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Focus notes: Greece

Key issues in the upcoming negotiations with the troika and the government's MoU renegotiation agenda - What aspects of the existing programme could be changed and over what time horizon?

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1st Installment

This report constitutes the 1st installment of a comprehensive Eurobank EFG Research study on the current macroeconomic and fiscal situation in Greece as well as the key challenges the new government is about to face in the crucial period ahead. Furthermore, our report assesses what could be expected from the government's stated objective to renegotiate with official lenders certain aspects of the existing stabilization programme. That is, especially as regards a proposed lengthening of the agreed fiscal adjustment horizon, so as to help somewhat alleviate the ensuing drag on the domestic economy and to allow for some targeted measures to protect weak social groups.

As implied by a number of recent official comments, any modifications to the conditionality (MoU) underlying Greece's adjustment programme could realistically be negotiated only after the new government persuades international lenders of its ability to get the agreed programme "back on track", following slippages in certain quantitative targets and structural benchmarks in the period leading to the June 17 national election.

In the present installment, we analyze some of key issues in the upcoming government negotiations with the troika and provide a timeline of key dates and events in the period ahead. We next proceed with an evaluation of the applied internal devaluation programme and explain why domestic wages are adjusting faster than envisaged in the latest troika baseline (March 2012) as a result of the recent labor market reform and the steeper-than-expected recession. These along with the significant fiscal improvement attained over the last two years suggests that the adjustment programme's emphasis should increasingly be on product market reform so as to accelerate a still insufficient pass-through from labor costs to domestic prices. Public administration reform, the streamlining of government operations and renewed emphasis on curtailing tax and contributions evasion, are also expected to remain in the epicenter of the reforms agenda.

In the 2nd installment of our study, expected to be published by early next week, we will present our revised forecasts for Greece's output growth in 2012 and 2013 as well as a quantification of trends in main GDP components. We will also examine what would a two-year extension in Greece's fiscal consolidation programme imply in terms of fiscal sustainability perceptions and the evolution of the public debt to GDP ratio. Finally, we will provide some preliminary analysis on the potential implications of the June 28-29 EU Council decisions for the euro area and Greece in particular.

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Part I

What would it take to bring the adjustment programme back on track?

Key issues in the upcoming government negotiations with the troika

Programmatic platform of ruling coalition targets renegotiation of certain MoU aspects

The three political parties supporting Greece's coalition government announced recently a common programmatic platform encompassing, among others, a list of *potential* modifications to the conditionality underlying the new bailout programme. Reportedly, the tripartite coalition's objective is to implement these changes over a period spanning the full (4-year) tenure of the new government (see *Table A – Annex* section at the end of this document). Besides an extension in the fiscal adjustment horizon by *at least* two years, the tripartite ruling coalition also targets a number of additional changes to the existing bailout programme, aiming to provide some relief to vulnerable social groups and support the ailing domestic economy. *Note that 2012 is expected to be the 5th consecutive year of recession in the Greek economy, with recent depressed readings in a range of high-frequency macro indicators leaving little hope for any imminent turnaround. Even worse, the rate of real GDP contraction is now expected to exceed 6% this year, bringing cumulative output losses since 2008 close to 20 percent.* On his part, Greece's new Prime Minister, Antonis Samaras announced earlier this month the programmatic commitments of his government (see *Table B - Annex* section at the end of this document). The programmatic statements were debated in a 3-day parliament session, which concluded on July 8 with a confidence vote in favor of the new government. In his first policy speech to Parliament since taking office, the Greek Premier clarified that the government's aim *is not* to change the targets of the agreed programme, but, instead, to alter the austerity policies imposed to meet them. Mr. Samaras added that "the adjustment must not take place over the two years, but longer" and if the programme misses its targets because of the recession "this is no reason to take more fiscal measures as we have done so far".

Troika wants adjustment programme back on track before approving new loan disbursements

A number of recent comments by troika officials seem to imply that, in principle, they would be open to consider at some point certain modifications to the conditionality (MoU) underlying Greece's adjustment programme. That is, provided that these changes would not jeopardize the agreed fiscal and structural targets. After all, an ongoing examination of the policies implemented to meet the agreed targets is already embedded in the philosophy of the MoU via the procedure of quarterly reviews and updates of the programme. However, as things stand at this point, it appears that any modifications to the existing programme could realistically be negotiated only after the new government manages to bring the agreed programme back on track, following slippages in certain quantitative targets and structural benchmarks in the period leading to the June 17 national election. Hence, it would be difficult to foresee at this stage any modifications to the existing MoU before the 1st review of the new programme is completed and the government provides convincing evidence of its determination to take full ownership of the agreed programme and meet the agreed targets. On his part, Eurogroup President Jean Claude Juncker was quoted on the sidelines of the July 9 Eurogroup as saying that potential requests for a time extension in Greece's fiscal adjustment programme would be examined by September at the latest. As for the two old GGB issues of €3.2bn that mature on August 20, he appeared confident that the Eurogroup will find a solution to deal with the issue.

Potential delay in the completion of 1st programme review constrains further the coverage of imminent public borrowing needs

Citing high-level Finance Ministry officials, local press reports suggested earlier this week that Greece has already submitted a request to the euro area authorities for a bridge loan to cover the looming GGBs redemption (August 20). Presumably, Eurozone finance ministers could approve the disbursement of such a loan provided that it will be deducted from the next EU/IMF loan installment under the 2nd bailout programme. Yet, given that the 1st review of Greece's new stabilisation programme may not be completed before late August at the earliest, the disbursement of the next EU/IMF loan tranche is likely to be delayed further than expected earlier. As a reminder, according to the new rescue programme, the next loan tranche to Greece amounts to ca €31.25bn and consists of: (i) €29.6bn in EFSF financing, inclusive of the second and final installment for the domestic bank recapitalization scheme (€23.5bn); and (ii) €1.65bn in IMF funding under the new 4-year Extended Arrangement for Greece. The release of the said tranche was originally scheduled for June 2012. In the absence of a bridge loan or other form of official financing, the government could, reportedly, increase T-bill issuance (i.e. beyond the €4.3bn expected to be rolled over until August 20th), so as to help cover the looming sovereign bond redemptions, contingent on the troika's approval. Another possibility for the government could be to

temporarily tap the Hellenic Financial Stability Fund. According to the same sources, the activation of a clause the two GGBs contain, which entails a one-month extension of the payment, could also come under consideration. Naturally, for this to happen, the ECB would have to first give its consent. Although the specific terms and Memorandum of Understanding (MoU) for financial assistance to the Spanish banking sector will dominate discussions at the July 20 Eurogroup teleconference, the way Greece will cover the two old GGBs issues maturing next month, may also be included in the agenda.

Contentious issues in the upcoming government negotiations with the troika

The week starting on July 2, a technical team of the EC/IMF/ECB troika of official lenders initiated a series of meetings with domestic authorities in an effort to evaluate the current state of the Greek economy and assess whether and to what extent the prolonged pre-election period has caused deviations from the agreed programme targets. The heads of the troika mission also held a number of meetings with high-level government officials and the leaders of the ruling tripartite coalition. Reportedly, they will return to Athens in the week starting July 24th to complete the 1st review of the existing stabilization programme. In what follows, we highlight some key issues that are likely to take central stage in the upcoming talks between the Greek government and the troika inspectors.

