assets and Participations (HCAP), which shall have in its possession valuable Greek assets, the authorities shall ensure that the management and internal rules of HCAP complies with international standards and best practices, including the OECD Guidelines on Governance of State-Owned Enterprises. The overarching objective of HCAP is to manage valuable Greek assets; and to protect, create and ultimately maximise their value which it shall monetise through privatisations and other means.

12. A modern State and public administration shall continue to be a key priority of the Programme. The authorities shall pay particular attention to the implementation of the measures already taken under the Programme to increase the efficiency of the public sector in the delivery of essential public goods and services, with special reference to the recruitment and de-politicisation of managers, performance evaluations, and mobility. Measures shall be taken to enhance the effectiveness of the judicial system, including by allowing for the implementation of electronic auctions, and to upgrade the fight against corruption. The institutional and operational independence of key institutions, such as the revenue administration and the statistics institute (Elstat), shall be strengthened through further implementation of adopted reforms.'

*Article 2*

This Decision is addressed to the Hellenic Republic.

[5] Decisions C(2008) 824 final and C(2009) 6244 final, which were upheld by Judgments of the General Court of the European Union of 15 December 2016 in Case T-169/08 RENV and Case T-421/09 RENV respectively.

Done at Brussels,

*For the Council*
*The President*