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Enhanced Surveillance Report - Greece, September 2020

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ABBREVIATIONS

AIA: Athens International Airport
ANFA: Agreement on Net Financial Assets
ASEP: Supreme Council for Civil Personnel Selection
CRR: Capital Requirement Regulation
DEPA: Public Gas Corporation (Δημόσια επιχείρηση αερίου)
DRU: Dispute Resolution Unit
ECB: European Central Bank
EFKA: Single Social Security Fund (Ενιαίος φορέας κοινωνικής ασφάλισης)
EFSF: European Financial Stability Facility
EIB: European Investment Bank
EKAPY: National Central Authority of Health Procurements (Εθνική κεντρική αρχή προμηθειών υγείας)
ENFIA: Unified Property Tax (Ενιαίος φόρος ιδιοκτησίας ακινήτων)
ERGANI: Greek Database for Unemployment Registration (Πληροφοριακό σύστημα «ΕΡΓΑΝΗ»)
ERGOSE: Subsidiary company of OSE to implement railways infrastructure projects
ESI: Economic Sentiment Indicator
ESM: European Stability Mechanism
ESOEL: National Coordinating Body for Audit and Accountability (Εθνικό σώμα ορκωτών ελεγκτών λογιστών)
ETAD: Public Properties Company (Εταιρεία ακινήτων δημοσίου Α.Ε.)
ETEAEF: Supplementary Pension Fund
EYATH: Thessaloniki Water Supply and Sewerage Company (Εταιρεία ύδρευσης και αποχέτευσης Θεσσαλονίκης Α.Ε.)
EYDAP: Athens Water Supply and Sewerage Company (Εταιρεία ύδρευσης και αποχέτευσης Πρωτεύουσας Α.Ε.)
FEK: Government gazette (Φύλλο της εφημερίδας της κυβερνήσεως)
GDP: Gross Domestic Product
GPS: Global Positioning System
GRECO: Group of States against Corruption
HCAP: Hellenic Corporation of Assets and Participations
HELEXPO: National institution for the organisation of exhibitions, congresses and cultural events (Εθνικός φορέας διοργάνωσης εκθέσεων, συνεδρίων και πολιτιστικών εκδηλώσεων)
HFSF: Hellenic Financial Stability Fund (Ταμείο χρηματοπιστωτικής σταθερότητας)
HRADF/TAIPED: Hellenic Republic Asset Development Fund (Ταμείο αξιοποίησης ιδιωτικής περιουσίας του δημοσίου)
HRMS: Human resources management system
IAPR: Independent Authority for Public Revenue
ICT: Information and Communication Technologies
IEK: Public professional schools (Ινστιτούτο επαγγελματικής κατάρτισης)
IKE: Greek private company (Ιδιωτική κεφαλαιουχική εταιρεία)
IMF: International Monetary Fund
JASPERS: Assistance to Support Projects in European Regions
KEK: Vocational training centres (Κέντρα επαγγελματικής κατάρτισης)
KEPA: Disability assessment centres (Κέντρο πιστοποίησης αναπηρίας)
KOMYs: Newly and swiftly deployed medical mobile units (Κινητές μονάδες υγείας)

KTEL: Joint-venture of Regional Transport
LCR: liquidity coverage ratio
LEPETE: Supplementary Pension Fund of the National Bank of Greece (Λογαριασμός επικουρικής προσωπικού εθνικής τράπεζας της Ελλάδος)
MFIs: Monetary financial institutions
NOME: Nouvelle organisation du marché de l'électricité (New organisation of the electricity market)
NPEs: Non-performing exposures
OAED: Public employment service (Οργανισμός απασχόλησης εργατικού δυναμικού)
OASTH: Urban Transport of Thessaloniki
OMED: Mediation and arbitration board (Οργανισμός μεσολάβησης και διαιτησίας)
OSDDY: Integrated Management System for Judicial Cases (Ολοκληρωμένο σύστημα διαχείρισης δικαστικών υποθέσεων)
OSE: Organisation of railways of Greece
PMI: Purchasing Managers Index
SEPE: Labour inspections directorate (Σώμα επιθεώρησης εργασίας)
SMP: Securities Markets Programme
SURE: Support to Mitigate Unemployment Risks in an Emergency
SYNERGASIA: Temporary short-time work scheme (Μηχανισμός ενίσχυσης της απασχόλησης «ΣΥΝ-ΕΡΓΑΣΙΑ»)
TEPIX II: Envelope for co-financing loans to small and medium-sized enterprises (Δράση “Επιχειρηματική Χρηματοδότηση – ΤΕΠΙΧ ΙΙ”)
TLTRO III: Eurosystem targeted longer-term refinancing operations (TLTRO ΙΙΙ)
VAT: Value added tax

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1. INTRODUCTION

Economic developments and policies in Greece are monitored under the regular economic surveillance framework for euro-area Member States under the European Semester for economic policy co-ordination and under the enhanced surveillance framework according to Regulation (EU) No 472/2013 ⁽¹⁾. Following its fourth prolongation, enhanced surveillance for Greece is currently in place for six months as from 21 August 2020 ⁽²⁾. The implementation of enhanced surveillance for Greece acknowledges the fact that Greece needs to continue implementing measures to address the sources or potential sources of economic and financial difficulties, while implementing structural reforms to support a robust and sustainable economic growth.

Greece made a general commitment at the Eurogroup of 22 June 2018 to continue and complete reforms adopted under the European Stability Mechanism programme and to ensure that the objectives of the important reforms adopted under the financial assistance programmes are safeguarded. In addition, Greece made specific commitments to complete key structural reforms started under the programme in six key areas by agreed deadlines up to mid-2022, namely (i) fiscal and fiscal-structural policies, (ii) social welfare, (iii) financial stability, (iv) labour and product markets, (v) Hellenic Corporation of Assets and Participations and privatisation and (vi) the modernisation of public administration ⁽³⁾.

This report is based on the findings of a mission held remotely on 13 and 14 July 2020 and regular dialogue with the authorities. The mission was conducted by the European Commission in liaison with the European Central Bank ⁽⁴⁾; the International Monetary Fund participated in the context of its Post-Programme Monitoring framework, while the European Stability Mechanism participated in the context of its Early Warning System and in line with the Memorandum of Understanding of 27 April 2018 on working relations between the European Commission and European Stability Mechanism.

Enhanced surveillance provides a comprehensive framework for monitoring economic developments and the pursuit of policies needed to ensure a sustainable economic recovery. To this end, this report includes an assessment of economic conditions in Greece (chapter 2); an assessment of implementation of reform

⁽¹⁾ Regulation (EU) No 472/2013 of the European Parliament and of the Council of 21 May 2013 on the strengthening of economic and budgetary surveillance of Member States in the euro area experiencing or threatened with serious difficulties with respect to their financial stability, OJ L 140, 27.5.2013, pp. 1.

⁽²⁾ Commission Implementing Decision (EU) 2020/1142 of 29 July 2020 on the prolongation of enhanced surveillance for Greece, OJ L 248, 31.7.2020, pp. 20-23.

⁽³⁾ https://www.consilium.europa.eu/media/35749/z-councils-council-configurations-ecofin-eurogroup-2018-180621-specific-commitments-to-ensure-the-continuity-and-completion-of-reforms-adopted-under-the-esm-programme_2.pdf

⁽⁴⁾ European Central Bank staff participated in the review mission in accordance with the European Central Bank's competences and thus provided expertise on financial sector policies and macro-critical issues, such as headline fiscal targets and sustainability and financing needs. The review mission was preceded by a technical mission, also held remotely, from 2 July to 10 July 2020.

commitments given by Greece to the European partners (chapters 3 and 5-9); and an update on sovereign financing conditions (chapter 4).

The Eurogroup on 22 June 2018 agreed that the package of debt relief measures for Greece should include incentives to ensure a strong and continuous implementation of the reform measures agreed in the programme. To this end, the implementation of some of the agreed debt measures – the abolition of the step-up interest rate margin related to the debt buy-back instalment of the European Financial Stability Facility (EFSF) programme as of 2018 and the restoration of the transfer of equivalent amounts to the income earned by euro-area national central banks on Greek government bonds held under the Agreement on Net Financial Assets (ANFA) and the Securities Market Programme (SMP) – will be made available to Greece subject to compliance with its commitments on reform continuity and completion, based on positive reports under enhanced surveillance. The transfer of these income equivalent amounts would be made available to Greece in semi-annual tranches of €644 million up to mid-2022. The waiver of the step-up interest rate margin, for part of the loans extended by the European Financial Stability Facility, would reduce interest payments by about €104 million every half year. It would be waived on a semi-annual basis until 2022 and permanently after 2022. The third tranche of policy-contingent debt measures was released following the Eurogroup on 11 June 2020, inter alia based on the assessment of the implementation of Greece’s commitments for end-2019 included in the enhanced surveillance report adopted by the Commission on 20 May 2020 ⁽⁵⁾ and considering the extraordinary circumstances posed by the coronavirus outbreak. The current report assesses the implementation of Greece’s commitments to the Eurogroup including specific reform completion commitments up to mid-2020, the continuous commitments and its general reform continuity commitment. This report is not linked to a release of the next set of policy-contingent debt measures, which – in line with the agreed biannual schedule – could take place on the basis of the eighth report. The eighth report is expected to be published in November.

⁽⁵⁾ https://ec.europa.eu/info/publications/enhanced-surveillance-report-greece-may2020_en

2. MACROECONOMIC DEVELOPMENTS

2.1. MACROECONOMIC OUTLOOK

The coronavirus pandemic and measures to contain it are expected to take a strong toll on the Greek economy. Strict containment measures, which restricted movement, economic activity and international travel, were in place from the last week of March until end-May with travel restrictions for a group of mainly EU countries being lifted only gradually as of mid-June. The first estimate of real GDP growth in the second quarter of 2020 showed a decline of -14% quarter-on-quarter, after declining by only -0.7% in the first quarter of the year. Given that containment measures affected the second quarter more than the first quarter, the strong economic impact in the second quarter is in line with expectations. Assuming less strict measures to limit the spread of coronavirus in the coming months, economic activity is expected to recover somewhat in the second half of the year, compared to the first half and particular the second quarter. Overall, economic activity in 2020 is expected to remain well below 2019 levels and only return to the 2019 levels in 2022, after a partial bounce back in 2021, with GDP growth rates reaching -9% in 2020, and 6% in 2021. This forecast is based on the summer interim forecast and reflects the measures adopted or credibly announced until early-July and data released until end-June. A full update on the macroeconomic and fiscal forecast will be prepared in autumn.

The services sector was the most adversely affected by the containment measures. Among services, the private services sector, including tourism and transports, took the biggest hit, followed by agriculture and industry. By contrast, construction – and to a lesser extent public services – contributed positively to growth. The travel restrictions have hit the tourism industry hard, with tourism receipts down by 99% in April and May 2020 and by 97.5% in June compared to the same months in 2019. Shipping services have been impacted as well by the restrictions in many countries and the lower overall trade volumes, with the receipts from transportation being 23% lower in May and 18.7% in June 2020 than a year ago.

Domestic demand is expected to contract in 2020. Lower disposable incomes due to short-time work and job losses are expected to lead to lower domestic demand. Furthermore, consumers are expected to adjust consumption behaviour in order to reduce the infection risk, depending on medical advice, which can lead to sudden demand shifts. The dramatic drop in economic activity also puts companies under stress and is likely to lead to a significant drop in investment. In addition, the uncertainty regarding developments of the pandemic and potential economic consequences are expected to lead to the postponement of investments, while lower sales and profits increase the financial pressure and make it harder to finance investments through own resources.

Service exports are expected to be severely affected by the travel restrictions as well as the slow-down in international trade. With the country cautiously opening again mid-June to tourists, the main tourism season months July and August could see some limited tourism activity, but expectations remain very low overall for 2020, with revenues between 70-90% below the 2019 level. The high uncertainty regarding travel

restrictions and the high-perceived health risk, are expected to also lead to lower arrival numbers in the second half of the year. International trade is strongly affected by the economic downturn triggered by the pandemic and is expected to remain well below normal levels. The negative effects for Greek shipping service exports could remain, even if EU economies recover in the second half of 2020, depending on the global situation.

Goods exports are expected to suffer somewhat less from the global crisis. Greek goods exports are composed of a comparatively large share of agricultural products, foodstuffs and pharmaceuticals, which could help mitigate some of the negative effects of the global crisis on exports. Other industrial exports are likely to be affected by the drop in economic growth in Greece trading partner countries, which are severely affected by the pandemic.

Support measures have helped keep the unemployment rate in check so far, but signs point towards a frozen labour market. Swift labour market support measures (see sections 7.1 and 7.2) have so far prevented major job losses according to the available data. In May 2020, the unemployment rate reached 17%, up from 15.9% in February. The hiring of seasonal workers which usually takes place in the months March-May has been dramatically reduced and the general hiring and firing activity during these months has been extremely low. New hiring increased again in June and July, but not to the extent that could counteract the developments in the previous months. The average annual unemployment rate is expected to increase close to 20% in 2020 and to gradually decline again along with the economic recovery in 2021, assuming that support measures will only be phased out progressively.