Previously agreed measures to facilitate fulfillment of fiscal target for FY-2012. At the July 10 Ecofin, EU finance ministers *reportedly* called the new Greek government to *fully* implement the *already agreed* measures for FY-2012, so as to put the country's adjustment programme back on track and hence, facilitate a resumption of official financing. Note that as a prior action to the new bailout package, the Greek Parliament approved in March 2012 an auxiliary budget for this year, worth around €3.2bn (~1.5%-of-GDP). The package, consisting mainly of expenditure-side measures, has so far been only partially implemented, with considerable delays encountered due to the prolonged pre-election period (see Table 1). In addition to the aforementioned, the Greek government will *reportedly* also need to: **(i)** submit to Parliament a law for the equalization of a special consumption tax on heating oil with that on motor fuels. This measure is planned to come into force in October 2012 and is estimated to yield €600-700mn in extra revenues; and, **(ii)** ensure that the special levy on property assets collected via electricity bills will remain into force for the time being *(estimated to yield ca €2.2bn)*.

Table 1 – Auxiliary budget for FY-2012 and estimated degree of implementation

i)	Reduction in public spending on pharmaceuticals, estimated to save at least €1.076bn.
ii)	Additional cuts to *supplementary* pensions, estimated to save €450mn (*already implemented*).
iii)	Reductions in central government operational expenditure and election-related spending by at least €270mn *(partially implemented, with €50mn being reportedly saved from reduced election-related costs)*.
iv)	Reduction in military procurements and operating expenditure by €400mn.
v)	A 12% average reduction in special wage regimes to come into effect on July 1, 2012 (*estimated to yield €205mn in savings this year and €400mn in 2013 - see additional analysis below)*.
vi)	Cuts in budgetary grants to several public entities and frontloaded cuts in subsides to residents in remote areas *(€190mn in expected savings)*.
vii)	€400mn reduction in public investment expenditure.
viii)	Reductions in the overtime pay for NHS doctors, targeting savings of at least €50mn.
ix)	Reductions in municipalities' operational expenditures, by at least €50mn.
x)	Reduction in mayor salaries, estimated to yield €9mn in additional savings.
xi)	Abolishment of special allowances for families with four or more children and an annual income of more than €45k *(ca €43mn in expected savings)*.

Source: Local press

Additional expenditure-side measures for 2013-2014. Important structural benchmarks under Greece's new bailout agreement for June 2012 include, among others: **(i)** new expenditure-side measures worth 5.5%-of-GDP for the period 2013-2014 that need to be identified ahead of the 2013 budget cycle and the preparation of the 2013-16 medium-term budget; and **(ii)** a major overhaul of the national tax system, so as to generate 1½ percent-of-GDP in additional revenue for the coming two years (see paragraph below). According to the troika's latest baseline scenario for Greece (March 2012), in the absence of the aforementioned measures, the general government *primary* position in FY-2014 would show a *deficit* of 1%-of-GDP, well short of a *surplus* of 4.5%-of-GDP targeted in the new programme. Moreover, according to the latest IMF projections, a primary surplus of 1.5%-of-GDP is required to

merely stabilize the gross public debt-to-GDP ratio, a figure, not far from what we estimate to be Greece's debt-stabilizing primary surplus (ca 1.3%-of-GDP). Regarding the new expenditure-side measures for 2013-2014, the IMF expects that these will aim to: **a)** rationalize and simplify the present system of *non-pension* social benefits (1-2%-of-GDP in estimated savings**); b)** consolidate the "highly fragmented" system of government operations (estimated savings of at least 1%-of-GDP); and **c)** implement *targeted* reductions in pension expenditure, aiming to generate 1-2%-of-GDP in additional savings. *(See IMF Country Report No. 12/57, March 2012)*. According to press reports, the Greek government aims to identify the said package of measures for 2013-2014 ahead of a meeting between Greek Finance Minister Yannis Stournaras and high-level troika representatives, scheduled for July 26, 2012. Yet, the same sources suggested that the government is facing an uphill struggle in finalizing the list of saving measures totaling €11.5bn over the next two years. Unnamed government sources were quoted earlier this week as saying that the Finance Ministry has already finalized measures worth ca €8bn, €5bn from measures suggested by the think-tank KEPE and another €3bn from measures proposed by line ministries.

New tax reform. Speaking in the course of the parliamentary debate on the government's programmatic commitments, Deputy Finance Minister Giorgos Mavraganis unveiled the main parameters of a new tax reform. The respective legislation will *reportedly* be submitted to Parliament by the end of next month (initially scheduled for September 2011 and later postponed for March 2012). In line with the ruling coalition's programmatic agreement, the new bill will be designed to remain in force for at least 10 years and will aim to simplify the tax system, reign in tax and contributions evasion and lighten the tax burden on the most vulnerable social groups. *Table C* (*Annex* section at the end of this document) provides a list of the main parameters of the new tax reform, as they were presented by the Deputy Finance Minister during the parliamentary debate.

Cutbacks in special wage regimes. Another important measure agreed with official lenders as a prior action to the signing of the new bailout package includes the extension of wage grid reforms to special wage regimes, i.e. for judges, diplomats, political appointees, doctors, university professors, police and armed forces. The said reform was part of the auxiliary budget of new spending measures worth 1½-of-GDP introduced earlier this year, in an effort to facilitate attainment of the fiscal target for FY-2012. According to troika staff forecasts, the said measure is expected to save 0.1%-of-GDP (net of revenue losses). Local media suggest that the new government is currently trying to convince the troika to avoid cuts in some special wage regimes (*e.g.* police and military personnel) and, instead, approve certain offsetting measures. However, it is rather unclear at this stage whether such an agreement can be made during the upcoming negotiations with troika inspectors.

Labor market reform. As a prior action to the signing of the 2nd bailout package, the Greek Parliament passed earlier this year legislation intended to compress wage costs and further liberalize the domestic labor market. The reform comprises of measures aiming to: **a)** restructure the existing collective bargaining system so as to make it function more effectively; **b)** adjust downwards wage floors; and **c)** reduce non-wage labor costs. The new labor market legislation removes the *permanent* employment status from all labor contracts and freezes *maturity coefficients* (*i.e.,* automatic salary increases irrespective of productivity or cyclical conditions). Another key objective is to limit the length and the so-called "after effects" of collective contracts, so that three months after the contract expires, and in the absence of a new contract, wages fall close to the minimum wage. Regarding wage floors, it has to be noted that the minimum wage agreed by the national general collective agreement constitutes a binding floor for all other agreements *i.e.,* sectoral/occupational and firm-level ones. With a related law passed in late 2011, individual firms can now negotiate wages down to the minimum wage. Furthermore, the Parliament endorsed earlier this year legislation allowing for a 22% reduction in the minimum wage at all levels, its freeze until the end of the programme period and a further 10% decline for new entrants under the age of 25. The drastic reduction of the minimum wage has been a key troika demand given that before its latest adjustment it stood well above levels prevailing in other euro area countries (*e.g.* Spain and Portugal) and neighboring economies (*e.g.* Bulgaria and Romania). Heading into the June 17 election, some politicians from the current ruling coalition and the broader opposition called for an annulment of the recent labor market reform and a return of the minimum wage to pre-crisis levels. However, none of these was included in the government's programmatic statements. Furthermore, according to the local press, the troika is strongly against any significant watering down of the labor reform measures. Further to the aforementioned issues, local media reported that after a recent meeting with officials from the Labour and Social Security Ministry, the troika inspectors expressed their satisfaction with the progress made so far with respect to the recent labour market reform, showing understanding for certain delays attributed to a prolonged pre-election period. According to unnamed Ministry sources, the next meeting was arranged for late July, when a team of senior troika inspectors is expected to return to Athens to discuss, among other issues, measures aiming to rationalize the present system of social security benefits. Separately, the labor ministry is currently holding a round of talks with representatives from the country's largest labor and employer unions, in an effort to create a common position ahead of the next round of negotiations with the troika.

