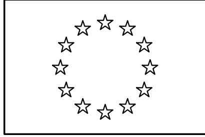

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COMMUNICATION FROM THE COMMISSION TO THE COUNCIL

Follow-up to the Council Decision 2011/734/EU of 12 July 2011 addressed to Greece, with a view to reinforcing and deepening fiscal surveillance and giving notice to Greece to take measures for the deficit reduction judged necessary to remedy the situation of excessive deficit

(March 2012)

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1. INTRODUCTION

This quarterly Communication assesses the measures implemented and planned by Greece to comply with Council Decision 2011/734/EU of 12 July 2011[1]. The action taken until end-September 2011 was assessed in the Communication dated 26 October 2011[2]. Together with the Commission staff's Compliance Report, prepared in liaison with the ECB[3], the Communication also contributes to the assessment of compliance with the MEFP and the MoU[4], in the context of the loan facility agreement between Greece and other euro-area Member States. This assessment is based on the mission conducted by the Commission services together with IMF and ECB staff on 18 January-10 February 2012 in the context of the economic adjustment programme and the quarterly report transmitted by the Greek Ministry of Finance on 2 March 2012.

2. THE COUNCIL DECISION OF 12 JULY 2011

On 12 July 2011, the Council adopted a Decision, under Articles 126(9) and 136 TFEU, addressed to Greece with a view to reinforcing and deepening the fiscal surveillance and giving notice to take measures for the deficit reduction judged necessary to remedy the situation of excessive deficit by 2014. This Decision recasted the May 2010 Decision[5], which had been amended several times.

The Decision required Greece to adopt a number of specific measures with the aim of keeping the general government deficit below the following ceilings:

- EUR 17 065 million (7.9 percent of GDP on the basis of the currently available GDP estimates) in 2011;
- EUR 14 916 million (7.3 percent of GDP, on the basis of the latest GDP forecasts) in 2012;

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1 OJ L 296, 15.11.2011, p. 38.

2 COM(2011) 705 final.

3 'The Economic Adjustment Programme for Greece – March 2012,' *European Economy–Occasional Paper* The reader is referred to that document for a more detailed assessment of macroeconomic, financial, fiscal and structural reform developments.

4 Memorandum of Economic and Financial Policies, and Memorandum of Understanding of Specific Economic Policy Conditionality of 31 October 2011.

5 Council Decision 2010/320/EU (OJ L 145, 11.6.2010).

- EUR 11 399 million (5.6 percent of GDP) in 2013 and
- EUR 6 385 million (3.1 percent of GDP) in 2014.[6,7]

The Decision was then amended on 8 November 2011[8]. However, the aforementioned nominal ceilings for the general government deficit were kept unchanged.

3. BUDGETARY EXECUTION UNTIL DECEMBER 2011

In the context of the economic adjustment programme, Greece committed to meet quarterly performance criteria on the state primary expenditure, the general government cash balance, the stock of central government debt and on the privatisation receipts, as well as an indicative criterion on the accumulation of arrears to suppliers[9].

The performance by end-September 2011 was mixed. The criteria for state primary spending (actual data: EUR 42.0 billion; criterion: EUR 44.5 billion), central government debt (actual data: 360.4 EUR billion; criterion: EUR 394.0 billion) were met. However, the target for the primary balance of the general government was missed by a small margin (actual data: EUR -5.2 billion; criterion: EUR -5.0 billion), as the collection of taxes and social contributions was below plans. The target for privatisation receipts was missed (actual data: EUR 0.39 billion; criterion: EUR 1.7 billion). The indicative criterion on the non-accumulation of arrears was failed, as accumulated arrears from 1 January 2011 to end-September 2011 were EUR 1.1 billion.