Consumer price inflation is expected to be negative in 2020 and only turn mildly positive in 2021 during the economic recovery. Inflation is expected to remain negative in 2020 around -0.5%, driven by low energy prices and the general economic situation, with limited upward pressure potentially only stemming from processed and unprocessed foods. Downside risks are present in the short term, stemming mainly from lower energy prices and subdued services inflation, in particular in relation to the drop in tourism activity and value added tax cuts. The partial economic recovery in 2021 is expected to also lead to a slow increase in consumer price inflation, which is forecast to reach a mildly positive territory at 0.5%, as oil prices also increase. In the medium term, risks are tilted to the upside due to increasing energy prices.

Government support measures have helped protect the economy against widespread bankruptcies and job losses. The mix of government support consisting in a lowering of the tax burden with €3.1 billion (1.9% of GDP), protection of jobs and incomes with €4.1 billion (2.4% of GDP), and easing liquidity constraints with €5.9 billion (3.5% of GDP) is a balanced approach and is expected to be instrumental in maintaining the economic fabric and thus help the economy recover. While income support and unrestricted help during the months of the strictest measures helped keep disposable incomes from collapsing, support now needs to shift to a more targeted approach focusing on sectors still hit by hygiene and social distancing measures. As soon as the pandemic and economic situation stabilises and allows for a more medium-term planning horizon, supporting sustainable investment will be of high importance to speed up the economic recovery process.

Uncertainty regarding the development of the pandemic and thus its economic impact remain extraordinarily high. While economic activity in Greece is expected to cautiously accelerate, much uncertainty still remains. The uncertainty is related to the pandemic and its spread within Greece and globally, future measures that might be necessary to contain the spread of the virus, and longer lasting economic effects due to restrictions, changed consumer behaviour, possible bankruptcies and difficulties for those who have recently become unemployed to re-join the labour market. In particular, the large tourism sector exposes Greece to risks stemming from the pandemic and changed travel behaviour. Shipping may be further strongly affected by the spread of the virus in other countries that are not even important direct trading partners with Greece due the global nature of the industry. A quick uptake of the new EU support programmes, most notably the Recovery and Resilience Facility, would be key to counterbalance these effects and provide the needed support to reforms, investments and growth. The assessment is also taking place against the background of considerable geopolitical tensions and growing migration flows, which add to uncertainty, as well as economic and fiscal pressures.

Table 2.1: **Summary of the main economic indicators**

	Annual percentage change			
	2018	2019	2020	2021
Real GDP	1.9	1.9	-9.0	6.0
Harmonised index of Consumer Prices	0.8	0.5	-0.5	0.5

Source: European Commission 2020 Summer Interim Forecast.

3. FISCAL AND FISCAL-STRUCTURAL POLICIES

3.1. FISCAL DEVELOPMENTS AND OUTLOOK

As a result of the new measures and in light of the latest macroeconomic developments as described in the Commission 2020 summer interim forecast, the budget deficit is expected to reach 5.8% of GDP in 2020. The fiscal forecast for 2020 has deteriorated since the last report. The current forecast is based on the Commission 2020 summer interim macroeconomic projection, and reflects the main measures adopted or credibly announced since May 2020. It does not include the impact of the Council of State's pension ruling from 14 July, neither the pending ruling of the Court of Auditors (see Box 3.1). The main driver of the deterioration of the forecast is the fiscal impact of the new measures adopted since May 2020 to mitigate the consequences of the pandemic. The aggregate fiscal impact of the earlier measures remained broadly unchanged. On the one hand, the take-up of some of the measures has been lower than expected (e.g. temporary economic support to wage earners and self-employed and the social security coverage by the state), which led to an improvement in the forecast. On the other hand, since the publication of the previous report, due to the extension of the repayment period for the tax deferrals, these deferrals will now be considered as an accrual loss for this year's budget, as opposed to a budget-neutral revenue shift as it was treated in the previous report. The remaining difference is due to the changes in the macroeconomic scenario and updates in the social budget and state expenditure. A full update on the fiscal forecast will be prepared in autumn, in the context of the assessment of the 2021 Draft Budgetary Plan.

The authorities have prolonged the application of some of the earlier measures for a number of additional months and adopted further temporary measures to address the crisis (see Table 3.1 for a summary). In the first package of measures, companies were eligible for a total amount of €2 billion in the form of a repayable advance. After two rounds of applications, the take-up of these amounts was almost complete until July 2020. Therefore the government decided to extend the measure and open the platform for a third round of applications, due in September, with an expected envelope of €1 billion, thereby increasing the total envelope of the scheme to €2.8 billion. A further round may follow by the end of the year. Furthermore, the repayment of the tax and instalment deferrals has become eligible to be repaid in up to 24 instalments, starting from January 2021. In addition, since May 2020, the authorities adopted a new set of measures, with the following main items:

1. Companies with a given drop in turn-over, may decrease their advance payments for the corporate income tax or for the personal income tax for self-employed. This measure is expected to have a fiscal impact of 0.9% of GDP in 2020. To recall, these advances are normally calculated based on the previous year's taxable income and then cleared in the following year, when the actual taxable income for the current year becomes known. Since this year's taxable income is expected to be substantially lower than the last year's, this measure anticipates the lower net clearances that the companies would be paying next year.

2. A second set of measures was introduced with a view to protecting employment. Following the provision of a special allowance and financing of social security contributions of employees for companies affected by the coronavirus outbreak, the government introduced a short-time work scheme. Under this scheme, the state covers part of the employment costs for employees whose working time has been reduced, as long as the companies commit to keep them employed. The government undertook additional measures to sustain employment such as: (a) the provision of a special allowance for seasonal workers in the tourism sector, (b) the coverage by the state of seasonal and Christmas bonuses for furloughed employees and (c) the financing by the state of social security contributions of employees of seasonal companies, if they can prove that 50% of their yearly turnover was concentrated in the third quarter of the year in 2019. The fiscal impact of these measures is estimated to reach 0.6% of GDP in 2020 and will be financed by the new European instrument for temporary support to mitigate unemployment risks in an emergency (SURE)⁽⁶⁾. The total cost of measures requested by the authorities to be financed under the SURE initiative amounts to 1.6% of GDP also including the payment of a special allowance and the financing of social security contributions of employees, for companies affected by the coronavirus outbreak.
3. A third set of measures aim to mitigate the impact on tourism through dedicated social tourism programmes and an extended advertising campaign with an estimated fiscal impact of 0.1% of GDP.
4. A temporary decrease in VAT rates for transportation, beverages, tourism packages and cinema tickets from 24% to 13% is expected to bear a fiscal cost of 0.1% of GDP.
5. A temporary instalment subsidy scheme for mortgage, consumer and business loans secured by a primary residence for debtors with mortgages on main residences that have been financially affected by the coronavirus pandemic has been introduced. Under this primary residence protection scheme, the state subsidises for nine months up to 90% of the monthly instalment for all performing loans related to the primary residence but also a significant percentage (from 60% to 80%) of the non-performing loan instalment (see section 6.2). The fiscal cost is estimated at 0.3% of GDP for the period 2020-2021.

The authorities also extended the previously taken measures that provide liquidity support to households and firms. In particular, the envelope for co-financing loans to small and medium-sized enterprises (TEPIX 2 scheme) by the Hellenic Development Bank has been increased by €588 million, totalling €838 million. Furthermore, the deadline for certain tax payments has been extended. The personal income taxes can now be paid in 8 monthly instalments, instead of 3 bi-monthly instalments. Similarly, the corporate income tax can now be paid in 7 or 8 instalments instead of the usual 5 or 6 instalments. The single property tax (ENFIA) can now also be paid in 6 instalments instead of 5. These measures have around 0.9% of GDP impact on the cash balance, but no impact on the accrual fiscal balance, due to the time adjustment applied in the statistical recording of these revenue streams.

⁽⁶⁾ Council Regulation (EU) 2020/672 of 19 May 2020.

Table 3.1: **Coronavirus response measures and their financing sources**

	Size		Financed by			Fiscal impact					
	2020		Ordinary budget	Corona response investment initiative	PIB re allocation in 2020	2020		2021		2022	
	million EUR	as % of GDP				million EUR	as % of GDP	million EUR	as % of GDP	million EUR	as % of GDP
Budgetary measures	11 175	6.6	9 321	1 179	675	9 321	5.5	-1 156	-0.7	-677	-0.4
Temporary economic support to wage earners and self-employed	1 660	1.0	1 108		552	1 108	0.7	0	0.0	0	0.0
Repayable advance payment	2 861	1.7	1 861	1 000		1 861	1.1	0	0.0	-447	-0.3
Social security contributions paid by the state	541	0.3	541			541	0.3	0	0.0	0	0.0
Interest payment on performing loans of small and medium sized enterprises	179	0.1	0	179		0	0.0	0	0.0	0	0.0
Suspension of social security contributions instalment schemes by 3 months	193	0.1	193			193	0.1	0	0.0	0	0.0
Additional support to the healthcare system	233	0.1	233			233	0.1	136	0.1	131	0.1
Easter bonus state contribution for employees under labour suspension	130	0.1	130			130	0.1	0	0.0	0	0.0
Temporary economic support to certain liberal professions	103	0.1	103			103	0.1	0	0.0	0	0.0
Extension of the regular and long-term unemployment benefit	309	0.2	309			309	0.2	0	0.0	0	0.0
Support of the primary sector of the economy	150	0.1	150			150	0.1	0	0.0	0	0.0
Abolishment of local government levies	110	0.1	110			110	0.1	0	0.0	0	0.0
25% discount on tax and social security contributions obligations paid in expected deadlines	256	0.2	256			256	0.2	0	0.0	0	0.0
Coronavirus' related expenditures of other ministries	194	0.1	194			194	0.1	0	0.0	0	0.0
Clawback to hospitals	19	0.0	19			19	0.0	0	0.0	0	0.0
Easter bonus to medical and other staff	90	0.1	90			90	0.1	0	0.0	0	0.0
Temporary economic support to long-term unemployed	65	0.0	65			65	0.0	0	0.0	0	0.0
Special purpose leave for parents	20	0.0	20			20	0.0	0	0.0	0	0.0
Compensation of passenger ships	30	0.0	30			30	0.0	0	0.0	0	0.0
Other	4	0.0	4			4	0.0	0	0.0	0	0.0
Reduction in rents	0	0.0	0			0	0.0	36	0.0	0	0.0
Deferral of VAT payments	420	0.2	420			420	0.2	-168	-0.1	-168	-0.1
Deferral of social security contributions payments	315	0.2	315			315	0.2	-126	-0.1	-124	-0.1
Deferral of payments of tax debt instalments	173	0.1	173			173	0.1	-69	0.0	-69	0.0
Return of taxes for property owners that receive reduced rent	61	0.0	61			61	0.0	0	0.0	0	0.0
Reduction of advanced CIT payment	1 500	0.9	1 500			1 500	0.9	-1 230	-0.7	0	0.0
Zero advanced CIT payment for airline companies	53	0.0	53			53	0.0	-53	0.0	0	0.0
Short-term employment scheme	435	0.3	435			435	0.3	0	0.0	0	0.0
Seasonal and Christmas bonuses state contribution for employees under labour suspension	101	0.1	101			101	0.1	0	0.0	0	0.0
Social security contributions coverage for employees of seasonal enterprises	240	0.1	240			240	0.1	0	0.0	0	0.0
Social tourism programs of Ministry of tourism	100	0.1	0		100	0	0.0	0	0.0	0	0.0
Social tourism program of employment fund (OAED)	17	0.0	17			17	0.0	10	0.0	0	0.0
EOT tourism advertizing campaign	23	0.0	0		23	0	0.0	0	0.0	0	0.0
VAT reduction from 24% to 13%	124	0.1	124			124	0.1	0	0.0	0	0.0
First residence subsidy cost for borrowers hit by coronavirus	210	0.1	210			210	0.1	308	0.2	0	0.0
Unemployment benefit to seasonal workers	41	0.0	41			41	0.0	0	0.0	0	0.0
Special allowance for seasonal workers of tourism	197	0.1	197			197	0.1	0	0.0	0	0.0
Compensation of passenger seats for airline companies	6	0.0	6			6	0.0	0	0.0	0	0.0
Compensation to amateur sports clubs due to coronavirus	12	0.0	12			12	0.0	0	0.0	0	0.0
Liquidity measures	2 838	1.7	0	588	2 000	0	0.0	0	0.0	0	0.0
Cash collaterals (bank guarantees) by the Hellenic development bank to banks for loans to affected companies	2 000	1.2	0		2 000	0	0.0	0	0.0	0	0.0
HDB co-financing loans to small and medium sized enterprises /1	838	0.5	0	588		0	0.0	0	0.0	0	0.0
Total measures	14 014	8.2	9 321	1 767	2 675	9 321	5.5	-1 156	-0.7	-677	-0.4
Expected additional impact of liquidity measures	6 345	3.7	0	0	0	0	0.0	0	0.0	0	0.0
Total impact	20 359	12.0	9 321	1 767	2 675	9 321	5.5	-1 156	-0.7	-677	-0.4
as % of GDP			5.5	1.0	1.6						

(1) The total envelop of the Hellenic Development Bank's co-financing loans to small and medium-sized enterprises is €838 million of which €250 million were disbursed to the Hellenic Development Bank already in 2019 from the public investment budget and €588 million will be financed by the flexibility offered by the Corona-response Investment Initiative.