Terms of bank recapitalization programme. Total bank recapitalization needs and resolution costs to be financed under the 2nd EU-IMF programme for Greece are estimated at €50bn. Around €1 ½bn of related official funding *through the Hellenic Financial Stability Fund (HFSF)* was already available under the 1st programme (Greek Loan Facility). Moreover, as part of the first EU-IMF loan tranche under the 2nd programme, Greece received in late April the first installment for the domestic bank recapitalization plan (€25bn in the form of short-term EFSF notes). Out of the latter amount, €18bn has been distributed to the four largest domestic banks, with the remaining €7bn being *temporally* placed in an escrow account. The second and final *bank recapitalization* installment (€23.5bn) is expected to be disbursed as part of the next EU-IMF loan tranche. Note also that, following a number of changes to the framework implemented for supporting the recapitalization strategy, Greek commercial banks are required to reach a core Tier I capital ratio of at least 9% by end-September 2012 and at least 10% by end-June 2013.

Concluding remark to Part I:

Recent comments by senior EU policymakers and government officials suggest that any modifications to the conditionality (MoU) underlying Greece's adjustment programme could be negotiated only after the new government persuades international lenders of its ability to get the agreed programme "back on track", following slippages in certain quantitative targets and structural benchmarks in the period leading to the June 17 national election. A team of senior troika technocrats is expected to arrive in Athens on July 24 to discuss with domestic authorities a number of important related issues, before the 1st review of the existing programme is completed.

Part II

Potential Implications of a 2-year extension in fiscal adjustment programme for public borrowing needs and debt dynamics

As a prelude to this section we emphasize that the interplay of automatic stabilizers and the potential endogeneity of the government's primary deficit suggest that in periods of protracted economic recession - and, especially, during episodes of economic depression as the one Greece currently encounters - the realized adjustment in the primary fiscal deficit may only be a fraction of the total level of applied austerity measures. In Greece's case, the sub-par performance of the applied fiscal austerity programme (Table 2) may have other driving factors besides the steeper-than-expected recession including *e.g.* widespread tax and contribution evasion. Nonetheless, a strong case can still be made against applying more and more austerity to correct slippages incurred due to the protracted economic downturn. That is because, in a steep recessionary/depressionary environment, fiscal austerity overdose may create a death spiral of output losses and ever rising fiscal deficits that can completely derail a country's fiscal position and recovery prospects.

Table 2 – Greece: efficiency of applied fiscal policy

	2010	2011	2012 Supplementary budget
A. Total measures applied (€ bn)	23.5	19.4	16.5
B. Total reduction in the general government primary deficit (€ bn)	13.4	6.8	2.5
Efficiency coefficient B/A	57.0	35.0	15.3

Source: IMF (March 2012), Eurobank EFG Research

Time extension of fiscal adjustment programme

Market speculation over a time extension in Greece's adjustment programme has intensified recently, with local media reporting that the government now estimates that a lengthening of the envisaged fiscal consolidation horizon by as many as two years would necessitate some €16-20bn in additional financing to bridge the ensuing borrowing gap. As a reminder, Greece's new bailout programme provides adequate financing for covering the general government's borrowing need for the period 2012-2014. That is, assuming real GDP growth, privatization revenue and the government's primary fiscal position will evolve in line with the troika's latest baseline scenario (March 2012). However, the underlying assumptions of this scenario regarding *e.g.* GDP growth this year and the next and privatization receipts in FY-2012 may well prove optimistic. Discussions about the feasibility of a time extension also gain support from the fact that additional funding of €8.2bn is earmarked in the new IMF programme for 2015. As noted in our June 21, 2012 Greece Macro Monitor titled "How realistic is a 2-year extension in Greece's fiscal adjustment

programme?" we provided a preliminary analysis of the general government's financing requirement & sources of funds for the period 2012-2016. As we noted back then, the projected financing gap ensuing from a 2-year extension in Greece's fiscal adjustment programme would be over and above that already projected in the troika's latest baseline scenario for the period 2015-2016 (ca €12.1bn specified as "unidentified official financing/market access"). In turn, that would mean that the additional funding required to fully-cover the government's borrowing needs in 2012-2016 could exceed the amounts reported thus far. On the other hand, a more gradualist approach to deficit reduction has the potential to lessen the fiscal drag on the domestic economy and thus, limit the ensuing GDP shrinkage. This, in turn, would lessen the unfavorable impact of the budget's automatic stabilizers on the fiscal outcome and thus limit the need for corrective measures and so on. A favorable impact on public debt dynamics would accrue, helping to improve fiscal sustainability perceptions. In addition, it would reduce uncertainty regarding the political/social tolerance for fiscal consolidation. Hence, an analysis of the combined effect of both impacts is due. In what follows, we revisit the aforementioned issue, providing a more thorough assessment of the potential implications of such a time extension both for the government's borrowing requirement and the evolution of the public debt ratio in the years ahead.

Impact on general government borrowing requirement. Table 3 below provides an analysis of the general government borrowing need and sources of funding for the period 2012-2016, assuming that Greece is given a 2-year extension in its fiscal adjustment programme (see also explanatory note in *Box 3i*). The scenario depicted in Table 3 implies that additional financing of around €28bn would be needed to fully cover the government's borrowing requirement in 2012-2016. It is very important to clarify here that from the latter amount, around €14bn relates to the near elimination of short-term financing (T-bills), which was already projected to occur from 2013 onwards under the troika's latest baseline scenario (March 2012), and only the remainder amount (ca €14bn) is fresh money. As to the required financing to cover the ensuing borrowing gap, that could in theory come from: **(i)** additional official funds; **(ii)** a further improvement in the terms of existing and future EA/EFSF loans (e.g. extension of interest & amortization payments); and/or other sources *e.g.* higher privatization revenue and revised assumptions with respect to short-term government borrowing. In any case, any decision to extend the time horizon of Greece's fiscal adjustment programme would not come before the completion of the 1st review of the existing programme or the production of an updated debt sustainability analysis (DSA) by the troika staff.

Impact on public debt dynamics The above assumptions also imply a decline in the general government deficit below 3%-of-GDP not earlier than in 2016. This compares with a sub-3%-of-GDP fiscal deficit by 2014 envisaged in the existing bailout programme. The aforementioned scenario also entails a more gradual improvement in the general government's primary position (and as a result, a somewhat slower pace of decline in debt-to-GDP ratio) relative to the troika's March 2012 baseline. However, the latter effects could be partly counterbalanced by a faster return to positive GDP growth as a result of e.g. a lengthening of the fiscal adjustment period, supply-side reforms or other measures to boost economic growth. A more detailed analysis on public debt dynamics under two different scenarios - *a two year extension in Greece's fiscal adjustment horizon and a no-extension scenario* - will be presented in the upcoming 2nd installment of this study.