The available data for end-December 2011 show that the targets for the primary cash balance for the general government (actual data: EUR -4.8 billion; criterion: EUR -5.1 billion), state budget primary spending (actual data: EUR 58.9 billion; criterion: EUR 60.8 billion) and stock of central government debt (actual data: EUR 378.1 billion; criterion: EUR 394.0 billion) were met. Despite significant headwinds from a sharper-than-expected economic contraction, and political and social instability, the targets were achieved by cutbacks in capital spending and other discretionary expenditures, which more than offset shortfalls in taxes and social contributions and overruns in pharmaceutical spending. Receipts from structural funds, including those related to the increase in the cofinancing rate from 75 to 85 percent and the additional payment facility of 10 percent[10] also contributed to keep the cash balance within its ceiling, however at the expense of a standstill in the government investment activity.

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6 The ratios to GDP are indicative. In the Council Decision of 12 July 2011, the ratios-to-GDP refer to the nominal GDP figures available in July 2011: 7.6, 6.5, 4.8 and 2.6 percent of GDP for 2011 to 2014, respectively.

7 The Decision also requires that the annual increase in the general government consolidated gross debt does not exceed EUR 17 365 million in 2011; EUR 15 016 million in 2012; EUR 11 599 million in 2013 and EUR 7 885 million in 2014.

8 Council Decision 2011/791/EU (OJ L 320, 11.6.2010, p. 8).

9 There are also performance criteria on guarantees granted by central government, central government debt and arrears in external debt. These are not discussed in this communication. See the above-mentioned Compliance Report.

10 Regulation (EC) No 1311/2011 of the European Parliament and of the Council of 11 December 2011 amending the Council Regulation (EC) No 1083/2006 as regards certain provisions relating to financial management in certain Member States experiencing or threatened with serious difficulties with respect to their financial stability (OJ L 337, 20.12.2011, p. 5).

The revised privatisation target for end-2011 (actual data: EUR 1.6 billion; criterion: EUR 1.7 billion) was missed but by a smaller margin than in September, as the gaming and mobile telephone licence extensions went ahead. The stock of domestic arrears remained very high (arrears accumulated from January 2011 to December 2011: EUR 220 million, with an overall stock of EUR 5.6 billion by end-year), but the Government still managed to reduce arrears by EUR 900 million in the last quarter of 2011.

The 2011 general government deficit, compiled on an ESA basis, is currently estimated at EUR 20.2 billion (9.4 percent of GDP). This exceeds the ceiling of EUR 17.1 billion (7.9 percent of GDP) established in the Council Decision, as already anticipated in the previous Communication. The 2011 deficit estimate is now only slightly above previous projections, despite the significant deterioration in the macroeconomic environment.

Table 1 contains detailed information on the budget implementation in January-December 2011 for both the state, and the general government, on a cash basis, and compared with the projections by the Commission services of June and October 2011. The table shows that the compression in ordinary state expenditure in the last months more than offset the shortfall in revenue. However, the social security accounts recorded a large deviation compared to plans.

Table 1: Budget implementation in January-September and January-December 2011 (cash basis)