Source: European Commission.

Box (continued)

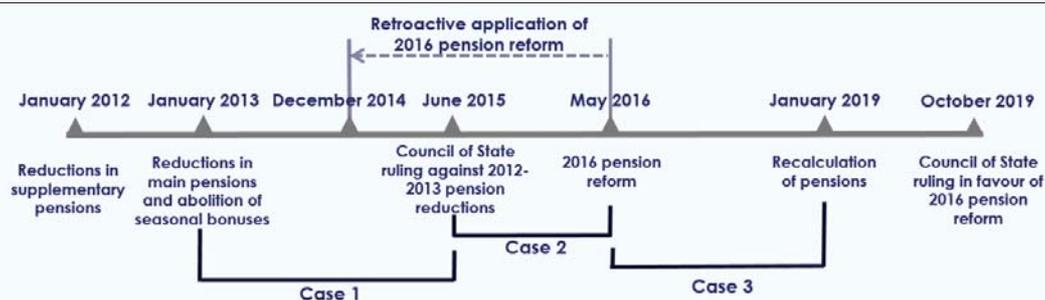
Box 3.1: The Council of State ruling on pensions

On 14 July 2020, the Council of State issued a landmark ruling regarding legal claims for retroactive compensation for pension cuts introduced by previous pension reforms. While earlier rulings of the Council of State upheld the main features of the 2012 and 2016 pension reforms, they also gave rights for retroactive compensation to specific groups of pensioners. These partial recognitions left a large number of claims by other pensioners pending in various courts. The present ruling establishes clarity on those.

The Council of State addressed three issues that have arisen in relation to previous pension reforms.

1. *Claims for the period January 2013-June 2015* (case 1 on Graph 1): A 2015 Council of State ruling judged the 2012 pension cuts unconstitutional from June 2015 onwards, but also granted a right for compensation to those who had actually filed a legal claim before the date of the publication of the decision. The present ruling clarified the rights of those who had not filed a petition before that date. **It ruled that they do not have a right for compensation, in line with the Council of State's earlier statement.**
2. *Claims for the period June 2015-May 2016* (case 2 on Graph 1): The 2016 pension reform kept pensions of incumbent pensioners at the levels effective on 31 December 2014, i.e. factoring in the pension cuts implemented in 2012. However, since, according to the 2015 Council of State ruling the 2012 pension cuts were unconstitutional from June 2015 onwards, legal uncertainty had been created regarding the period between June 2015 and May 2016, when the pension reform came into effect. **The present ruling decided that pensioners need to be compensated for this 11-month period. However, the actual decision applies only to pensioners who have already filed a claim, leaving it up to the authorities to decide whether to compensate all pensioners.**
3. *Claims for the period May 2016-January 2019* (case 3 on Graph 1): The May 2016 pension reform put in place a new pension formula for future pensioners and introduced a new notional level of pensions for incumbent pensioners – to which actual pensions would adjust over time through an indexation freeze, or a payment if the actual pension was lower than the notional one. However, the amounts to be adjusted through the inflation freeze were ascertained only as of January 2019, giving rise to claims on retroactive payments from May 2016 to January 2019. **The present ruling rejected all claims for this period.**

Graph 1: Pension reform timeline and court rulings



Source: European Commission.

With the provisions of law 4714/2020, published at the end of July 2020, the authorities recognised the claims corresponding to the reductions of the main pensions for the 11-month June 2015-May 2016 period. Although the ruling applies only to pensioners who have already filed a claim, the government decided to recognise retroactive claims for all the private-sector pensioners with a fiscal cost estimated at €900 million. In addition, the government announced to recognise identical claims for the public-sector pensioners, if and when the respective decision of the Court of Auditors for public sector pensioners will be

(Continued on the next page)

issued to the same effect. This would increase the fiscal costs by €500 million. The total cost of the recognition of these claims could therefore amount to €1.4 billion on a gross basis, which corresponds to a net amount of €1.3 billion. This amount is expected to be paid in 2020.

In the same law, the authorities have declined to recognise the remaining claims that relate to seasonal bonuses and supplementary pensions for the same period, referring to fiscal constraints. More specifically, taking into account the current unfavourable fiscal situation, the law 4714/2020 declared that all the additional pension claims that correspond to reductions and abolitions of supplementary pensions and of the seasonal bonuses for the period between June 2015 and May 2016, are annulled.

The exclusion of supplementary pensions and seasonal bonuses from retroactive amounts carries fiscal risks. The full text of the Council of State ruling is not yet available and only summaries of the decision are published which are short and only refer to main pensions. Therefore, it is unclear if the government's obligation for retroactive compensation is restricted to main pensions or if it should also be extended to supplementary pensions and seasonal bonuses. In case the decision also covers the latter categories, the non-recognition of the respective claims could lead to further claims from pensioners and possibly result in a significant fiscal cost, reaching over €2 billion in case of a verdict upholding the claims in question.

The Prime Minister announced a number of additional measures on 12 September. These measures aim to provide support for the recovery next year. Notably, the social security contributions rate will be temporarily reduced for private sector employees by three percentage points and the special social solidarity contribution of private employees and self-employed will be abolished for 2021. The package also includes prolongation of some of the earlier measures and a new round of repayable advances. These measures will be assessed in the context of the 2021 Draft Budgetary Plan.

Some further measures recently adopted by the government are expected to further increase the deficit. The recalculation of the objective value of immovable properties for the calculation of the single property tax (ENFIA) in 2020, has been postponed due to delays in the valuation exercise (see section 3.2). Hence, this year's declarations for the single property tax will still be based on previously used values, which will have a negative fiscal impact of around 0.1% GDP. On the occasion of a temporary loss of income, the authorities reduced the personal income tax rate of aircraft pilots to 15%, thus introducing a permanent exemption to the tax system which contradicts the principles of a single and uniform tax system. Finally, in order to fiscally support businesses with R&D operations, the authorities increased the deductibility of the related expenses (and their depreciation) at minimal fiscal cost.

The uncertainty around the fiscal forecast remains substantial. While the uncertainty around the fiscal impact of the emergency budgetary measures has subsided, the macroeconomic environment remains a source of substantial uncertainty. Beyond the pandemic-related macroeconomic uncertainty, there are a number of fiscal and other risks that may affect the future evolution of the fiscal balances. First, Greece is grappling with renewed migration pressures and geo-political tensions, which may give rise to additional funding needs. Second, a part of the state guarantees that are being extended through the Hellenic Development Bank may get called in the coming years, especially if the recovery turns out to be sluggish. Given the total amount of €2 billion, a call-rate of 10% would already impose a fiscal cost of over 0.1% of GDP. Third, the

future repayment of the repayable advances will depend on the survival rate of the receiving companies. A slower-than-expected recovery would therefore jeopardise the recovery of these funds. Furthermore there are public service obligations of 0.1% of GDP to be paid to the Hellenic Post, which may materialise in the near future. On the positive side, Greece is expected to greatly benefit from new facilities including the Recovery and Resilience Facility that aims to support investments and reforms in the EU over the next programming period, and is expected to support growth and public finances going forward.

Greece's public finances continue to face important fiscal risks related to pending court rulings. Fiscal pressures might be posed by the litigation cases against the Public Real Estate Company (ETAD). The case is ongoing, as the question of the validity of the recent arbitral awards is still pending before the Athens Court of Appeal following the petitions for the annulment by ETAD. The pending ruling of the Court of Auditors on the retroactive compensation of public-sector pensioners for cuts identical to those that were ruled unconstitutional for the private-sector pensions creates additional fiscal risk. Finally, additional fiscal risks stem from the uncertainty as regards the Council of State ruling on retroactive compensation for cuts in supplementary pensions and seasonal bonuses introduced by previous pension reforms. (see Box 3.1).

3.2. TAX POLICY

The authorities have restarted work towards completion of the nationwide reassessment of property tax values, a mid-2020 specific commitment, whose finalisation has now been rescheduled for mid-2021. The inevitable delays occurred earlier in the year due to the coronavirus lockdown. The work of data collection and quality assessment, leading to the final determination of prices for existing value zones is expected to be completed by the end of the year. This year's ENFIA single property tax assessments will thus mainly be based on the previous property tax values. The agreed further expansion of the existing value zone system across the entire country will need to be addressed in the course of next year with a rescheduled deadline of mid-2021. Moreover, technical support is provided by the European Commission through a new project to revisit key features of the immovable property valuation system, including a review of commercial properties valuation methodology, as well as support the steps towards further modernisation and digitalisation of the existing system, in line with best practices.

3.3. REVENUE ADMINISTRATION

Staffing levels at the Independent Authority for Public Revenue continued to increase at a modest pace, although remaining well below the targets, an end-2019 specific commitment, whereas limited progress has been made on the overarching human resources reform, putting in doubt if it will be operational by 1 January 2021. Staffing levels at the end of the second quarter stood at 11 916, compared to 12 500 set as the target by end of 2019. Moreover, the authorities have adopted provisions⁽⁷⁾ that have resulted in staff from the Independent Authority being

⁽⁷⁾ OJ 134/09.08.2019 (Article 55), OJ A 167/30.10.2020 (Article 51) and OJ A 148/31.07.2020 (Article 86).

transferred to other bodies, thus making the achievement of the set staffing targets even more difficult. The completion of the human resources reform, which – once in place – is expected to greatly facilitate the Independent Authority’s capacity to attract and maintain the high calibre staff it needs, continues facing significant delays. Although the budget has been allocated for 2020, the draft legislation for the wage grid is yet to be prepared. The European institutions encouraged the authorities to adopt it during the next review period. It is noted that significant technical support has been provided through the European Commission that is expected to continue also in 2021, which adds to the urgency of a timely implementation of this key reform. Adopting the wage grid legislation during the next review period is considered crucial to help with addressing the challenges faced by the Independent Authority to fill its vacant posts (currently 1 353 below the mid-2021 target).

Mixed progress has been made in the areas of the Independent Authority’s IT framework and its headquarters, with further key steps expected to be adopted in the coming months. A jointly agreed roadmap for the IT framework has been prepared by the Independent Authority and the Ministry of Digital Governance. The rollout of myDATA ⁽⁸⁾, relating to electronic bookkeeping and other web services offered by the Independent Authority, is expected to be completed by October 2020. The needed budget for investment expenditures for other planned IT projects until 2022 is yet to be allocated and is estimated at €25-30 million. As concerns the relocation of the headquarters of the Independent Authority into one single location, planning is moving ahead for a new building to be erected next to a building to host the Ministry of Finance in a location at the outskirts of Athens. The tender for the construction is expected to be launched by the first quarter of 2021 and the Independent Authority should be able to access the building during 2024.

A draft law to strengthen the anti-smuggling framework, including provisions to strengthen the operational capacity of the Operational Coordination Centre, has been prepared and is expected to be adopted by October 2020. The draft law includes a number provisions aiming to strengthen the anti-smuggling framework, such as the ratification of the World Health Organisation Framework Convention on Tobacco Control and GPS tracking system for fuels. The draft law, which is expected to be published for public consultation during September, will need to be further elaborated with a number of secondary legislation acts. It would be important to swiftly adopt these bills and ensure sufficient sourcing of the Independent Authority, to allow it to carry out its role efficiently, in particular as concerns the development and use of various digital tools. The European Commission is continuing providing technical support until the end of 2020. The capacity of the Operational Coordination Centre – which coordinates anti-smuggling efforts – will be strengthened through the introduction of a new selection process for officials that extends the secondment period up to six years, while the structure remains firmly embedded within the Independent Authority. Separately, the implementation of the new organisation structure of the customs department is progressing, but there has been some delays in the full operationalisation of the mobile control units.

⁽⁸⁾ Secondary legislation setting out specific provision were adopted in June 2020 (OJ B 2470/22.06.2020).

The recently established debt collection centre moved into its new premises, while the end-to-end collection project, a specific commitment for mid-2021, is faced with some delays. The debt collection centre, which has been provided technical support through the European Commission, still needs to be fully staffed, as it currently has filled 28 out of a total of 126 posts. The implementation study for the end-to-end collection project (supported by EU funds) has been finalised and is expected to require a time extension of 8 months. Finally, two projects with technical support provided by the European Commission have recently been launched. The projects aims at improving taxpayer services, developing and implementing a comprehensive compliance risk management framework, standardising the audit process and implementing some practical guidelines on indirect audit methods.