Table 3 – Greece: General government financing requirement & sources (EURbn)

	2012	2013	2014	2015	2016
A. Gross borrowing requirement (A1+A2+A3)	148.6	50.3	49.1	39.1	29.1
A1.General government deficit (accrued)	14.8	12.3	10.2	6.5	4.4
A2. Amortization (a1+a2+a3)	48.1	36.0	43.4	32.7	22.6
a1 MLT (non-offical) (a1.1+a1.2)	36.3	30.9	35.7	23.7	19.0
a1.1 Residents	10.3	10.3	9.3	6.7	3.0
a1.2 Non-residents	26.0	20.6	26.3	17.0	16.0
a2 ST (a2.1+a2.2)	11.8	3.5	0.4	0.4	0.4
a2.1 Residents	11.4	3.2	0.1	0.1	0.1
a2.2 Non-residents	0.4	0.3	0.3	0.3	0.3
a3 Official creditors (a3.1+a3.2)	0.0	1.7	7.4	8.6	3.2
a3.1 IMF	0.0	1.7	7.4	8.6	3.2
a3.2 EAMS	0.0	0.0	0.0	0.0	0.0
A3. Other (incl. bank assistance & stock-flow adjst)	85.7	2.0	-4.5	-0.1	2.1
B. Gross financing sources - *excluding EU/IMF loans & PSI financing* (B1+B2)	6.7	4.7	4.8	6.1	6.3
B1. Privatization revenue	3.2	4.3	4.4	5.7	5.9
B2. Market access (b2.1+b2.2)	3.5	0.4	0.4	0.4	0.4
b2.1 MLT (b2.1.1 + b2.1.2)	0.0	0.0	0.0	0.0	0.0
b2.1.1 Residents	0.0	0.0	0.0	0.0	0.0
b2.1.2 Non-residents	0.0	0.0	0.0	0.0	0.0
b2.2 ST (b2.2.1+b2.2.2)	3.5	0.4	0.4	0.4	0.4
b2.2.1 Residents	3.2	0.1	0.1	0.1	0.1
b2.2.2 Non-residents	0.3	0.3	0.3	0.3	0.3
C. Financing gap (A-B)	142.0	45.6	44.3	33.0	22.8
D. EU-IMF & PSI financing (D1+D2+D3)	142.0	42.8	38.6	21.2	14.9
D1. PSI financing	22.8	19.0	17.1	14.6	13.3
D2. EU-IMF financing under 2nd programme (d2.1+d2.2)	119.2	23.8	21.5	6.6	1.6
d2.1 EAMS	112.6	17.2	14.9	0.0	0.0
d2.2 IMF	6.6	6.6	6.6	6.6	1.6
E. Financing gap implied by 2-year extension in Greek fiscal programme (C-D)	0.0	2.8	5.7	11.8	7.9
TOTAL Financing gap					28.2

Source: FinMin, IMF, Eurobank EFG Research

Box 3i – Explanatory note to Table 3

The scenario presented on *Table 3* is based on the following assumptions:

— The troika's latest (March 2012) baseline scenario for the general government finance requirement and sources of funding, with a number of adjustments being made to incorporate our revised forecasts for real GDP growth and inflation in 2012-2013.

— Additional expenditure-side measures worth 5.5pts-of-GDP are assumed to be (fully) implemented over a 4-year period, with their fiscal impact being evenly split over the 2013-2016 period. ***Comment:*** *The existing programme envisions new expenditure-side measures worth 5.5ppts-of-GDP being implemented over a 2 year period (2013-2014).*

— Applied measures to broaden the tax base and increase tax and contributions compliance are projected to yield additional revenues worth 1.5ppts-of-GDP in 2013-2014, as envisioned in the existing bailout programme.

— The analysis presented in Table 2 *does* take into account the potential *beneficial* impact on fiscal accounts due to a relatively less severe fiscal drag implied by a 2-year extension in the Greece's adjustment programme.

Part III

A brief assessment of the progress made thus far in correcting Greece's twin deficits

Price action in the GGBs market following the June 17 election and our discussions with foreign investors make us increasingly convinced that the market may have not yet fully appreciated the progress made so far in Greece's *internal devaluation* programme. Understandably, investor worries over the viability of the euro area remain and the new Greek government will be faced with significant challenges going forward. Yet, we believe that it would be useful at this point to make a brief assessment of the progress made so far in correcting the country's twin deficit problem. A full analysis of the competitiveness problem of the Greek economy and the Current Account will appear in the Economy & Markets Bulletin in coming weeks.

The problem

Greece entered the 2007/2008 global financial crisis with an unsustainable fiscal position and a massively uncompetitive economy. The IMF's latest country report on Greece (March 2012) notes that despite the progress made so far with fiscal consolidation, the imbalance between the size of the state and its capacity to collect revenue remains a key problem. This is reflected in the fact that Greece spends about as other euro area countries (relative to GDP), but its revenue ratio remains well below other European countries, as a result of widespread tax and social security contribution evasion, a still narrow tax base and a large unrecorded economy. Indicatively, the Fund estimates that bringing VAT collection efficiency up to the EU average could increase revenue by 1½-3 percent of GDP. From a more inter-temporal perspective, the IMF assesses that the large deterioration in the underlying fiscal position over the last decade can be attributed to an expansion of social spending, primarily health and pension expenditure (Table 4).

Table 4
Greece: Revenues and expenditures compared to the EU average (%-of-GDP)
(in percent of GDP)

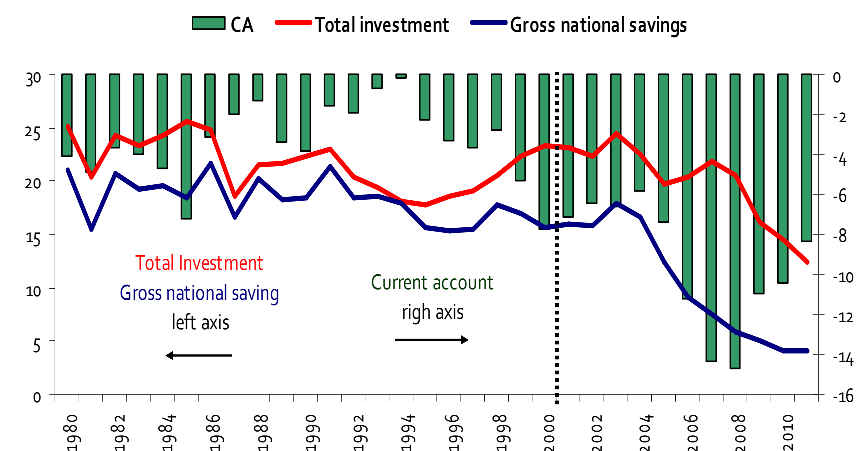
	2001	2008	2009	2010	2011	EU avg. 2008-10 1/
Revenue	40.9	40.7	38.0	39.5	41.0	44.3
Indirect taxes	13.3	12.4	11.3	12.0	12.7	12.8
Direct taxes	8.6	8.0	8.3	7.7	8.3	12.7
Social contributions	12.6	13.2	12.7	13.1	12.4	13.9
Non-tax and other	6.5	7.0	5.7	6.7	7.7	5.0
Total expenditure	45.3	50.6	53.8	50.2	50.3	49.6
Wages	10.4	12.0	13.4	12.1	12.0	10.9
Social benefits	15.4	19.6	21.1	20.8	21.6	20.7
Other current spending	7.3	8.1	8.9	7.7	6.7	11.1
Interest	6.5	5.1	5.1	5.8	6.9	2.7
Investment	5.8	5.7	5.2	3.9	3.1	4.3

1/ Averages for sub-categories of expenditure refer to the 2008-09 period.
Source: IMF (March 2012)

With regards to external sector developments, Greece's current account position underwent a sizeable deterioration in the initial years following the country's euro area entry in 2001. According to Bank of Greece's data, the current account gap widened from levels around €10.6bn (7.8%-of-GDP) in 2000 to a record €34.8bn (14.9%-of-GDP) in 2008, before embarking on a declining path, reaching ca €21.1bn or 9.9%-of-GDP at the end of 2011. The results of an empirical study we published recently document that the sharp deterioration in the country's current account position in recent years can be attributed, among others factors, to: **(i)** accumulated loss of economic competitiveness against main trade-partner economies; and **(ii)** pronounced fiscal policy relaxation following the euro adoption – *P. Monokroussos, D. Thomakos (2012), A technical study on the determinants of Greece's current account position, http://www.eurobank.gr/Uploads/Reports/Economy%20%20Markets%20Apr2012.pdf.* In addition, the Incomes Account aggravated sharply due to increased payments on the part of public debt held by foreign investors. At the same time, the surplus of the Transfers Account, which traditionally played a large part in counterbalancing the trade deficit, was gradually eliminated due to the decline of the net receipts from EU Structural Funds.