	September			December		
	EC proj. June. 2011	Actual	Difference	EC proj. Oct. 2011	Actual	Difference
STATE REVENUE TOTAL (i+..+v-vi+vii)	37,153	36,858	-295	54,218	53,761	-457
STATE REVENUE TOTAL (i+..+v-vi) excl. Capital revenues	34,996	34,981	-15	50,918	49,991	-927
Recuring revenues(i+…+iv)	37,609	37,596	-13	54,104	53,214	-890
Direct taxes (i)	14,315	14,313	-2	20,627	20,156	-471
Indirect taxes (ii)	20,614	20,617	3	29,150	28,587	-563
Drawings From the EU (iii)	135	137	2	186	273	87
Other Non - Tax Revenue (iv)	2,544	2,529	-15	4,140	4,198	58
Non Recurring Revenue (v)	1,328	1,327	-1	1,926	1,920	-6
Tax refunds (vi)	3,365	3,942	577	4,124	5,143	1,019
Capital revenue (vii)	2,156	1,877	-279	3,300	3,770	470
Additional measure: collective implementation risk	0	0	0	-412	0	412
STATE EXPENDITURE TOTAL (i+…+ix)	56,275	55,805	-470	75,707	74,919	-788
STATE EXPENDITURE TOTAL (i+…+ix) excl. capital expenditure	52,786	52,273	-513	68,157	68,311	154
Wages & pensions (i)	16,237	16,269	32	21,531	21,816	285
Grants to SSF & Social Protection (ii)	13,285	13,076	-209	16,684	17,114	430
Operational and Other Expenditures (iii)	4,570	4,403	-167	7,302	6,998	-304
Earmarked revenue (OTA) (iv)	3,755	3,517	-238	5,057	5,000	-57
Reserve(v)	68	0	-68	270	0	-270
Payments in exchange of claims of DEH Fund (vi)	487	542	55	600	600	0
Subsidies to hospitals for settlement of part of past debt (vii)	434	434	0	450	435	-15
Interest Payments (viii)	13,950	14,032	82	16,263	16,348	85
Capital expenditure (ix)	3,489	3,532	43	7,550	6,608	-942
STATE BUDGET BALANCE	-19,122	-18,947	175	-21,489	-21,158	331
Military spending and NATO	170	182	12	1,140	375	-765
LG balances	359	435	76	-35	284	319
SSF balances	246	-516	-762	767	-1,014	-1,781
EBF balances - ETERPS	513	581	68	584	1,031	447
SOE balances	-373	-304	69	-497	-263	234
Change in total arrears	448	236	-212	-700	-517	183
GENERAL GOVERNMENT CASH PRIMARY BALANCE	-5,000	-5,169	-169	-5,100	-4,821	279
GENERAL GOVERNMENT CASH PRIMARY SPENDING	44,500	42,045	-2,455	60,800	58,863	-1,937

4. PROSPECTS FOR 2012 AND 2013-2014

The fiscal outlook for 2012 has worsened considerably since the publication of the previous Communication. The fiscal deterioration results from the weaker starting point (the 2011 accounts), and a larger economic setback than expected: real GDP in 2012 is now projected to contract by 4.7 percent instead of 2.8 percent, as previously forecast. There were also continued slippages in the implementation of measures in 2011 with implications for the 2012 accounts. Moreover, the implementation of an ambitious package of labour market reforms, including cuts in private-sector minimum wages (for more details, see the Compliance Report) with the objective of restoring competitiveness, has a negative short-term impact on domestic demand and on fiscal accounts for 2012. At the same time, interest expenditure in 2012 will be significantly revised downwards, thanks to the debt exchange operation carried out by Greece, in line with the euro-area summit of 26 October 2011 and the Eurogroup statement of 21 February 2012.

Given this, the Commission is recommending the Council to amend the target for the Greek fiscal accounts for the period 2012-14, which should be defined on the basis of the primary balance in nominal terms. According to the Commission Recommendation for a Council Decision amending Decision 2011/734/EU (COM(2012) 116), Greece should reach a primary deficit not exceeding EUR 2 037 million in 2012 (1.0 percent of GDP). Greece would then aim at reaching primary surplus of EUR 3 652 million (1.8 percent of GDP) and EUR 9 356 million (4.5 percent of GDP) in 2013 and 2014, respectively. When expressed as overall government deficit, the above targets are: EUR 14 811 million (7.3% of GDP) in 2012, EUR 9 462 million (4.7% of GDP) in 2013 and EUR 4 499 million (2.2% of GDP) in 2014.

The new target for the 2014 primary surplus is consistent with the correction of the excessive deficit in 2014, as required by the Council Decision.