A new temporary committee for settling tax debt disputes has been established under the competence of the Ministry of Finance. According to the adopted provisions ⁽⁹⁾ the committee's mandate ends by July 2021. Although the settlements to be agreed are expected to alleviate the burden on the judicial system, it would be important that the mandate of the new committee is not extended, as it might risk establishing a parallel system to the existing Directorate for Settlement of Disputes, which is part of the Independent Authority.

The outcome of the key performance indicators for the second quarter of 2020 reflects the impact of confinement measures imposed during this period, including for audits carried out by mobile units. As regards debt collection, the results for the second quarter is yet to be published, but according to preliminary monthly results for the period January to May 2020, it seems that the payment culture was not significantly disrupted. In addition, the results from the large debtor unit (see Table 3.2), which saw a reduction but encouragingly not too sharp (27% reduction compared to the same period of 2019), could serve as an additional indication. Looking ahead, the expected tighter liquidity conditions for both households and businesses is projected to provide pressure for deferrals to be further extended. Furthermore, the authorities' intentions to establish a new settlement scheme for individuals directly impacted by the coronavirus pandemic are likely to raise expectations that could affect the timely repayment of debts.

⁽⁹⁾ OJ A 148/31.07.2020 (Article 16).

Table 3.2: **Key Performance Indicators of the Independent Authority for Public Revenue, second quarter 2020 (*)**

KPI		2020 Q2 Target	2020 Q2 Result	2019 Q2 Result	
Debt collection	KPI 1	Collection of tax debts as of the end of the previous year (million EUR)	1 683	N/A	1 629
	KPI 2	Collection of new debts in the current year (percent of new debt in the year)	22.5%	N/A	23%
	KPI 3	Collection of debts by the large debtor unit (million EUR)	330	261.7	357.4
Audits of fresh tax cases by the whole IAPR	KPI 4	Percent of fresh tax audit cases in total completed audits	70% (*)	65.5%	64.7%
Tax audits and collection of large tax payers	KPI 5	Collection after audits in the year (percent of assessed tax and penalties)	40% (*)	100.9%	108.6%
Tax audits and collection of high wealth individuals	KPI 6	Collection after audits in the year (percent of assessed tax and penalties)	40% (*)	28.6%	807.2%
Tax refunds	KPI 7	Percent of VAT tax refund claims processed within 90 days	95%	95%	89.1%
Compliance and enforcement	KPI 8	Percentage of total tax paid on time for VAT, income and property taxes	84%	N/A	83.2%
Percentage of total tax paid on time for VAT, income and property taxes	KPI 9	Percentage of debtors under enforcement measures	68%	77%	68.9%
Pre-litigation phase	KPI 10	Percentage of cases closed by explicit decision of the DRU	80%	97.7%	78.9%
Prosecution audits by mobile units	KPI 11	Prosecution audits by mobile units (customs administration)	17 500	6 556	10 246

(*) End-2020 target, as no quarterly target has been set.

(1) DRU: Dispute Resolution Unit.

Source: Independent Authority for Public Revenue.

In contrast to the previous periods, the Joint Centre for the Collection of Social Security Debt did not meet its targets, which were set prior to the coronavirus pandemic. The reason behind the reduction in debt collection by the Joint Centre is most probably due to the impact of the pandemic and the deferrals allowed for the period April to June 2020. For the second quarter €574 million was collected, while the target was for €671 million to have been collected.

3.4. PUBLIC FINANCE MANAGEMENT

Arrears

The coronavirus outbreak has affected the pace of clearance of arrears, adding to previous implementation difficulties. The authorities appear behind schedule in adhering to the intermediate targets set in the clearance plan adopted in October 2019 ⁽¹⁰⁾. In June 2020, the stock of arrears amounted to €1.5 billion, that is to say €241 million above its December 2019 level, €667 million above the targets set in the plan and €1.3 billion above the target set for December 2020. This development partially reflects disruptions in labour-intensive processes caused by the pandemic.

⁽¹⁰⁾According to the October 2019 plan, the remaining stock of arrears would be cleared by mid-2021 the latest. Most of the arrears would be cleared within 2020, with €140 million or €160 million pertaining to pension claims to be cleared by June 2021.

Among the major drivers is the increase in the stock of unprocessed pension claims, which grew by €300 million between December 2019 and June 2020, due to an unforeseen burden of new unprocessed pension claims that is reported to stem from the implementation of an early-2019 law according to which self-employed were granted the possibility to recalculate their debts and apply for pensions. According to the authorities, this increase of pension claims would result in a remaining stock of arrears of €400 million by end-December instead of €160 million. They committed to update their plan by end-October, with detailed information regarding the clearance of the additional pension backlog. Notwithstanding the unforeseen increase in pension claims, some crucial structural measures, including the automation of the processing and awarding of the new pensions claims as well as the digitalisation of the Single Social Security Fund (e-EFKA, see section 5.1) were reported to be broadly on track. These measures should help avoiding the accumulation of new pension claim arrears and should enable the personnel of the Single Social Security Fund to focus on clearing the stock of old pension claims.

To counterbalance the delays and bring the implementation of the clearance plan back on track, the authorities are adopting and implementing a set of additional corrective measures in several subsectors. The authorities prepared a legal provision that is expected to substantially decrease the value of unprocessed pension claims by allowing an increase in temporary pensions. Moreover, after some delays, the e-platform, allowing for new arrear payment modalities towards health-sector providers, has been launched in August. It should enable the authorities to clear the remaining health arrears stock, which had already dramatically decreased early-September. Specific targeted actions are undertaken on an *ad-hoc* basis to accelerate the reduction of arrears of extra-budgetary funds. A new programme has been adopted for the repayment of local governments' stock of arrears alongside measures to avoid the creation of new arrears were also adopted⁽¹¹⁾. The Ministry of Interior continues its efforts towards improving the quality of the statistical reporting of arrears and is designing new IT tools in collaboration with the Ministry of Digital Governance, with a view to improving the payment processes. According to the authorities, the impact of these measures will be visible in the August data⁽¹²⁾, which will be assessed in the next enhanced surveillance report.

Implementation of structural reforms recommended by the Hellenic Court of Auditors, a mid-2021 specific commitment, is underway in order to improve the payment system and avoid the accumulation of new arrears. Challenges remain regarding the central procurement system of the health sector (see section 5.2). The Hellenic Court of Auditors identified the lack of internal control across the public administration as a major weakness of the Greek payment system. The Court is taking measures to increase the awareness of general government entities of their legal obligations in terms of internal control. In the meantime, the authorities are finalising a

⁽¹¹⁾Local governments will be required to transfer the amount corresponding to their adjusted arrears stock to a special account at the Consignment Deposits and Loans Fund. If this does not occur, the equivalent amount will be deducted from their next monthly grant. In addition, the list of local governments and the amount of their respective arrears will be made public on a quarterly basis on the Ministry of Interior website.

⁽¹²⁾These data will be communicated the institutions in November 2020.

new law which will cover all relevant aspects of internal control and internal audit across the public administration in a single piece of legislation (see section 9.3). This is a significant step forward. The National Transparency Authority helps the public entities comply with the new law. Moreover, the Authority, which is responsible for designing a structured internal control and audit framework for the Greek public administration, is working with the line ministries to fully establish internal audit units and make them operational. For local entities that are too small to have their own internal control system, a technical support project funded by the European Commission is underway to investigate avenues for inter-municipal collaboration on the matter. Moreover, the authorities are designing a new accounting IT system⁽¹³⁾, also with a view to rationalising and speeding up the payment processes of the central government, except for the Public Investment Budget payments which are handled through a different IT system (see section 3.4). When shifting to the new IT system, the authorities intend to address some of the recommendations made by the International Monetary Fund in its technical support report from March 2020.

Treasury Single Account

The authorities have continued to take the necessary steps for the full establishment of the Treasury Single Account at the Bank of Greece to enhance cash monitoring, a mid-2020 specific commitment. The Treasury Single Account system is operational and provides a useful overview of the cash situation of the state. A large number of entities is already participating in the Treasury Single Account and entities that remain outside of the scheme are not significant in terms of total liquidity. Although the process has stalled since April 2020, the authorities are taking steps to ensure full compliance among the remaining entities. By end-October 2020, the Ministry of Finance will perform an assessment of the entities' compliance with the rules relative to the monitoring of their relevant liquidity buffer in commercial banks, which, according to the law, should not exceed their fifteen days' liquidity needs. The Ministry plans to perform an assessment of compliance with that rule by end October-2020. The authorities are encouraged to set up dedicated tools for the close monitoring of entities deemed to face difficulties to comply. The substitution of paper payment orders by electronic ones continues to progress. The share of electronic payments in the entities that had joined earlier the e-payment platform of the Bank of Greece continued to increase and a few more entities have joined the platform since April 2020. The authorities plan to address the remaining challenges, such as the rationalisation of the number of cash accounts with low balances or improving the monitoring and the recording of special accounts.

Progress on cash forecasting, a mid-2020 specific commitment, has suffered delays due to the coronavirus pandemic, and will be reassessed under the next review. The results of the ongoing pilot project are encouraging since the entities' projections are meeting the expected quality standards. Progress had picked up in June, when 20 of the 25 entities that were supposed to submit their forecasted cash needs to the Ministry of Finance did so. Nevertheless, at end-August, only two thirds of the entities were able to send their forecasted cash needs on a monthly basis. The Ministry of Finance adopted a

⁽¹³⁾The project is referred as Government Enterprise Resource Management (Gov-ERP).

set of actions to ensure that the remaining third of the pilot entities will be able to report on their cash needs on a monthly basis as of September.

Chart of Accounts

The implementation of the Chart of Accounts reform is broadly on track, a mid-2021 and mid-2022 commitment. The procurement of the new IT system⁽¹⁴⁾ supporting the accounting reform and the implementation of the Chart of Account is on-going. In addition, the authorities have taken further steps to underpin progress on this reform. The directorate in charge of the reform at the Ministry of Finance has been reinforced. The accounting policy for the implementation of the new General Government Accounting Framework has been adopted, following three necessary amendments of legal provisions⁽¹⁵⁾; this was a precondition for the compilation and the closure of the pending 2019 financial statements of the state, and for an orderly transition towards accrual accounting⁽¹⁶⁾. The closely linked e-invoicing project in the public sector is showing encouraging results. Work is underway on the functional classification of the Chart of Accounts, in accordance with the performance budgeting framework that is being developed. The five ministries that have not yet joined the pilot project on the matter are expected to do so in 2021, in line with the initial timeline. Technical support is provided through two projects of the European Commission for the rollout of the accounting reform, as well as for further capacity building actions at the General Accounting Office.

The action plan on the implementation of the Chart of Accounts in the Public Investment Budget is reported to be on track, although the full implementation of the Chart of Accounts in the Public Investment Budget remains a challenge. The action plan will allow for the presentation of the budget execution in accordance with the Chart of Accounts classifications. At the same time, the authorities consider that, at the budget preparation stage, the Public Investment Budget can only abide by the less detailed levels of administrative and functional classifications of the Chart of Accounts. The authorities committed to consider potential ways for improving the situation with the help of technical support to be provided by the European Commission⁽¹⁷⁾. In addition, the action plan is not designed to deliver on accrual accounting⁽¹⁸⁾. The authorities are encouraged to address this issue in the medium term.

⁽¹⁴⁾Public Investments Budget's payments are made through a specific e-payment system, called ePDE, which is intended to interoperate smoothly with the new central government IT system (Gov-ERP). According to technical support provided through the European Commission, this situation is not viewed as a critical issue as long as ePDE is used only as an e-payment system and will not substitute for the ledgers and the resource planning modules of the central government IT system.

⁽¹⁵⁾Presidential Decree 54/2018 and law 4270/2014

⁽¹⁶⁾In accordance with Presidential Decree 54/2018 the whole of the general government is to adopt accrual accounting by 2023.

⁽¹⁷⁾In addition to the technical support project provided through the European Commission, the Ministry of Development has requested assistance from the International Monetary Fund, in the form of a Public Investment Management Assessment (PIMA), with a view to improving budgetary practices.

⁽¹⁸⁾The implementation of the new Chart of Accounts and double-entry book-keeping are only partial steps towards the implementation of the accrual accounting which is to be adopted by 2023 in the whole general government (Presidential Decree 54/2018).

Public procurement

The authorities have taken stock of the various issues in the public procurement legal framework and are in the process of adopting a new piece of legislation to address those issues. The pandemic greatly affected the initial timeline of the preparation and the adoption of the law, which addresses a number of important issues in the public procurement legal framework, including the frequent phenomenon of excessively low offers submitted in the tendering procedure. Simplifying and enhancing the transparency in the public procurement procedures namely through e-procurement as well as simplifying and accelerating the review procedures are amongst the authorities' priorities. A legislative committee was established to amend the current law. The new law is planned to be adopted by end-October. Its full and timely implementation is key given that public procurement will play an essential role in the efficient management of the Recovery and Resilience Plan. To this end, the authorities are encouraged to adopt an action plan for the implementation of the new framework.