Graph 1 below provides an intertemporal view of Greece's external position. The graph depicts the current account balance (green bars) expressed as the difference between national saving and investment (blue and red lines, respectively). In the period before euro area entry (2001), the current account recorded mostly small-to-medium sized deficits (between 2% to 5%-of-GDP). Over that period national saving and investment evolved broadly in sync, with the latter mostly exceeding the former. This reflected, among other factors, increased inflows of private capital and EU cohesion funds. However, in the period following the domestic financial liberalization in the mid 90s and, especially, after the adoption of the euro, a significant deterioration in Greece's current account position occurred. As depicted in *Graph 1* the widening of the current account deficit in the period 2001-2008 was mostly the result of declining national (private and public) savings, especially during the second half of that period (2004-08). On its part, total investment (as percent of GDP) hit a multi-year high near 25% in 2003 (the year before the 2004 Olympic Games) to only decline steadily thereafter, with the descent taking accelerating proportions after the eruption of the global financial crisis in 2007/08.

Graph 1
Greece's current account as a savings-investment imbalance (%-of-GDP)



Source: AMECO, BoG, Eurobank EFG Research

As a concluding remark to this section we note that besides the twin deficit problem discussed above, Greece also appears to be currently facing a significant credibility problem vis-à-vis its official lenders and financial markets. In that respect, a swift restart of the adjustment programme following implementation delays related to the prolonged pre-election period, could play an important role in helping to bridge that credibility gap.

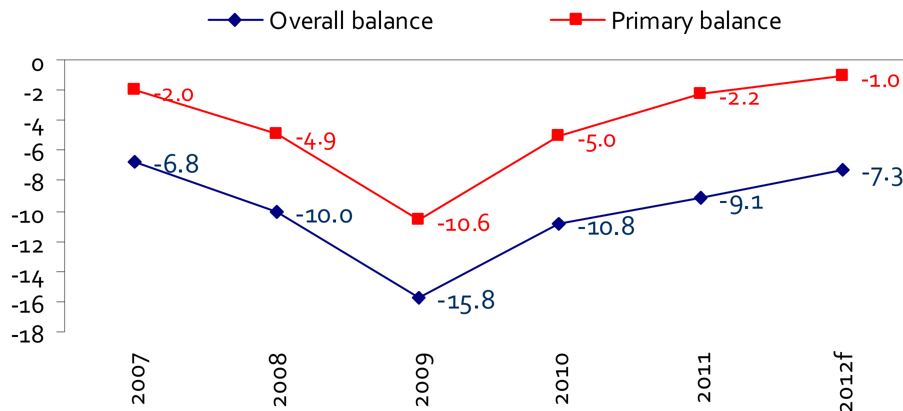
<u>The remedy applied</u>

Both the first and the second EU-IMF bailout programmes for Greece, initiated in May 2010 and March 2012, respectively, comprised of three main pillars. Namely, to bring the country's fiscal position back to a sustainable footing, restore competitiveness and economic growth and safeguard domestic financial stability. Since its inception, Greece's adjustment programme has encountered certain implementation slippages, owing not only to public sector's administrative capacity constrains in implementing reforms, but also to rising social and political resistance to the austerity programme. Nonetheless, important progress has already been made in several important fronts.

<u>The progress made so far</u>

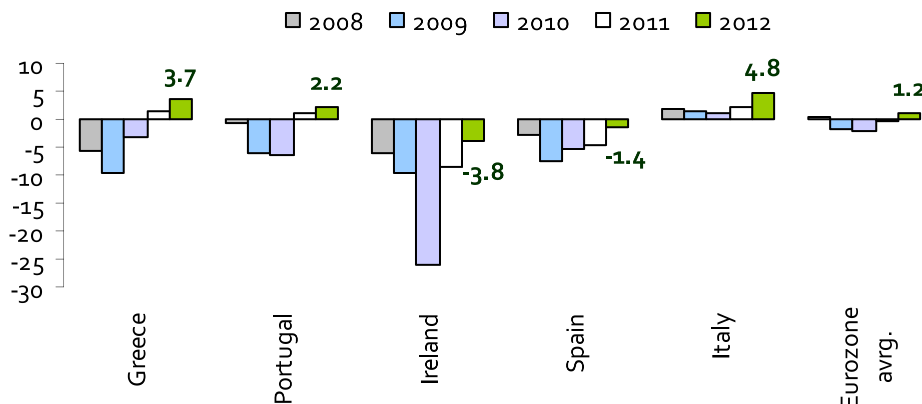
On the fiscal side**,** the general government deficit has been reduced from a multi-decade high of €36.6bn (15.8%-of-GDP) in 2009 to ca €19bn (9.1%-of-GDP) in 2011. This has been the biggest deficit reduction attained in such a short time period by any OECD country in recent history. In fact, the adjustment has been even more impressive if one considers the reduction of the general government primary deficit over the period 2009-2011 *i.e.,* more than 9ppts and 11ppts-of-GDP in headline and cyclically-adjusted terms, respectively *(Graphs 2.1 & 2.2).*

Graph 2.1
Greece: General government overall balance & primary balance (%-of-GDP)



Source: IMF (March 2012), Eurobank EFG Research

Graph 2.2
Cyclically-adjusted primary balance: Greece *vs.* euro area periphery (%-of-GDP)

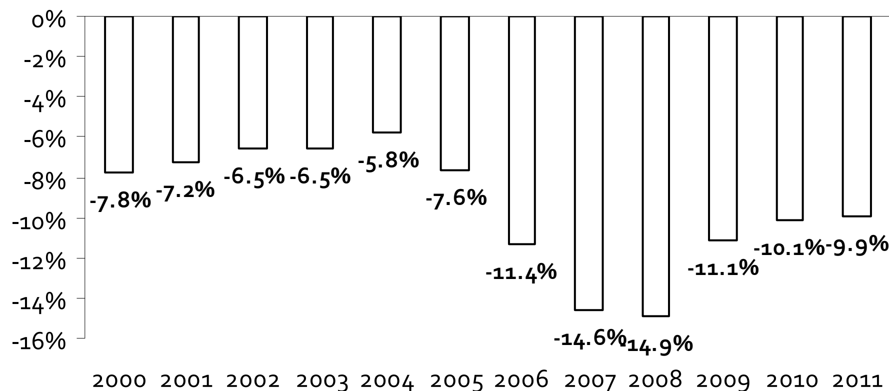


Source: EC Forecasts (Spring 2012), Eurobank EFG Research

Despite the significant progress made so far in repairing the fiscal accounts, additional efforts are required in the quarters and years ahead to facilitate a switch to positive and sustainable primary surpluses. As we have noted already, Greece needs to run, for a number of years, primary surpluses between 1.3%-of-GDP and 1.5%-of-GDP just to stabilize its public debt ratio. Encouragingly, the successful completion of a vast debt exchange exercise (PSI) earlier this year and the new more favorable terms of official loans provided under the 2nd bailout programme can contribute a great deal towards attaining the objectives related to total deficit. Note that Greece currently faces *much lower* debt servicing costs than other economies in the euro periphery. Indicatively, the interest rate Greece now pays on old EA bilateral loans (i.e., already disbursed under the 1st programme) is no higher than 2.2%, while the rate applied on new EFSF loans is even lower than that (ca 1.6%, currently). Furthermore, projected average interest rate costs for the period 2012-2020 have declined by more than 4%-of-GDP per annum, post the PSI scheme and the recent agreement on the new terms of official loans. From a debt sustainability perspective, the average nominal interest rate on the overall public debt stock is not expected to exceed 3.8% over the coming decade, a rate implying an elimination of the *snowball effect,* once the economy returns to reasonable rates of output growth and inflation. *For a more thorough assessment of the favorable impact of the recent debt restructuring and the improved terms of the new EU-IMF lending programme on Greece's public borrowing needs and debt dynamics please see P. Monokroussos, P. Petropoulou, T. Mylonas, C. Pnevmatikatos (2012), New bailout programme for Greece Conditionality, implications for sovereign solvency and valuation of the Greek PSI deal*
***http://www.eurobank.gr/Uploads/Reports/6312GREECE%20MACRO%20FOCUS%20March%202%202012.pdf*.**