The Commission services, in liaison with the ECB and IMF staff, have estimated that without additional measures, the 2012 primary deficit would be 2.5 percent of GDP in 2012, compared with a small primary surplus expected at the time the previous Comunication was published. Therefore to be on track to reach the revised target Greece had to prepare measures amounting to EUR 3 billion (or 1.5 percent of GDP). The measures announced by Greece were as follows:

- Reduction in pharmaceutical expenditure by at least EUR 1 076 million, by reducing medicine prices (generics, off-patent and branded medicines), optimising co-payments, reducing pharmacists' and wholesalers' trade margins, application of compulsory e-prescription by active substance and protocols, the update of the positive list of medicines and the implementation of a mechanism of quarterly rebates (automatic claw-back) to be paid by the pharmaceutical industry.

- Reduction in overtime pay for doctors in hospitals by at least EUR 50 million.

- Reduction in the procurement of military material by EUR 300 million (cash and deliveries).

- Reduction in the central government's operational expenditure, and election-related spending, by at least EUR 370 million (compared to the 2012 budget), of which at least EUR 100 million in military-related operational expenditure, and at least EUR 70 million in electoral spending.

- Reduction in operational expenditure by local governments, with the aim of saving at least EUR 50 million.

- Frontloading cuts in subsidies to residents in remote areas, and cuts in grants to several entities supervised by the several ministries, with the aim of reducing expenditure in 2012 by at least EUR 190 million.

- Reduction in the public investment budget (PIB) by EUR 400 million: this cut will be implemented through cuts in subsidies to private investments and nationally-financed investment projects. The reduction in the PIB budget will not have any impact on projects that are co-financed by structural funds (uncompleted project financed by the 2000-06 operational programmes, cohesion fund (2000-06) projects, 2007-13 operational programmes, and non-eligible expenditure related to the above projects including TEN-T projects).

- Changes in supplementary pension funds and pension funds with high average pensions or which receive high subsidies from the budget and cuts in other high pensions, with the aim of saving at least EUR 450 million (net after taking into account the impact on taxes and social contributions).

- Cuts in family allowances for high-income households, with the aim of saving EUR 43 million.

- An average reduction by 12 percent in the so-called 'special wages' of the public sector, to which the new wage grid does not apply. This will apply after 1 June 2012 and it should deliver savings of at least EUR 205 million (net after considering the impact on taxes and social contributions).

None of these measures is of a tax nature. They are all on the spending side of the budget: this enhances the growth-friendly nature of these measures and their design minimises any social impact. If these measures are fully implemented, Greece is, under the current macroeconomic projection, on track to respect the target of a primary deficit of 1.0 percent of GDP in 2012. However, the risk for implementation of envisaged measures and further deterioration in economic conditions is high. Moreover, the available projections for 2013 and 2014 reveal a large fiscal gap vis-à-vis the revised targets for these years (see Table 2). Therefore, substantial additional fiscal measures will have to be announced and adopted by Greece in the coming months, in particular when Greece updates its medium-term budget (medium-term fiscal strategy or MTFS) in May 2012. In order to prepare these measures, the Government has initiated a review of public spending programmes. The review is drawing on external technical assistance and is focusing on pensions and social transfers (while preserving basic social protection; defence spending without prejudice to the national defence capacity; and restructuring of central and local administrations. A further rationalization of pharmaceutical spending and operational spending of hospitals, and welfare cash benefits will also be specified in the coming months.