The authorities plan to adopt a new public procurement strategy for 2021-2025, which would contribute to a more sustainable and efficient use of public resources. A committee has been created under the Hellenic Single Public Procurement Authority that is responsible for the national strategy on public procurement. It is working with the support of the General Secretariat for Coordination on the new strategy, the priorities of which are still to be determined and which will encompass a component on fighting corruption (see section 9.3). A timeline which foresees a mapping of the current situation and the identification of political priorities has been established, before the envisaged finalisation of the strategic and action plan in February 2021. The authorities foresee an agreement on a public procurement strategic partnership with the Commission, with a view to supporting the necessary reforms.

3.5. PUBLIC INVESTMENT

Public investment in Greece declined substantially in the aftermath of the financial crisis, assisted by a recurrent under-execution of the investment budget in recent past years. General government investment was by 1.1% of GDP lower in 2019 than initially planned, marking 2019 as yet another year of very sizeable underspending. The lower execution was accompanied by lower drawing of EU funds, which broadly neutralised the impact on the general government balance. The investment under-execution in 2019 comes on top of the recent years' undershooting and as a result, only 62% of the public investment budget ceilings allocated to ministries were actually spent in the period 2017-2019, compared to an average of 88% in 2014-2016.

The authorities estimate that the investment budget will be fully executed in 2020, also confirmed by the actual data for the first half of 2020. The state investment expenditures more than doubled compared to the corresponding period last year, recording an increase of 1.5% of GDP. However, this increase cannot be attributed to structural measures analysed below but rather to the fact that spending from the programming period 2014-2020 is reaching maturity and to the fact that a part of the measure undertaken in response to the coronavirus crisis will be financed by structural funds.

The authorities have started implementing measures to address the structural obstacles. These measures, including a detailed action plan to improve the monitoring and forecasting of the Public Investment Budget, as well as the creation of a Project Preparation Facility and the preparation of Strategic Project Pipeline, aim to make the best use of available resources in the public investment budget and accelerate the drawing of EU funds. In addition, the establishment of the Hellenic Development Bank has accelerated the disbursement of financial instruments and the simplification of the regulatory framework has accelerated the implementation of entrepreneurship programmes. The flexibility of the State Aid rules that was allowed due to the coronavirus outbreak has also helped accelerate the disbursements of the funds. Work continues on the preparation of the National Development Programme that will start being implemented in January 2021. The implementation of these measures will also be crucial for a sustainable recovery from the coronavirus crisis. All the more so, in light of the various new EU facilities including the Recovery and Resilience Facility that will support investment in the EU over the next EU budget programming period, of which Greece could greatly benefit.

In order to prepare new bankable projects, the authorities are preparing a Strategic Project Pipeline. The characteristics and role of the pipeline as well as a timetable were agreed in July 2020. The Pipeline will be an independent unit, outside the core structure of the sectoral ministries to avoid conflicts of interest. It will be coordinated by the Presidency of the Government. Priority infrastructure investment projects will include energy, environment, urban, transport and digital sectors, with projects that have a budget over €10 million. Selected projects will have high relevance for/under the National Growth Strategy and the sectoral national strategies. The Strategic Project Pipeline will be particularly useful for mobilising funds under the EU Recovery and Resilience Facility.

To help the preparation and implementation of priority infrastructure projects of the Strategic Project Pipeline, the authorities are setting up a Project Preparation Facility. The details and placement of the Project Preparation Facility is currently being worked out. It will be important to ensure that its placement safeguards the rights and competencies of established independent institutions. The facility aims at supporting the planning and execution of public investment projects, including giving technical assistance and providing project management

The 2019 action plan to enhance the monitoring and forecasting of the Public Investment Budget is being implemented as scheduled. A more frequent and enhanced exchange of data between the Ministry of Finance and Ministry of Development, as well as monthly updates on the total Public Investment Budget allocation of expenditure based on actual payments, are already in place. Other actions, such as the increase in frequency of Public Investment Budget revenue forecasts – from semi-annually to quarterly – and the technical adjustments of the Public Investment Budget database to facilitate the budget preparation process, are still in progress, but in line with the timetable. Although the coronavirus outbreak resulted in minor delays, the authorities are planning to absorb any delay within the initial timeline, an effort that is welcomed by the European Institutions. In the context of the action plan, technical support by the European Commission is being provided on two projects: (i) the automation and streamlining of the implementation procedures, and (ii) support on the

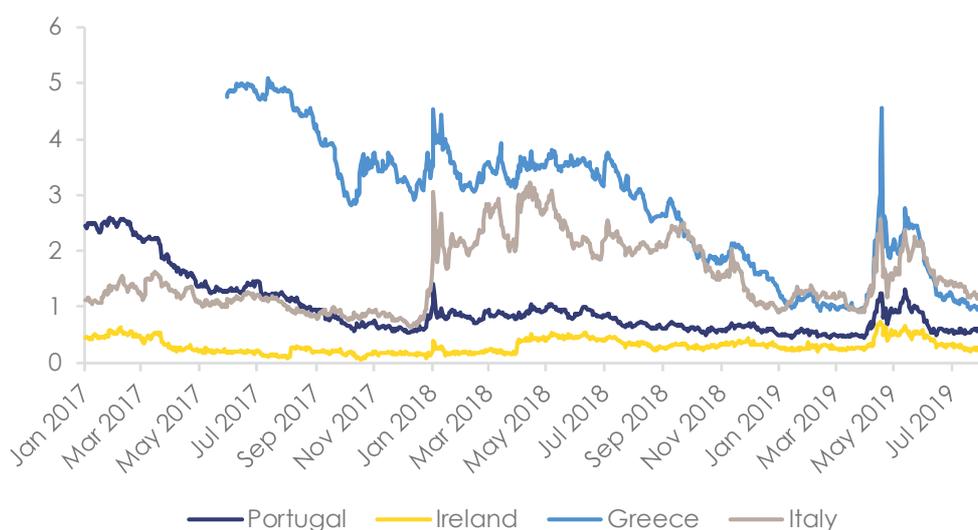
collection, handling and reporting of data related to monitoring, budgeting and forecasting of Public Investment Budget expenses and revenue.

4. SOVEREIGN FINANCING

4.1. SOVEREIGN FINANCING

The Greek government bond yields and the yield spreads declined close to post-crisis lows. The yield spreads over the German Bund on the long-term bonds have declined by around 250 basis points since early May 2020 and stabilised below 1 percentage point in August for the 5-year tenure. Benefiting from the favourable financing conditions, the Public Debt Management Agency issued a 10-year bond in June 2020 of an amount of €3 billion. The auction attracted great interest, with a final order-book of close to €16 billion. The bond was issued with a coupon of 1.5% and a re-offer yield of 1.6%. This bond auction was successfully reopened in September, raising another €2.5 billion with a 1.2% yield, which is the lowest yield in the history of the Hellenic Republic for this tenure.

Graph 4.1: 5-year government bond spreads over the German Bund



Source: European Commission.

The favourable market conditions described above are likely to have been strongly supported by the Eurosystem's purchases of Greek government securities. Under its Pandemic Emergency Purchase Programme, the Eurosystem has bought Greek government securities for almost €10 billion by end-July. Even if market volatility has subsided, Greece's market access conditions are likely to remain sensitive to the market sentiment.

Financing risks are considerable, but there are safety nets in place. The financing needs of the budget have increased markedly since the last report. The deterioration of the budgetary outlook calls for vigilance. Since May 2020, not only has the baseline primary balance deteriorated, but the state will face additional payment obligations due to the payment of retroactive pensions worth €1.4 billion. The cash reserves of the general government remain considerable and stood above €31 billion at the end of June,

about €2.5 billion lower compared to March. The cash buffer account ⁽¹⁹⁾ balance remained at €15.7 billion. The recent bond issuance, the space to increase repos by over €3 billion, the potential proceeds from the medium-term debt relief measures amounting to €1.5 billion, and the available EU funding, could alleviate short-term liquidity pressures.

Preserving an adequate cash buffer will be crucial to sustain stable market access next year, taking into account the risks that selling pressure may emerge in the sovereign bond market. Investor sentiment may be also affected by global risk appetite and by the perceptions of the management of the pandemics and progress with reforms, including in the banking sector. Debt servicing needs in 2021 are limited, but further bond issuances will be required to maintain an adequate level of cash reserves.

⁽¹⁹⁾The cash buffer account was built also through disbursements under the European Stability Mechanism programme and dedicated to debt service. Greece may use this amount for other purposes as well, following an approval of the European Stability Mechanism's governing bodies.

5. SOCIAL WELFARE

5.1. PENSIONS

Despite the difficult circumstances, the authorities are making progress in implementing the action plan to finalise the setup of the Single Social Security Fund (EFKA), a mid-2020 specific commitment. The main aim of the action plan besides finalising the organisational setup is the digital transformation of the Fund by end-2020 (renamed to e-EFKA as of 1 March 2020). The first stage of merging the public sector and supplementary pension functions to the Single Social Security Fund has already been implemented through the assignment of employees to new positions. The physical move of offices has been delayed by the pandemic. The moving begun only in July with staff moving initially from five to two or three buildings with a view of moving all offices to one building by the end of 2020. Therefore the commitment is rescheduled to end-2020. The remaining organisational measures are the establishment of local subsidiaries for farmers and self-employed, which have seen delays due to the coronavirus outbreak. While the setup of the subsidiaries for farmers is foreseen to be completed by the end of 2020, the establishment of subsidiaries for self-employed is foreseen to be completed by mid-2021. On the digital processing of pension applications, the action plan foresees moving all scattered data under one platform, which is now under a pilot phase. The results of the pilot are being currently analysed. According to the authorities, the preliminary results indicate that the target of 30% coverage of digitally processed main pension applications (out of all digitally submitted main pension applications) by end-June 2020 has been met.

Regarding the recent ruling of the Court of Auditors granting early retirement rights to male civil servants with young children, the authorities expect that the effects of this ruling will be small. The court ruling affects only those men with young children who, back in 2010, had the legal requirements to apply for early retirement (25 years of service and a child less than 18 years old) and had filed a claim for early retirement back then. This only affects a small number of claims. All other persons applying for an early retirement will be assessed under the new, reformed and less generous pension rules, not those that applied ten years ago. This significantly mitigates the fiscal impact of the ruling.

The recent Council of State ruling on the 2012 pension cuts, entitles to a compensation of those pensioners, who had filed a claim, for the 11-month period starting from the publication of the previous Council of State ruling in June 2015 until the implementation of the 2016 reform in May 2016. (see Box 3.1 for an in-depth description of the recent rulings). The publication of the court decision in full detail may take a number of weeks and therefore not all technical details of the ruling are fully clear at this stage. To comply with the Court ruling, the government has submitted a law amendment on 29 July, which compensates all private sector pensioners (not only those who had filed a claim) for pension cuts incurred on their main pensions at a cost of 0.5% of GDP. The government has also pledged to compensate pensioners of the public sector in case the Court of Auditors issues a ruling to the same effect related to their pension cuts, which would raise the total cost of the compensation to

0.8% of GDP. Being a one-off compensation for pension cuts incurred in 2012, the measure has no impact on the current functioning of the Greek pension system nor on future pension expenditure. The major pension reform enacted in May 2016 remains thus intact.

5.2. HEALTHCARE

To respond to the coronavirus outbreak in spring 2020, the authorities have substantially strengthened the health-care system to deal with the pandemic, including through a wider use of digital tools. They focused their efforts on strengthening the health-care system, increasing the availability of intensive care beds and recruiting about five thousand additional staff members, both doctors and nurses. In parallel, to cope with the ongoing challenge to manage the impact of the pandemic, telemedicine has been strengthened both on the side of consultations and on that of prescriptions, to ensure access, while avoiding any unnecessary contact between potentially infected patients and other patients and/or health-care staff. Greece also deployed a number of digital solutions, in order to deal with the health crisis by investing in services that could ideally be utilised after the end of the pandemic as well, such as a paperless e-prescription system, a National Patient Registry with a tele-consultation platform for the treatment of coronavirus patients that are restricted at home, supported by an enhanced business intelligence system. Thanks to the early implementation of this and other measures, Greece to date successfully managed to contain the spread of the virus during the first wave, but is now facing an increased number of new cases, mostly related to the tourist season. With a longer-term perspective, the Ministry of Health has revised its digital strategy and progressed on issues such as the design of the national e-health interoperability framework, with technical support provided through the European Commission, and on the digital health action plan.