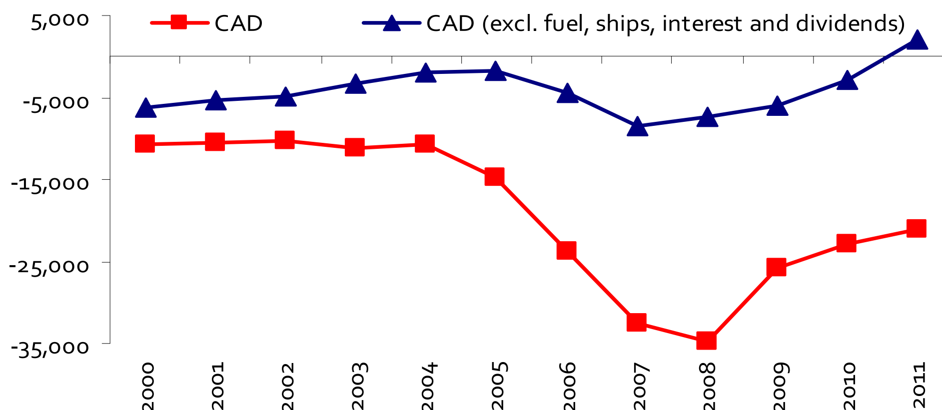
In line with the progress made so far in bringing the fiscal accounts towards a more sustainable position, the external imbalance has already undergone a significant correction, after reaching grossly unsustainable levels in the years leading to the global financial crisis. The current account deficit has declined from levels above 14.5%-of-GDP in 2007-2008 to slightly below 10%-of-GDP at the end of 2011, with the improvement being even more impressive as regards the overall balance excluding purchases of oil and ships as well as external payments for interest and dividends (Graphs 2.3 & 2.4).

Graph 2.3
Greece: current account (%-of-GDP)



Source: BoG, Eurobank EFG Research

Graph 2.4
Greece: current account and balance excluding oil and ship purchases as well as net payments for interest and dividends (EURmn)



Source: BoG, Eurobank EFG Research

Notwithstanding a significant bounce in goods and services exports over the last two years or so, the improvement of the current account has so far been mainly driven by the concurrent compression in imports. To a certain extent, that is understandable, given the still relative low share of exports in GDP (ca 14% in 2007-2011, excluding revenue from shipping). Yet, Eurosystem's liquidity support to the Greek banking system has so far prevented a sharp deleveraging of the domestic private sector. Indeed, as it was also noted in the IMF's March 2012 country report on Greece, this has allowed significant consumption smoothing by the private sector (and a sharp decline in savings), which helped to offset improvements in the public sector savings-investment balance (Table 5).

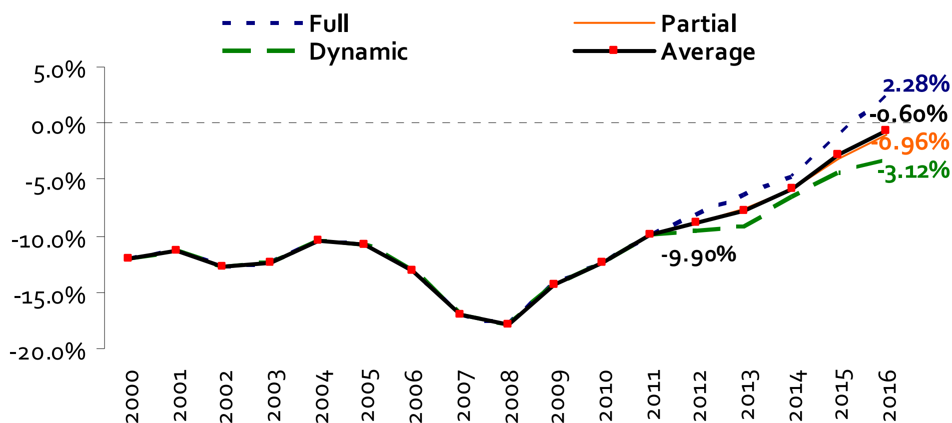
Table 5
Greece: Saving-Investment Balance, 2008-11 (%-of-GDP)

	2008	2009	2010	2011 est.
Private S-I balance	**-10.4**	**2.3**	**-0.9**	**-1.9**
Investment	20.7	15.4	13.9	12.6
Saving	10.4	17.7	13.0	10.8
Public S-I balance	**-4.6**	**-13.5**	**-9.2**	**-7.9**
Investment	2.9	2.9	2.3	2.1
Saving	-1.6	-10.5	-6.9	-5.8
Current account balance	**-14.9**	**-11.1**	**-10.1**	**-9.8**
Gross investment	23.7	18.3	16.2	14.7
Gross domestic saving	8.7	7.2	6.1	4.9

Source: IMF staff calculations.

The above remarks imply that, in the absence of external financing, the adjustment in Greece's current account balance over the last couple of years would be even more dramatic, especially considering the depth of the domestic recession. However, this is not to say that the current account position will not improve much more significantly in the quarters and years to come. According to the latest IMF baseline scenario (March 2012), Greece's current account would reach *sustainable* levels by 2015 and even turn into a surplus by 2019. Yet, given that the adjustment in domestic wages (and the ensuing improvement in relative ULCs) appears to be proceeding at a faster base than assumed in the programme, we believe that the current account balance may switch into a positive territory faster than envisaged in the IMF baseline scenario (*Graph* 2.5). In addition, the Incomes Account may improve more rapidly than previously projected due to the PSI-related savings in interest paid to public debt, which has not yet been fully accounted for.

Graph 2.5
Greece: projected evolution of current account balance under different adjustment scenarios (%-of-GDP)



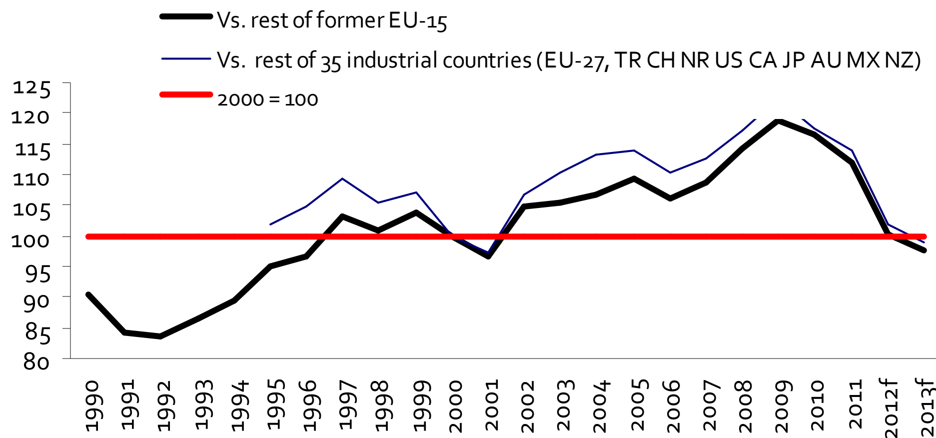
Source: Eurobank EFG Research; AMECO

Note to *Graph 2.5*: Out-of-sample forecasts of our VECM model for the evolution of Greece's current account position in 2012-2016 under various adjustment scenarios (see *P. Monokroussos, D. Thomakos (2012), A technical study on the determinants of Greece's current account position*, *http://www.eurobank.gr/Uploads/Reports/Economy%20%20Markets%20Apr2012.pdf*.
"Full" adjustment scenario *broadly* incorporates the underlying macro & fiscal forecasts of the latest IMF baseline scenario for Greece (IMF County Report No. 12/57, March 2012). "Partial" adjustment scenario incorporates a less favorable projected trajectory relative to that envisaged in *scenario A*. Specifically, it assumes realized adjustments in explanatory variables (*real effective exchange rate* & *general government balance)* that are half the size the respective adjustment assumed under the first scenario. "Dynamic" scenario incorporates fully-dynamic forecasts involving model feedback on the explanatory variables of the current account. As a final step, our "Average" scenario incorporates average forecasts of all aforementioned scenarios.