Table 2: Deficit accounting: from the deficit in one year to the next

	EUR million	% of GDP
2009 deficit (outcome)	**36624**	**15.6**
primary deficit drift in 2010	6274	2.8
change in interest expenditure	266	0.1
measures in 2010 1/	19074	8.4
impact on ratio of nominal GDP growth	--	0.5
2010 deficit (outcome)	**24090**	**10.6**
primary deficit drift in 2011	10579	4.9
change in interest expenditure	2206	1.0
measures in 2011 1/	16680	7.7
impact on ratio of nominal GDP growth	--	0.6
2011 deficit (estimate)	**20196**	**9.4**
primary deficit drift in 2012	9804	4.8
change in interest expenditure	-2005	-1.0
measures identified for 2012 1/	13191	6.5
impact on ratio of nominal GDP growth	--	0.5
2012 deficit (projection)	**14804**	**7.3**
primary deficit drift in 2013	-4077	-2.0
change in interest expenditure	319	0.2
measures identified for 2013 1/	1584	0.8
measures to be identified in 2013	7157	3.5
impact on ratio of nominal GDP growth	--	3.6
2013 deficit (target)	**9462**	**4.7**
primary deficit drift in 2014	-2640	-1.3
change in interest expenditure	741	0.4
measures identified for 2014 1/	3065	1.5
measures to be identified for 2014	4238	2.0
impact on ratio of nominal GDP growth	--	1.9
2014 deficit (target)	**4499**	**2.2**

Note: Deficit in year t = Deficit in year t-1 *plus* primary deficit drift *plus* change in interest expenditure *minus* measures (and for the GDP ratios: *plus* impact on debt ratio of nominal GDP growth).

1/ Including carry-overs.

Table 3: Macro and fiscal indicators 2011-14 (in EUR billions, unless otherwise noted)

	2011	2012	2013	2014
Real GDP growth (in %)	**-6.8**	**-4.7**	**0.0**	**2.5**
ESA 95 general government primary balance (projections at unchanged policies)	**-5.3**	**-2.0**	**-3.7**	**-2.3**
% of GDP	-2.5	-1.0	-1.8	-1.1
General government primary balance target	**…**	**-2.0**	**3.7**	**9.4**
% of GDP	…	-1.0	1.8	4.5
ESA 95 general government balance (projections at unchanged policies)	**-20.1**	**-14.8**	**-16.9**	**-16.2**
% of GDP	-9.3	-7.3	-8.3	-7.8
ESA 95 general government balance (consistent with primary targets)	**…**	**-14.8**	**-9.5**	**-4.5**
% of GDP	…	-7.3	-4.7	-2.2

5. TAX ADMINISTRATION AND EXPENDITURE CONTROL

Other than the measures to increase tax rates, widen tax bases, or reducing expenditure, progress in fiscal consolidation requires improvements in tax administration and fight against tax evasion, as well as in expenditure control. Although there has been some progress in these areas, in most cases this has been much slower than planned.

Since the beginning of the programme in 2010, reforms of tax administration have focused mainly on improving legislation to enhance the efficiency of tax administration and controls; putting in place an effective project management; and designing an anti-evasion strategy to restore tax discipline and improve compliance. The focus has now shifted towards implementation: the Government is in the process of hiring new auditors. Improvements are also expected in the quantity and the quality of tax audits. The strengthening of incentive structures in the tax administration and of headquarter functions are also required. The government has also initiated the process of merging local tax offices, which should be completed by end-2012.

Reforms to strengthen public expenditure management are also in place. Timely provision of fiscal data has been improved with the application of e-portals reporting by line ministries, local governments and legal entities. However, progress is still needed to extend the system to social security funds and to the public investment budget. Expenditure control has also improved with the adoption of commitment registries in ministries and other entities. However, the commitment registers are yet to be effective in controlling overcommitments and arrears for the ordinary budget and the system is yet to be extended to the investment budget. The Ministry of Finance's General Accounting Office has established a coordination committee to monitor and strengthen the implementation of commitment controls, so as to prevent further accumulation of arrears.

6. PRIVATISATION

The Greek privatisation fund (Hellenic Republic Asset Development Fund, HRADF) is fully operational since early autumn 2011. It has hired the financial, legal and technical advisors for most transactions planned for 2012-14 and it has identified a comprehensive strategy for the deployment of the privatisation plan. However, due to the current negative market conditions and lengthy technical preparations, receipts collected so far have been below plans (see table).

It has, in the meantime, become clear that the target of collecting EUR 50 billion of privatisation receipts will not be met by 2015, but over a longer period. As a result, annual revenue targets have been revised: at least EUR 5 200 million by end-2012, EUR 9 200 million by end-2013 and, EUR 14 000 million by end-2014.