The redesign of the primary health-care system, a mid-2020 specific commitment, will take a substantially longer time to be implemented, to reflect changes in the delivery of some of its main elements and due to inevitable delays caused by the need to manage the response to the pandemic. Legislative changes are still at a drafting stage, with adoption expected not before spring 2021. The reform, which started in 2018, aims to set up a comprehensive system of primary health care with a compulsory registration of the whole population with a family doctor, who would become the first point of contact for the patient and implement compulsory gatekeeping. Based on available information, most of the elements of the reform are planned to be redesigned, and the roll-out of the system is suspended until a new delivery model is defined. The authorities are encouraged to preserve the elements of compulsory registration and gatekeeping, which are key for a successful establishment of a robust and well-functioning system of primary health care, as they help ensure equal access and protect the population from supply-induced demand and its avoidable financial burden, which is a growing source of concern in the current system. Meanwhile, however, the system is planned to revert to the pre-reform model, going from capitation to fee-for-service reimbursement of family doctors (with a maximum of 200 visits per months), a step back deemed necessary to support the management of the pandemic that will allow to double the number of family doctors contracted with the Public Health Fund. The authorities intend to consistently rely on public private partnerships and

contracted private doctors, rather than creating a public structure, for the provision of primary health-care services. The redesign of the reform will necessitate a rescheduling of the commitment to 2021. The authorities plan to resume the roll-out of the primary health care network no earlier than spring 2021 given the short-term need to focus the efforts on the response to the pandemic. A new General Secretariat with exclusive responsibility for the implementation of the Primary Healthcare transformation was set up within the Ministry of Health to speed up implementation. The reform became all the more relevant in light of the coronavirus crisis, given the key role of the primary health care units, including the newly and swiftly deployed mobile units (KOMYs), in supporting the response to the pandemic so far and in light of its potential to improve equitable and affordable access that rests on full population coverage and uptake through compulsory registration and gatekeeping supported by a comprehensive communication campaign. The aim should remain to set up a comprehensive system of primary health care that delivers full population coverage, compulsory registration and gatekeeping to counter supply-induced demand, improving both access and the overall efficiency of the health care system.

Centralised procurement, a mid-2020 specific commitment, is already being partly implemented and the overall set up of the National Health Authority for Health Procurements (EKAPY) is progressing, but yet to be completed also due to delays caused by the pandemic. A new board is in place and the Authority is coordinating the procurement strategy at regional level, with a focus on pandemic-related needs. Centralised procurement is mostly implemented at regional level, with a coordination role from the Authority, but a relatively large share of tendering procedures finalised at centralised level were launched by the former institution several years ago. Draft legislation, defining the new legal framework for the Authority was finalised and is currently planned to be submitted to the Parliament by the end of October and adopted by December. The authorities also shared an operational plan for procurements to be launched in 2020 according to which they estimate that up to 40% of the total hospital expenditure would be centrally procured by mid-2022, a mid-2022 specific commitment, with approximately €305 million worth of items to be tendered out during the first quarter of 2021 with the aim to reach 30% by the first quarter of 2021. Even though the central authority is reported to have helped the regional authorities to ensure that items were procured at the best price, the authorities are encouraged to reactivate the Price Observatory, a monitoring tool intended to increase procurement transparency and efficiency, as from January 2021. At present, recruiting the necessary skills to complete the staffing of the Authority is progressing, although some challenges remain, but the newly finalised legal framework, soon to be legislated, may facilitate the filling of permanent posts. Up until September the authorities plan a substantial increase by 50 fixed-term appointments in the National Health Authority for Health Procurements, of which 33 were already recruited.

The clawback amounts, especially for what concerns the area of pharmaceuticals, and delays in its collection are a cause of concern. For pharmaceuticals, the collection of 2019 has only been completed for 50% of the total, with the remaining part to be collected starting in November 2020 through 36-monthly instalments planned to be legislated by October 2020 (while by this time the overall collection should have been finalised). Equally worrisome are the increasing trends: the clawback for 2019, which

amounts to almost €800 million, is 36.2% higher than in 2018 and almost 65% higher than in 2017. The clawback for the first semester 2020 has been quantified at €364 million. For private health-care providers, collection has not started for 2018 and 2019 despite important delays and is expected to resume in November 2020 which implies that €600 million are currently uncollectable. Adoption of the necessary legislation to finalise collection, expected by October 2020, would help preserve the fiscal credibility of the clawback.

Revision and consistent implementation of the previously adopted structural measures would support efficiency and access to quality health care. The authorities are encouraged to reduce supply-induced demand and waste, and to take urgent further action to and fully enforce the tools currently available. The insufficient implementation of structural measures has repercussions also on patients' access. Introducing a means-tested structure could be key to protect vulnerable citizens from catastrophic payments, both from outpatients and inpatients. Furthermore, a review of the current definition of the clawback introducing a risk-sharing component would be instrumental in enhancing the efforts to avoid the creation of new clawbacks and to curb supply-induced demand, which leads to high out-of-pocket payments.

5.3. SOCIAL SAFETY NETS

The review of the system of subsidies for local public transport, a mid-2020 specific commitment, is close to being concluded. The revised primary legislation for the new system was adopted in July in law 4714/2020. The secondary legislation to allow a regular and objectively-based reimbursement of subsidised public transport tickets to operators in Athens and Thessaloniki is expected to be adopted in September 2020.

The reform of the disabilities benefit framework is progressing according to its previously agreed redesign, a mid-2019 specific commitment that will take longer to be completed. Following a further review of EU best practices, the initial approach of a functional assessment of disability based on a self-assessment has been abandoned in favour of a functional approach based on physical examination by qualified experts. Such assessments by experts are widely used in other Member States with the dual role of assessing benefit eligibility and making specific proposals for disability mitigation and rehabilitation. For this aim, a working group and a steering committee have been established. A policy paper is expected to be adopted in September 2020, including a proposal for a pilot project to be launched in the first quarter of 2021. The assessment process will involve a preliminary questionnaire, a testing process, and an interview. With regards to the administrative procedures related to the granting of disability benefits themselves, the electronic system for processing the applications is now available in three regions (Athens, Thessaloniki, Patras). At the same time, the operation of the disability assessment centres (KEPA) has been severely affected due to the restrictions imposed following the coronavirus outbreak.

The social impact of the coronavirus crisis is not yet reflected in the take up of the Social Solidarity Income benefit, as eligibility rules are based on the previous year's incomes. This is a broader problem of the social benefits system in Greece, as for most benefits, income is assessed based on tax returns for the previous year that are submitted in June each year. For this reason, social assistance has not played a major

role in providing income support at the beginning of the coronavirus crisis. In contrast, benefit eligibility and payments are likely to increase substantially next year. This highlights the need of upgrading the benefits system, to address more accurately the actual needs of households based on the assessment of the current income situation, making the benefits system more responsive to short-term shocks of a large scale.

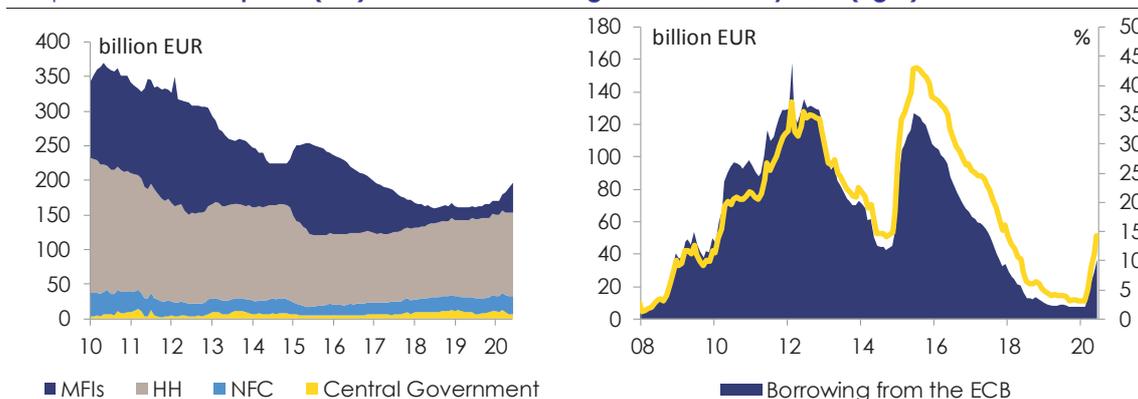
The design of the ‘labour market reintegration’ pillar of the Social Solidarity Income (third pillar) is being adapted in view of the coronavirus crisis, and the rollout of the new framework, an end-2019 specific commitment, is scheduled for autumn 2020, contingent on health-related developments. The Social Solidarity Income scheme should combine income support with the provision of social services (second pillar) and labour market reintegration services (third pillar). During 2019, a pilot project to ensure the provision of social support and labour market activation services was implemented in 32 municipalities across the country. The findings of the pilot project have been evaluated in view of its national implementation in 2020 and the terms of the rollout for the third pillar, based on a new delivery model for active labour market policies, were being discussed before the lockdown. However, following the Covid-19 outbreak, there was a need to adapt the business processes of the public employment service (OAED) to the new situation, and, in turn, adjust the terms of the national rollout of the new framework. The rollout should be launched in autumn 2020.

6. FINANCIAL SECTOR

6.1. FINANCIAL SECTOR DEVELOPMENTS

Greek banks have continued to build up their liquidity buffers. They were able to keep the cost of funding manageable, even though the pandemic has temporarily increased the cost of long-term unsecured funding. Greek banks have been able to reduce their funding cost by replacing repo funding, with increased liquidity from Eurosystem's refinancing operations. This has been facilitated by the easing of conditions for Eurosystem targeted longer-term refinancing operations (TLTRO III) and a temporary easing of collateral requirements for Eurosystem credit operations, in particular the waiver to accept Greek sovereign debt instruments as collateral. As a result, Eurosystem borrowing of Greek banks has gone up by €29 billion over the period end-February to end-July 2020, increasing from 3.1% of their total liabilities to 13.9% (see graph 6.1(right)). Moreover, their liquidity position benefited from a continued upward trend in private sector deposits, in particular from corporates seeking to accumulate liquidity to weather the uncertainties from the coronavirus pandemic. This outweighed a decrease in general government deposits, as the state proceeded with the disbursements related to its support measures to the overall economy. As a result, Greek banks improved their liquidity coverage ratios (LCR), having in most cases already returned above the regulatory requirement of 100%. Nonetheless, despite this positive development, the cost for long-term unsecured subordinated funding has not yet returned to the levels seen prior to the pandemic⁽²⁰⁾ and is only gradually declining despite supportive trends in Greek sovereign debt yields.

Graph 6.1: Bank deposits (left) and total borrowing from the Eurosystem (right)



(1) MFIs: Monetary Financial Institutions, HH: Households, NFC: Non-Financial Corporations.

Source: European Central Bank, International Monetary Fund.

The loan moratorium measures put in place by banks and servicers, coupled with the flexibility announced by the supervisory authorities, imply that the impact of

⁽²⁰⁾It is indicative that the yields of two 10-year Tier 2 issuances of Greek banks that had taken place shortly before the onset of the coronavirus outbreak (February 2020), with a yield at the point of issuance of 4.25% and 5.5%, were still trading at high yields at the end of June 2020 (8.6% and 14.8% respectively).

the pandemic on the quality of the banks' loan books will be limited this year. The moratoria are applicable for debtors affected by the coronavirus outbreak and apply to interest payments for business and principal and/or interest for natural persons. According to the data submitted by the Greek systemic banks as of 31 May 2020, on the loan exposures affected by the moratoria offered to debtors, non-legislative moratorium arrangements had been granted to €18.9 billion of loans, out of 332 thousand applications worth €22.8 billion of loans. Moratoria granted represent above 10% of the banks' total loan portfolio and 14% of all performing loans (moratoria granted to small and medium-sized enterprises accounts for 20% of performing loans). In terms of allocation of the moratoria granted across different asset classes, 59% of moratoria was granted to households (mainly for collateralised residential loans) and 41% of moratoria granted to corporates (of which 26% to small and medium-sized enterprises)⁽²¹⁾. However, the Hellenic Bank Association has already announced on 7 July that the moratoria granted will be extended until the 31 December for both legal entities and natural persons, subject to the same conditions as applied until now. The criteria published by the European Banking Authority allow public and private moratoria not to be automatically classified as forbearance measures for the purposes of the International Financial Reporting Standard 9 and the definition of default. Thus, the main impact of the pandemic could start being reflected in supervisory asset quality indicators only after the moratoria expire.

The authorities' efforts to sustain access to finance during the coronavirus crisis for affected businesses, are starting to bear fruit and are expected to mitigate the impact on the corporate loan book this year. The two schemes implemented by the Hellenic Development Bank, i.e. a guarantee scheme and the interest subsidy scheme for new corporate loans, co-financed by the Hellenic Development Bank (TEPIX II), have been particularly successful in attracting strong demand. The guarantee scheme consists of two tranches of €1 billion of guarantees each, aiming to leverage €7 billion of loans. Until the beginning of July, €3.1 billion of loans had been approved under the first tranche, corresponding to 4 406 small and medium-sized enterprise loans (€1.3 billion) and 270 large corporate loans (€1.8 billion), while actual disbursements were expected to gradually pick up throughout the summer. The TEPIX II scheme has also been successful in attracting demand via a new sub-product (aimed at providing support to companies affected by the coronavirus outbreak) offering a 2-year interest grace period, financed jointly by the commercial banks and an expanded total envelope of €838 million by the Hellenic Development Bank. As a result, the scheme has mobilised 12 783 loans worth €1.8 billion (€1.4 billion of which related to the new sub-product) and was recently expanded by €180 million, aiming to leverage another €800 million of new loans, to cover the demand in excess of the initial envelope. Both schemes attracted a higher number of applications than the available budget, which points to the existence of strong demand. Nonetheless, the authorities are assessing the adequacy of existing schemes on a continuous basis, as evident by the extension of the TEPIX II scheme. Beyond these two programmes, interest subsidies to existing performing loans, bonds or bank overdrafts of corporates affected by the coronavirus crisis for the 5 month period April - September are also offered in the form of direct grants by the government (with a total envelope of €750 million, of which only

⁽²¹⁾In terms of sectors to which moratoria have been granted, these are mainly towards trade (26%), accommodation and food (24%) and construction & real estate (29%).