As a final note to this section, it needs to be emphasized that although the adjustment in wages now seems to take place at a faster speed than projected earlier, the *pass through* to domestic prices remains far from complete and, arguably, less drastic than one would expect considering the pace of domestic output contraction (Graphs 2.6 & 2.7)

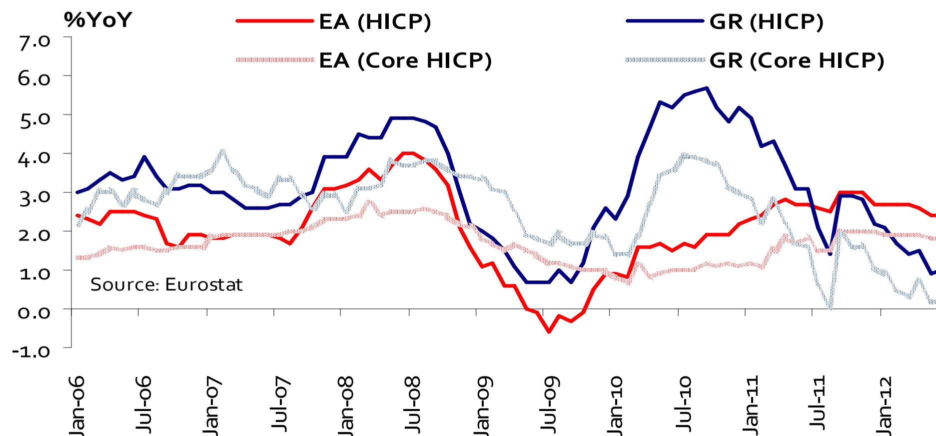
Graph 2.6

Greece: real effective exchange rate (REER), based on unit labor costs (total economy). Performance relative to the former EU-15 and the rest of 35 industrial countries (double export weights)



Graph 2.7

Harmonized CPI (headline & core): Greece vs. the Euro area



<u>*Note to Graph 2.6:*</u> According to the latest European Commission forecasts (AMECO database), Greece's wage-related competitiveness accumulated post EMU entry will be completely eliminated by the end of 2012, with the ULCs-based real effective exchange rate expected by next year to return to levels prevailing in mid-90s.

<u>Concluding remark to Part III</u>

Price action in the GGBs market following the June 17 election and our discussions with foreign investors make us increasingly convinced that the market may not yet fully appreciate the progress made so far in Greece's internal devaluation programme, especially as regards the correction of twin deficits. In this respect, convincing evidence of the new government's ability to get the adjustment programme back on track following certain pre-election slippages could contribute a great deal towards reducing Greece's credibility gap vis-à-vis official lenders and private investors.

ANNEX

Table A

Programmatic Agreement of Greek Coalition Government

Goal 1 – Renegotiate certain aspects of the existing bailout programme

The new government will try to negotiate with official lenders a time extension to the existing programme's fiscal adjustment horizon by *at least* 2 years. As it is stated in the official document that lays out the key policy priorities of the ruling coalition, such a time extension would aim to ensure fulfillment of the agreed fiscal targets in a more gradual fashion, without necessitating additional cuts in wages and pensions or in the public investment program. Instead, the new government's primary objective will be to correct the excessive deficit and accomplish the agreed fiscal targets via further cut backs in public overspending, targeted strategies to reign in tax and contributions evasion as well as the completion of the necessary reforms in the State and the broader public sector.

Other aspects of the existing programme the new government wants to negotiate with official lenders include:

— settlement of the current year's outstanding taxpayer debts to the State, so that payments do not exceed an amount equivalent to 25% of income (remaining amount to be paid in two annual installments);
— extension of the tenor of unemployment benefits by 1 year to 2 years (to be accommodated by EU sources);
— extension of unemployment benefits to also cover self-employed who have lost their jobs, provided that they satisfy the necessary income criteria (to be accommodated by EU sources);
— gradual increase in the tax-exempt threshold (currently 5k/annum) towards the respective EU average;
— targeted reductions in certain tax rates, including, among others, the VAT on food catering services (from 23% currently to 13% or 9%);
— as well as on agricultural supplies, seeds, fertilizers and pesticides;
— no new layoffs in the public sector;
— a number of recently applied "unjust" measures affecting vulnerable social groups (e.g. low pensioners, large families) to be replaced with other, fiscally-equivalent measures;
— recapitalization and restructuring of the Agricultural Bank of Greece (ATE);
— replacement of a recently imposed property levy (collected via electricity bills) and a number of other real estate taxes with a unified progressive property tax;
— restoration of domestic collective wage agreements, so as to harmonize them with the European Social Law. *As per Article 155 of the Treaty on the Functioning of the European Union (TFEU) , collective agreements are concluded between single employers or their organisations on the one hand, and organisations of workers such as trade unions on the other and "are not subject to any explicit restriction either as to substantive content or legislative procedure"*.
— employers and unions to be allowed to set the private sector minimum wage autonomously. Recall that the minimum gross monthly wage in Greece was reduced earlier this year by a 22% weighed average as a prior action to the new bailout programme.

Goal 2 –Economic development and social protection strategies not related to the existing MoU

The policy priorities detailed below do not directly relate to the existing MoU; they constitute measures aiming to boost domestic economic growth and facilitate a shift to new, more sustainable, development paradigm.

— development of a national plan aiming to facilitate a shift to a new model of economic development, with particular emphasis on competitive economic advantages (energy, tourism, shipping and mineral wealth) as well as key areas of strategic importance (agricultural production, foodstuff and manufacturing);
— full utilization of available EU structural funds and other sources, so as to attract foreign investment, resume a number of *currently-frozen* infrastructural projects and facilitate a better utilization of State assets;
— aligning of spatial planning laws with economic development priorities;
— equitable and efficient distribution of available resources under the EU's Common Agricultural Policy to the domestic

agricultural sector, with particular emphasis on livestock and foodstuff production;
- special support measures to farmers;
- support to entrepreneurship and innovation via new financial instruments and in collaboration with the EIB;
- completion of the domestic bank recapitalization program and improvement of liquidity conditions in the real economy;
- settlement of outstanding government debts to various suppliers and other parties;
- rehabilitation of the portfolios of domestic social security funds - *with new government bonds and State property assets* - after the heavy losses they incurred as a result of the Greek debt exchange (PSI);
- strengthening of social protection mechanisms and universal healthcare for everyone (without preconditions);
- measures to alleviate over-borrowed households and small family businesses (monthly bank payments should not exceed 30% of total monthly income);