Table 4: Privatisation plan: transactions so far

Assets	Date of deal	Sold stake	Remaining stakes owned by the Greek Government	Proceeds (cash, EUR million)	Cumulative in year (EUR million)	Delayed payment
OTE	July 2011	10%	4%	392	392	-
OPAP 1 (license extension 2020-30)	October 2011	-	-	375	767	85 (by Q4-2013)
OPAP 2 (sale of new license for VLTs)	October 2011	-	-	475	1,242	85 (by Q42013)
Mobile Telephony (auction of spectrum)	December 2011	-	-	380	1,622	-

7. CONCLUSION

As expected when the previous Communication was adopted, the government deficit (ESA95 basis) ceiling for 2011 established by the Council Decision has been exceeded. Greece is estimated to have recorded a government deficit of EUR 20 200 million, or 9.4 percent of GDP, against a target of EUR 17 065 million, or 7.9 percent of GDP.

The Commission is recommending the Council to revise the fiscal targets that Greece should respect in 2012-14. These targets should be defined on the basis of the primary deficit/surplus in nominal terms: for 2012 the primary deficit should not exceed EUR 2 037 million (1 percent of GDP) and for 2013 and 2014 the primary surplus should be at least EUR 3 652 million (1.8 percent of GDP) and EUR 9 356 million (4.5 percent of GDP), respectively. These targets are consistent with correcting the excessive deficit by 2014, as required by the Decision, as the corresponding targets for the overall deficit will be 7.3 percent of GDP in 2012, 4.7 percent of GDP in 2013 and 2.2 percent of GDP in 2014.

While the measures that were recently announced by the Greek Government are consistent with achieving the 2012 target, the implementation risks are very high. Moreover, further significant fiscal consolidation measures will have to be implemented in 2013-14 to correct the situation of excessive deficit by 2014, as required by the Council Decision.

ANNEX : MEASURES REQUIRED BY THE COUNCIL DECISION

Article 1(2): "The adjustment path towards the correction of the excessive deficit shall aim to achieve a general government deficit not exceeding (…) EUR 17 065 million (7,6 % of GDP) in 2011 (…).	**Not observed.**
Article 1(3). The adjustment path referred to in paragraph 2 requires that the annual change in the general government consolidated gross debt does not exceed EUR 34 058 million in 2010, EUR 17 365 million in 2011 (…)	**Not observed.**
Article 2 (6a) "Greece shall adopt and implement the following measures without delay:	
(a) a reduction in tax exemptions, in particular the tax-free personal income thresholds, with the aim of increasing revenue by at least EUR 2 831 million in 2012;	**Observed.**
(b) a permanent levy on real estate, collected through electricity invoices, with the aim of collecting at least EUR 1 667 million in 2011, and EUR 1 750 million per annum from 2012 onwards;	
(c) an immediate implementation of the revised wage grid for civil servants, thereby contributing to a reduction in expenditure of at least EUR 101 million in 2011, and with a carry-over of at least EUR 552 million for 2012, additional to savings provided in the MTFS through 2015. This reform shall cover all general government employees, except those covered by special wage regimes. These net savings take into account the impact of this measure on income tax and social contributions, as well as bonuses to be paid to specific employee categories;	
(d) a cut in main and supplementary pensions, as well as in lump sums paid on retirement, with the aim of saving at least EUR 219 million in 2011 with a carry-over of EUR 446 million in 2012, additional to savings provided for in the MTFS;	
(e) capping at 5 % of its deposits spending by the Green Fund, with the aim of saving EUR 360 million in 2012;	
(f) ministerial decisions or circulars concerning the measures on excise on natural gas, heating oil and vehicle taxes provided for in the MTFS;	
(g) ministerial decisions to uniformly regulate health benefits provided by the several social security funds;	
(h) legislation for the collection of the solidarity surcharge through withholding tax;	