€179 million had been utilised by the beginning of July) with the aim to provide working capital to viable, primarily small and medium-sized enterprises, under the condition of maintaining their number of employees. These schemes are expected to provide support to lending growth to businesses over the coming months, supporting employment and, to some extent, asset quality in the banking sector.

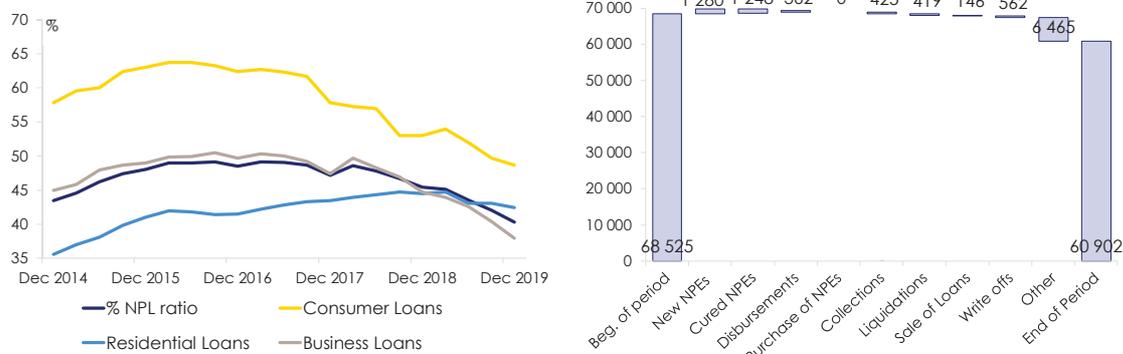
Although the stock of non-performing loans continued to decline in the beginning of 2020 and the potential negative impact of the coronavirus crisis on asset quality will only start becoming evident after the expiry of the moratoria, the banks are proceeding to book extraordinary expected credit loss provisions to reflect the worsening macroeconomic environment. The stock of non-performing loans of Greek banks has continued its downward path in the first quarter of 2020, dropping from €68.5 billion at the end of 2019, to €60.9 billion in March 2020 ⁽²²⁾. The intragroup transfer of €7.5 billion of predominantly non-performing loans by a systemic bank, in the context of their securitisation under the Hercules asset protection scheme, was the key driver. In the absence of this transaction, the stock of non-performing loans still fell by €1.1 billion, mainly on the back of write-offs, while organic resolution of non-performing loans remains marginal. However, as the positive effect of the concluded securitisation under the Hercules scheme will only formally appear in the consolidated banking group figures next quarter ⁽²³⁾, the improvement in the share of non-performing loans to total customer loans is less pronounced, dropping to 39.6% at the end of March 2020, from 40% at the end of 2019 ⁽²⁴⁾. Despite this significant improvement, it remains by a large margin the highest ratio in the euro area, with a cash coverage ratio of 44.9%, slightly lower than the EU average of 47.4%. The four systemic banks significantly increased the impairments booked in their first quarter results of 2020, as they proceeded to reflect the expected deterioration in the macroeconomic outlook due to the pandemic. However, banks' estimated provisions for 2020-2021 do not yet incorporate the more detailed aspects affecting the customers' ability to repay their loans, as these will only become evident after the expiry of the moratoria. This implies a potentially material downside risk for additional credit provisions in 2021, particularly if the baseline scenario of a V-shaped recovery does not materialise. Going forward, the impact of the pandemic on asset quality could be exacerbated by (i) the large exposure of the banks' performing loan book to some of the sectors most affected by the current containment measures, e.g. tourism and hospitality, shipping, transport and storage and commercial real estate and (ii) the potential adverse impact of the moratoria on the payment culture.

⁽²²⁾Source: Bank of Greece, consolidated level.

⁽²³⁾The deconsolidation of the securitised NPL portfolio will take place in the second quarter of 2020.

⁽²⁴⁾Source: Bank of Greece, solo level.

Graph 6.2: **Non-performing loans as a % of total customer loans (left) and changes in their stock in the first quarter of 2020 (right: million EUR)**



(1) NPEs: Non-performing exposures.

Source: Bank of Greece.

Following an initial freeze of the secondary non-performing loan market, some of the previously planned transactions have been successfully finalised. This is evidenced by the conclusion of the first securitisation under the Hercules securitisation scheme ⁽²⁵⁾ as well as two transactions outside it. Two more systemic banks are moving on to conclude their ‘hive downs’ ⁽²⁶⁾ this year, as well as all other preparations to facilitate their planned securitisations under the Hercules scheme, with an aim to conclude them by the first quarter of 2021.

Nonetheless, the banks’ non-performing loans reduction strategies are affected and their internal capacity to viably restructure loans remains low. Greek systemic banks have made use of the flexibility awarded to them by the supervisory authority and will submit their 2020 revised non-performing loan strategies at the latest by March 2021, in order to reflect the new status quo. Despite the large amount of non-performing loans under forbearance measures (€22.3 billion at the end of March 2020), few of these restructuring efforts prove sustainable, with 24% of long-term restructurings and 51.6% of short-term restructurings becoming non-performing again, only a quarter after the implementation of the restructuring. These ratios further increase to 48% and 88% respectively, after four quarters, suggesting that the banks’ internal capacity to viably restructure loans remains low.

The already weak profitability outlook for Greek banks will come under pressure by an increase in expected credit loss provisions. At the end of 2019, Greek banks

⁽²⁵⁾The transaction involved the securitization of a €7.5 billion portfolio consisting mainly of non-performing exposures. It made use of €2.4 billion of state guarantees out of the total €12 billion envelope available under the Hercules scheme. The scheme, which is open and voluntary for all banks, runs over an 18-month period from October 2019. Two other systemic banks are moving on with preparations to facilitate their planned securitisations under the scheme, with an aim to conclude them by the first quarter of 2021.

⁽²⁶⁾Under the hive-down process, the initial entity will transfer its banking business, with its assets and liabilities – including all deferred tax credits – to an operating company, the New Bank, which will be licensed as a credit institution and shall be an 100% subsidiary of the original entity (which will become a holding company without a banking licence).

exhibited one of the lowest return-on-equity in the EU, with their profitability underpinned by non-recurring trading gains and a cost-income ratio well below the EU average. It is burdened by high provisioning and the lowest commission income as a ratio of total income among EU banks. At the same time, the large amounts of accrued interest from non-performing loans, can be difficult to collect and may also imply a material fall in net interest income from non-performing loan deleveraging. In this context, with the onset of the crisis, the four systemic banks experienced in the first quarter of 2020 a drop of 87% in pre-tax profits relative to the same period a year ago, mainly affected by exceptional provisioning and subdued operational profits net of one-off trading gains (-7% relative to the same period last year).

Table 6.1: **Main financial stability indicators**

	2014	2015	2016	2017	2018	2018	2018	2018	2019	2019	2019	2019	2020
	Q4	Q4	Q4	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1
Non-performing loans (1)	39.7	46.8	46.3	45.0	45.4	44.9	43.5	41.6	41.6	39.6	37.8	35.5	34.4
o/w foreign entities	-	-	-	-	-	-	-	-	-	-	-	-	-
o/w NFC & HH sectors	41.8	49.5	50.4	49.4	49.2	48.4	47.3	46.3	45.6	43.8	42.3	40.6	40.0
o/w NFC sector	44.7	52.5	53.9	51.4	51.1	49.4	47.9	46.1	44.5	42.8	40.5	38.2	37.1
o/w HH sector	38.5	45.9	46.3	47.1	47.0	47.3	46.6	46.5	46.8	45.1	44.4	43.5	43.4
Coverage ratio	43.5	48.5	48.2	46.7	49.5	49.0	47.8	48.0	47.7	46.7	45.0	44.5	44.9
Return on equity (2)	-10.6	-24.2	-7.5	-1.3	0.7	-2.4	-0.8	-0.4	1.6	2.6	2.9	0.7	1.3
Return on assets (2)	-1.0	-2.8	-0.9	-0.2	0.1	-0.3	-0.1	-0.1	0.2	0.3	0.4	0.1	0.1
Total capital ratio	14.1	16.5	17.0	17.1	16.4	16.4	16.3	16.0	15.6	16.5	16.9	17.0	16.2
CET 1 ratio	13.8	16.3	16.9	17.0	15.8	15.8	15.7	15.3	14.9	15.6	15.9	15.9	14.6
Tier 1 ratio	13.8	16.3	16.9	17.0	15.8	15.8	15.7	15.3	14.9	15.6	15.9	15.9	14.6
Loan to deposit ratio	79.1	72.3	75.9	83.5	78.8	78.4	76.0	74.7	75.8	74.3	76.8	74.8	72.8

(1) As % of total loans.
(2) Annualised data.

(3) HH: Households, NFC: Non-Financial Corporations.

Source: European Central Bank - Consolidated Banking Data 2; own calculations.

Low profitability coupled with the cost of upcoming securitisations may pose challenges for the banks' capital position in the near future. Banks' average common equity tier 1 ratio on a consolidated basis fell from 15.9% of risk-weighted assets at the end of 2019, to 14.6% after the first quarter of 2020, in line with capital requirements, mainly due to the implementation of prudential transitional rules applied in the first quarter of each year⁽²⁷⁾. Going forward, banks' capital position is exposed in the medium-term to (i) the implementation of new rules on the treatment of own funds held under Pillar II Guidance⁽²⁸⁾ and (ii) the further phasing out of transitional prudential arrangements⁽²⁹⁾, while the recently adopted Regulation EU 2020/873

⁽²⁷⁾ However, the impact in total capital terms was less pronounced (a reduction from 17.0% to 16.2%) thanks to the two Tier II issuances that took place in early February.

⁽²⁸⁾ From January 2021, banks' own funds held under Pillar II Guidance will no longer be eligible to meet any other regulatory requirement.

⁽²⁹⁾ These transitional arrangements refer to the phasing in of the new International Financial Reporting Standard 9 on impairments of financial assets and the implementation of new rules leading banks to more quickly write down non-performing exposures, according to Regulation (EU) 2019/630 amending Regulation (EU) No 575/2013, as complemented by further supervisory guidance by the Single Supervisory Mechanism. In the medium-term, banks will also need to issue bail-in-able debt in order to meet the minimum requirement for own funds and eligible liabilities set by the resolution authorities.

(“CRR Quick Fix”)⁽³⁰⁾ will bring only limited relief for Greek banks. Upcoming securitisations aimed at scaling down non-performing loans in the banks’ balance sheets will also come at a capital cost. At the same time, the impact of the pandemic is expected to amplify these challenges in the near future, when EU banks stop benefiting from the flexibility temporarily offered by the regulators for all euro-area banks.

The sovereign-bank nexus has increased and this trend may continue over the coming months. The quality of banks’ capital remains low, due to the high amount of deferred tax credits⁽³¹⁾ representing a substantial part of the banks’ Common Equity Tier 1 capital (€15.5 billion or 60.4% as of March 2020). This share risks growing further in the near future, as banks’ overall capital will have to bear the cost of the upcoming securitisations of non-performing loans. This could lead to an increasing sovereign-bank nexus, further reinforced by a recent rise in the banks’ Greek Government bond holdings and Treasury bills⁽³²⁾, as well as retained senior notes of the securitisations benefiting from the guarantee under the Hercules asset protection scheme.

Data up to July 2020 show that the recovery in bank credit to non-financial corporations has gained pace, due to both supply and demand conditions. Since the outbreak of the pandemic, the net flow of credit in Greece to non-financial corporations has increased significantly. As a result, in July 2020, the annual rate of growth in bank credit to non-financial corporations reached a solid 6.5%, the highest value attained since mid-2009 (see graph 6.3). This acceleration continued to reflect (i) from the demand side, the firms’ high liquidity needs during the lockdown but also a general preference for maintaining high liquidity buffers and (ii) from the supply side, the positive impact of public measures, including those by the European Central Bank, to support the provision of emergency liquidity by banks to the real economy, as well as the provision of public guarantees by the relevant scheme of the Hellenic Development Bank. The latter greatly supported the large net flow (above €1 billion) observed in July.