Goal 3 –Immediate economic priorities
- establishment of a new National Tax System that will enjoy broad-based support from social partners and remain in place for at least 10 years; the new tax system should aim to broaden out the tax base, promote a more equitable distribution of fiscal burdens, facilitate the fight against tax evasion and eventually lead to the gradual reduction of social security contribution and tax rates (especially, for VAT and other indirect taxes);
- acceleration of privatization projects, especially in cases where private-sector participation can boost employment and infrastructural investment; privatization program should serve as a growth engine and not merely as a revenue generating mechanism;
- closure or merger of unproductive public entities; the target here would be to avoid layoffs of permanent staff, but, instead, generate significant savings from lowering operational and other non-labor costs;
- urgent measures to restore the regular supply of pharmaceuticals to hospitals and patients;
- immediate measures to fight overspending and corruption in the national health system (national system of electronic procurements and inventory management);

Goal 4 –Changes to the political system and reorganization of public administration
- Cleaning up of the domestic political system
  - parliamentary approval of a law for the inspection of assets and property owned by those who served as ministers and senior civil servants since 1974; penalties and confiscation of property to be imposed should their belongings can not be justified by their legitimate income;
  - changes to the legal framework governing ministers' immunity; cases of misuse of state funds and money laundering to be treated as financial crimes;
  - parliamentary deputies to lose their immunity if they commit offenses not related to their political activity;
  - ministries to lose extra payment for taking part in parliamentary committees,
  - imposition of a limit to pension payments received by parliamentary deputies; new MPs will not receive a pension after serving two terms in Parliament (i.e. eight years), as it is currently the case; they will, instead, receive a pension from their insurance fund, as every ordinary citizen, should they be entitled to;
  - revision of all terms and preconditions for the provision of subsidies to major political parties; subsidies will be reduced and the finances of political parties and parliamentary deputies will be subject to inspection by a independent institutional body;
  - radical reduction in the number of special consultants and collaborators that ministers, parliamentary deputies and general secretaries employ;
  - establishment of an institutional framework for the regulation of media and the provision of operational permits; public television will be running independently and it will be accountable to the Institutions and Transparency Committee of the Hellenic Parliament;
  - reform of the Judicial system to ensure timely court decisions and eliminate backlog of court cases via out-of-court settlement mechanisms;
  - strategic plan for tackling tax evasion;

- strategic plan for tackling red tape;
- strategic plan for energy and water resources management.

— Restructuring of public administration
- establishment of a more efficient operational framework for the government and ministries
- safeguarding of the independence of public administration from changes in the political system
- adoption of anti-corruption measures
- objective and transparent civil servant promotion procedures

— Deal with illegal migration and public security threats
- upgrading of border guards;
- upgrading of responsibilities and jurisdictions of FRONTEX (European Agency for the Management of operational Cooperation at the External Borders of the Member States of the European Union);
- assume initiatives, at an EU level, for the change of The Dublin Accord-II; adoption of a common immigrant repatriation policy;
- dispersal of illegal immigrants in special hospitality shelters until their repatriation;
- fast-track procedures for the examination of asylum claims;
- aligning of the institutional framework for the provision of Citizenship with that currently applied in other European countries facing acute illegal immigration problems;
- safety for Greek citizens to be a top priority for the new government.

Goal 5 –Foreign policy issues
- systematic preparation for the declaration of the EEZ (Exclusive Economic Zone) so as to accelerate the exploitation of the country's hydrocarbon reserves and energy wealth;
- active promotion of a common European policy on important regional issues in south Europe;
- strengthening of relations with traditional allies and search for new regional alliances for promoting national interests;
- upgrade of the country's role as a pole of stability in the broader region.

Table B

Greek Prime Minister presents programmatic commitments of the new government

Opening up a 3-day parliamentary debate on the programmatic commitments of the new government on Friday July 6, Greek Prime Minister Antonis Samaras outlined nine policy priorities aiming to facilitate a return to sustainable economic recovery and secure social cohesion:

i) Swift implementation of the agreed privatization program, even through legislative intervention when required.

ii) Privatization of the National Railway Company (OSE) and liberalization of the domestic energy market. Energy networks will remain under State control, while exploratory concession contracts will be granted to mines. The privatization program's objective should not be solely to increase state revenues but also to attract new investments and create new jobs. The government will also seek to privatize water utilities, applying an enhanced regulatory control framework for water resources.

iii) Concessions to operate regional ports and airports.

iv) The government will also seek to better exploit real estate assets other than the old Athens airport property at Hellenikon, which is already in the privatization pipeline. The intention is to set up a Special Purpose Investment Vehicle to take over the State's coastal property in the southern Athens region, targeting a rise in values and proceeds. Any ensuing legal issues (e.g. ownership titles) will be cleared up and similar schemes will be launched in other parts of Greece.

v) The government intends to make faster use of remaining funds (~€12.5bn) under the National Strategic Reference Framework (NSR) for Greece, especially for major projects run under the auspices of the Ministry of Development.

vi) Over the next five months, dozens of state entities and organizations will be merged or shut down.

vii) Adoption of special legislation for the repatriation of unregistered funds to boost liquidity in the economy.

viii) Measures to strengthen e–governance, combat bureaucracy and contain spending on State supplies through the use of electronic tools.

ix) Settlement of State arrears to various suppliers and other parties within the next 12–18 months. Special scheme to offset debts to and from the State.

Table C
Main parameters of new tax reform

Tax exemptions based on income criteria

- i) Reduction in the number of personal income tax brackets from 9 currently to 3 or 4; increase in the tax-exempt threshold to €8,000 per year from €5,000, currently.
- ii) Elimination of several tax exemptions, related to *e.g.* medical visits, hospital fees, rent, life insurance contracts, interest on mortgage loans for first time home buyers. Abolishment of preferential status for special social groups, including, among others, families with four or more children and the disabled. Targeted subsides will be provided instead, based on income, social and demographical criteria.
- iii) Tax incentives for house purchases by foreigners.
- iv) On-line submission of personal income statements by a specific date, with no delays allowed.
- v) Any new legislative pieces incorporating provisions affecting corporate and/or individual tax payers will be discussed in Parliament shortly after the new year's budget is voted

Single property tax

- i) Both the special levy on property assets paid via electricity bills and the regular annual property levy will be replaced, as of 2013, by a single progressive property tax.
- ii) Imposition of a *betterment* tax on sales of private property with market value above a certain threshold.
- iii) Review of the property transfer tax based on the respective system currently applied in other euro area countries (currently an 8% tax is levied on property transfers with market value up to 20k and 10% for property transfers exceeding this amount).
- iv) Expansion of the Real Estate Objective Value System to arrears where it is not currently applied.

Anti-tax evasion measures

- i) Establishment of an electronic property register as of 2013, with all taxpayers having to declare their movable and immovable property in Greece and abroad.
- ii) Taxpayers will be charged with criminal charges in case they purposefully evade paying taxes (above a certain annual threshold).
- iii) Imposition of a special penalty for false invoices.
- iv) Offshore companies that have been established solely for tax purposes will be identified and be taxed in Greece.
- v) Adoption of a general provision for the cancellation of "virtual" tax transactions occurring for tax avoidance purpose.
- vi) Integration and restructuring of the tax-audits mechanism
- vii) Provision of necessary equipment to customs for tackling smuggling.
- viii) Unified legislation for intra-group transactions.

Special measures

- i) Equalization of a special consumption tax on heating oil with that on motor fuels. Allowances to partially offset the ensuing burden will be provided, based on geographic, income and social criteria.
- ii) Abolition of the Code of Books and Records.
- iii) Abolition of taxes for Third Parties.
- iv) Establishment of a new service for VAT application, assessment and payment.
- v) Adoption of an electronic service for the submission of tax data and documents.
- vi) Re-examination of the system enforcing businesses to adopt measures aiming to safeguard the public interest.
- vii) Re-examination of the system currently applied to deal with delayed outstanding tax payments.
- viii) Abolition of special committees for the administrative settlement of tax disputes; such issues will be handled by the Arbitration Institution
- ix) Web publishing of the Tax Arbitration Committee's decisions.

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