(i) ministerial decisions that initiate the closure, merging or substantial downsizing of entities. This affects KED, ETA, ODDY, National Youth Institute, EOMEX, IGME, OSK, DEPANOM, THEMIS, ETHYAGE and ERT, and 35 other smaller entities;	**Observed**
(j) a ministerial Decision specifying the disability criteria on the attribution of disability pensions, consistent with achieving the MTFS saving objectives;	
(k) a law to freeze the indexation of main and supplementary pensions through 2015;	
(l) finalisation of the positive list for pharmaceuticals that establish prices charged to social security funds;	
(m) transferring to the privatisation fund "Hellenic Republic Asset Development Fund" (HRADF) the following assets: Alpha Bank (0,619 % of shares); National Bank of Greece (1,234 % of shares); Piraeus Bank (1,308 % of shares); Piraeus Port Authority (23,1 % of shares); Thessaloniki Port Authority (23,3 % of shares); Elefsina, Lavrio, Igoumenitsa, Alexandroupolis, Volos, Kavala, Corfu, Patras, Rafina, Heraklion port authorities (100 %); Athens Water and Sewerage Company (27,3 %); Thessaloniki Water and Sewerage Company (40 %); Regional state airports (transfer of concession rights); off-shore natural gas storage facility "South Kavala" (transfer of rights of current and future concessions); Hellenic motorways (transfer of economic rights of current and future concessions); Egnatia odos (100 %); Hellenic Post (90 %); OPAP, SA (29 %); four state buildings;	
(n) appointing the legal, technical and financial advisors for at least 14 of the privatisations that are planned until end-2012;	
(o) based on a dialogue with social partners and taking into account the objective of creating and preserving jobs and improving firms’ competitiveness, adopting further measures to allow the adaptation of wages to economic conditions. In particular: the extension of occupational and sectoral collective agreements and the so-called favourability principle shall be suspended during the period of application of the MTFS in such a manner that firm-level agreements take precedence over sectoral and occupational agreements; firm-level collective contracts may be signed either by trade unions or, when there is no firm-level union, by work councils or other employees’ representations, irrespective of the firms’ size.’;	
Article 2(7): “Greece shall adopt the following measures by the end of December 2011:	
(a) a budget for 2012 in line with the MTFS targets and the deficit ceilings set out in this Decision; update and publish information on the several measures provided for in the MTFS; and the tax and expenditure legislative acts that are necessary to implement the budget at the same time of the budget;	**Observed.**
(b) a reinforcement of the managerial capacity of all managing authorities and intermediate bodies of operational programmes under the framework of the national strategy reference framework 2007-2013 and their ISO 9001:2008 (quality management) certification;	**Largely observed.**

(c) a hospital case-based costing system to be used for budgeting purposes from 2013 on;	**Ongoing**. On the basis of ESY.net a basic set of financial and activity indicators is now compiled for all NHS hospitals. A first report is due by March 2012.
(d) assessment of the results of the first phase of the independent functional review of central administration which will result in an action plan for the implementation of operational policy recommendations. These recommendations shall determine how to achieve a more streamlined and effective public service, to define clear responsibilities and command lines of ministerial departments, eliminating overlapping competences, and to improve inter- and intra-ministerial mobility; finalisation of the ongoing functional review of existing social programmes;	**Ongoing.** A OECD Report on central administration reforms was published in December 2011. The recommendations of this report are being considered by the Government. A road map has been identified to implement these reforms throughout 2012. A draft law is being prepared. A joint OECD-IMF Technical Assistance team has collected data on social programmes from all line ministries: a final report is expected to be ready by end-March. The second phase will be merged with the functional review and the final report is expected to be ready by end-March 2012.
(e) starting of operations of the Single Public Procurement Authority with the necessary resources to fulfil its mandate, objectives, competences and powers as defined in the Action Plan;	**Not observed.**
(f) review of fees for medical services outsourced to private providers with the aim of reducing related costs by at least 15 % in 2011, and by an additional 15 % in 2012;	**Ongoing with delay**. There has been some reduction in the price of services contracted to private providers.
(g) measures to simplify the tax system, broaden bases and reduce tax rates in a fiscally-neutral manner, in relation to the personal income tax, corporate income tax and VAT;	*To ensure a high-quality reform, this deadline had to be postponed in agreement with the Commission.*
(h) further measures to ensure that at least 50 % of the volume of medicines used by public hospitals is composed of generics with a price below that of similar branded products and off-patent medicines, in particular by making compulsory that all public hospitals procure pharmaceutical products by active substance.	**Ongoing.** About 30 percent of the expenditure on pharmaceuticals in hospitals is made of generics and this can still go up.
(i) appointment of advisors for the other privatisation transactions planned for 2012 and not included in point (n) of paragraph 6a; acceleration of state land ownership registration and secondary legislation on tourism housing and on land use; establishment and operation of a new General Secretariat of Public	**Partially observed.** The merged ETA/KED (now called ETAD) still needs to appoint its BoD, after consultation with the HRADF.

Property working together with the newly merged ETA/KED (real estate management and tourism real estate institutions, respectively), which are to prepare real estate for privatisation of commercial and tradable assets. The aim is to improve the management of real estate assets, clear them of encumbrances and prepare them for privatisation; creation of six real estate portfolios by the HRDAF; adoption of the legal act on the transfer to the State of the mobile and immobile assets of entities that are closed;	
(j) the reform of revenue administration, through: the activation of a large-taxpayers unit; the removal of barriers to effective tax administration by implementing the key reforms of the new tax law, including replacing managers who do not meet performance targets, reassessing tax auditors' qualifications; the operation of the newly created fast-track administrative dispute resolution body to deal rapidly with large dispute cases (i.e. within 90 days); the centralisation of the functions of, and the merging of, at least 31 tax offices;	**Partially observed.** Several actions are ongoing although with delays. Several small and inefficient tax offices have been closed or merged (with difficulties yet to be resolved as to the operational aspects of the merger) and key functions are in the process of being consolidated. Performance-based contracts for auditors have been approved while reassessment of tax auditors' qualifications is ongoing. The large taxpayer unit has been established, but not yet fully staffed and not yet working in line with international best practice.
(k) to strengthen expenditure control: appointment of permanent financial accounting officers in all Ministries;	**Observed**
(l) publication of a medium-term staffing plan for the period up to 2015 in line with the rule of 1 recruitment for 5 exits which applies to general government as a whole without sectorial exceptions; transfer of about 15 000 staff currently employed by various government entities to the labour reserve, and placement of about 15 000 in pre- retirement. Staff in the labour reserve, and in pre- retirement, are to be paid at 60 % of their basic wage (excluding overtime and other extra payments) for not more than 12 months. This period of 12 months may be extended up to 24 months for staff close to retirement. Payments to staff while in the labour reserve are part of their severance pay;	**Not observed.** Medium-term staffing plans identifying the recruitment needs of each ministry have not yet been published. Approximately, 10 000 employees left the public sector under a pre-retirement scheme. As a result of merges and closers, 630 employees were shifted in the labour reserve.
(m) revision of the list of heavy and arduous professions and reduction in its coverage to less than 10 % of employment. An in-depth revision of the functioning of secondary/supplementary public pension funds, including welfare funds and lump-sum schemes, with the aim of stabilising pension expenditure, guaranteeing the budgetary neutrality of these schemes, and ensuring medium- and long-term sustainability of the system. The revision shall achieve: a further reduction in the number of existing funds; the elimination of imbalances in those funds with deficits; the stabilisation of the current spending at sustainable level, through appropriate adjustments to be made from 1 January 2012; and the long- term sustainability of secondary schemes through a strict link between contributions and benefits.';	**Observed.**