Large corporates continue to drive the recovery in business credit, while that to small, non-incorporated firms has also started to turn rapidly positive, thus moderating the continued contraction of bank credit to households. The average gross flow of bank loans of fixed maturity towards both large corporates and small and medium-sized companies has increased substantially during January-July 2020 compared to the previous year. This reflects both the efforts by the companies to build up liquidity buffers and the start of disbursements of emergency support measures. In contrast, the annual rate of growth of loans to households remained negative in July (at -

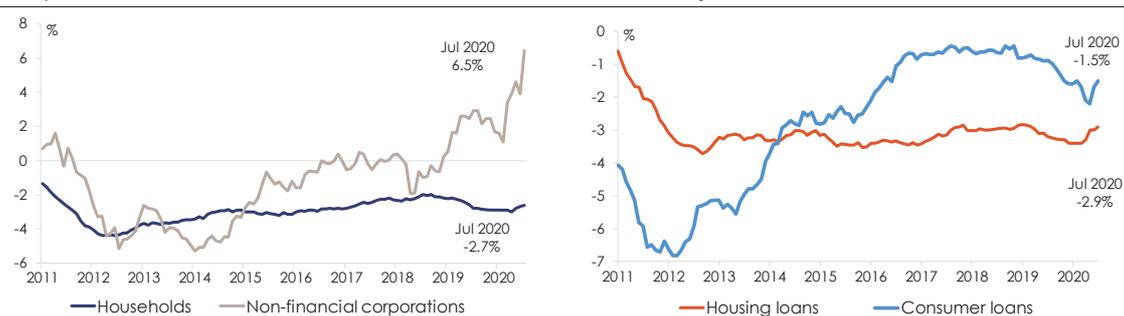
⁽³⁰⁾On 18 June 2020, the European Parliament approved the so-called CRR “quick fix” to Regulation (EU) 575/2013 (Capital Requirement Regulation) and Regulation 2019/876 (Capital Requirement Regulation 2) to mitigate the economic consequences of the coronavirus. The temporary measures are, inter alia, intended to enhance credit flows to companies and households, thereby supporting the EU’s economy.

⁽³¹⁾Deferred tax credits may be converted into tax credits, i.e. irrevocable claims towards the Greek state, while in exchange banks would need to issue equity in favour of the state, thus diluting existing shareholders. This potential dilution of banks’ shareholders poses a further complication of the framework, as it may discourage banks recognising losses on non-performing loans and is considered a disincentive for private investors to invest in banks’ equity.

⁽³²⁾Greek banks’ domestic government bond holdings and Treasury bills rose by €4.2 billion (to €16.5 billion and €1.7 billion respectively) in the period from the end of 2019 to 24 June 2020.

2.6%) but has recovered somewhat from the levels observed in previous quarters. The recovery in loans to households since May 2020 reflects a rapid turn-around in consumer credit and other lending, whose net flows became positive in June and July. The turn-around in other lending was almost entirely driven by lending to sole proprietors, the loans to which, as owners of non-incorporated businesses, are reported under loans to households instead of under loans to non-financial corporations. By contrast, mortgage lending continued to contract, as it has been consistently the case in recent years (see graph 6.3).

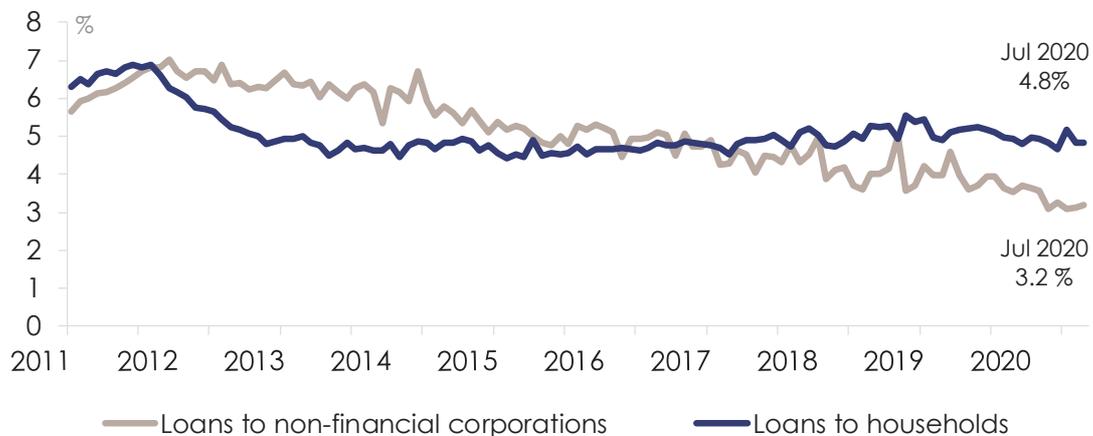
Graph 6.3: **Bank credit to households and non-financial corporations**



Source: Bank of Greece.

Nominal lending rates continued their downward trend, reaching new historical lows in May for non-financial corporations (see graph 6.4). The average nominal lending rate for non-financial corporations in the first seven months of 2020 has been 3.3% compared to 3.9% in 2019, reflecting the very accommodative monetary policy, as well as the various targeted measures geared to support the flow of credit to households and firms. The same trend can also be observed for new loans without fixed maturity for small and medium-sized enterprises and new fixed maturity loans of small value (up to €250 000) to non-financial corporations. Regarding the nominal rate for household credit, the decline observed in the first four months of 2020 was temporarily reversed in May, possibly reflecting an upward revision on credit risks, reaching its highest level (5.2%) since August last year, before falling back to a level slightly above 4.8%, in June-July.

Graph 6.4: **Bank interest rates on new loans to euro area residents (annual percentages %)**



Source: Bank of Greece.

6.2. FINANCIAL SECTOR POLICIES

The authorities intend to adopt a major overhaul of the insolvency framework and targeted amendments to the existing tools for the resolution of non-performing loans, which are very welcome. The authorities also allowed the long-overdue expiry of the Primary Residence Protection. These steps are well-timed, as the coronavirus outbreak implies new challenges for the banks' asset quality and for the accumulation of private debt in the economy as a whole. Therefore, timely implementation of an efficient insolvency framework is crucial. Notwithstanding the progress made, further reforms aiming in particular at improving the efficiency of the e-auctions framework, would support the normalisation of the banking sector and the financing of the economy during the recovery, and would contribute to limiting an increase in non-performing loans. The actions outlined below are monitored and assessed under the enhanced surveillance framework, as part of the **continuous specific commitment** to *“continue to implement reforms aimed at restoring the health of the banking system, including resolution efforts for the non-performing loans”*.

Insolvency law reform

The unified insolvency framework reform is a major step forward, inspired by international best practices. The new insolvency code, following consultation with the European institutions and completion of the public consultation process, is expected to be submitted to Parliament shortly and will enter into force as of 1 January 2021. It integrates the corporate and personal insolvency regimes and transposes EU legislation on preventive restructuring frameworks⁽³³⁾ into the Greek legal order. It replaces the hitherto existing mechanisms for facilitating debt restructuring schemes.

⁽³³⁾ Directive (EU) 2019/1023 of the European Parliament and of the Council of 20 June 2019 on preventive restructuring frameworks, on discharge of debt and disqualifications, and on measures to increase the efficiency of procedures concerning restructuring, insolvency and discharge of debt, and amending Directive (EU) 2017/1132 (OJ L 172).

The Code introduces a revised framework for dealing with insolvency, the collective satisfaction of creditors and the discharge of debts of any person, natural or legal, regardless of whether they pursue a business activity. It implements best practices to comprehensively prevent and address over-indebtedness in accordance with the requirements and recommendations of the Directive. Companies and entrepreneurs in financial difficulty will gain access to preventive restructuring frameworks enabling them to continue operating. The effectiveness of restructuring, insolvency and discharge proceedings is expected to be increased and their duration shortened, through the simplification of procedural requirements and the creation of an electronic solvency register that will serve as a means of communication of the court and insolvency officials with all the parties involved as well as for the publication of the relevant decisions.

The overall aim is to accelerate the return of productive means to productive uses and faster reimbursement of creditors, through the sale of the bankruptcy estate or parts thereof at market values, and also to preserve viable businesses through the out-of-court settlement procedure or the resolution process. The former will be available to all types of debtors (legal and natural persons, businesses and consumers) and aims to avoid the insolvency of very small and small enterprises; the latter will be addressed to larger companies facing potential insolvency and will require judicial ratification of the respective agreement reached. Facilitating the discharge of entrepreneurs will prevent their exclusion from the labour market and offer them the opportunity to start anew, while the discharge of private debtors will enable them to re-enter social and economic returns free of the burden of debts they cannot service.

Work on the requisite secondary legislation is ongoing, ahead of the envisaged entry into force of the new Insolvency Code on 1 January 2021. Given that the full implementation of the new code, upon its entry into force, will require the adoption of a significant amount of secondary legislation, work on the drafting of the relevant texts is underway; said texts are expected to be shared with the European institutions for consultation ahead of finalisation and adoption. As for the IT infrastructure (e-platform), which is central to the operation of several proceedings envisaged by the code, the relevant work stream is nearing completion in order for the platform to be operational for testing and training purposes by December.

The main features of the new Insolvency Code, as detailed in the May 2020 enhanced surveillance report ⁽³⁴⁾, are the following:

- Insolvency resolution proceedings are designed to operate on the basis of the size of the bankruptcy estate, covering all kinds of business ventures as well as personal insolvency.
- Pre-bankruptcy proceedings are available, consisting of an automated out-of-court process and a pre-insolvency business recovery process; in the context of the former, vulnerable debtors (as defined by the housing benefit law and joint ministerial decision), who have a loan linked to their primary residence and have suffered a sudden loss of income, will be eligible for a temporary subsidy, intended to further

⁽³⁴⁾Enhanced Surveillance Report for Greece, May 2020, pp. 68-70.

support the reduction of non-performing loans and avoid the accumulation of new ones. To address moral hazard concerns, the subsidy will be available to i) performing vulnerable debtors who do not apply for pre-insolvency out-of-court restructuring and ii) those performing or non-performing vulnerable debtors, who apply for and undergo a viable restructuring of all their debts, with the exception of those non-performing debtors with loans which have been denounced for more than one year. The participation of creditors is voluntary; should a restructuring agreement on all debt not be reached within two months, the application will be considered rejected.

- A special sale-and-leaseback regime allowing vulnerable distressed debtors to remain in their primary residence as tenants will be instituted, which will be implemented through a private-sector entity, to be selected by the Greek authorities through a public tender procedure. However, if the tender procedure is unsuccessful, this will not impede the unhindered implementation of the bankruptcy proceedings. Provided the eligibility criteria are fulfilled, the entity will buy the primary residence at a price determined by an appraiser appointed by it. Once the residence is purchased, it will be leased back to the debtor. Several aspects of the sale-and-leaseback regime are still subject to the adoption of secondary legislation that is expected to be issued, following consultation with the European institutions, during the coming weeks. The regime is restricted to the protection of vulnerable debtors, who will also be eligible to receive the already available housing subsidy to facilitate the payment of the rent. The private sector agency may benefit from a state guarantee to support its access to funding, if deemed necessary. Details on a possible form of support remain to be determined.

Overall, the new draft code is highly satisfactory and contains all essential elements of a modern insolvency framework; however, several concerns remain that will need to be addressed mainly in the relevant secondary legislation. These include ensuring the viability of the out-of-court restructuring agreements. A carefully considered balance should be maintained for the subsidisation of out-of-court restructuring of debt for natural persons, so as not to incentivise defaults on the one hand and avoid an adverse effect on new lending on the other hand. Finally, the two schemes for the protection of primary residence, namely the subsidisation of borrowers at the pre-insolvency stage and the introduction of the sale and lease back scheme, should operate in consistence with the objective of fostering a stronger payment culture. Therefore, a regular assessment of the impact of the changes after the adoption of the law will be key, also for monitoring the fiscal impact.

The authorities granted no further extension to the Primary Residence Protection scheme and the Out of Court Workout scheme, given the set up of alternative social protection schemes for vulnerable debtors. As a result, the regimes in question duly expired on 31 July 2020 and 30 April 2020 respectively. Only applications that were duly submitted up to the expiry of the regimes are being processed by the authorities, covering loans or debts to the state and/or social security agencies that were in arrears up to 31 December 2018.

In order to alleviate the impact on social groups financially affected by the coronavirus pandemic, the authorities adopted a temporary instalment subsidy

scheme for mortgage, consumer and business loans secured by a primary residence ⁽³⁵⁾. The mechanism is distinct from the above-described new sale-and-leaseback scheme under the insolvency code, covers loans secured by primary residence and will operate for a limited period, up to nine months from the date of approval of the relevant request, which may be filed electronically until the end of September 2020. The mechanism is available to eligible physical persons (consumers, professionals and small business owners) affected by the coronavirus pandemic according to specific criteria and covers performing loans, forborne non-performing exposures and non-performing exposures (including denounced loans). Non-performing and denounced loans will need to be restructured in agreement with the credit institution, where the relevant offer will be extended by the banks on a discretionary basis. The subsidy level, which is differentiated according to the classification of the exposure, will progressively decrease over the payment period, to ensure that only viable loans are restructured and to mitigate the negative impact on payment discipline. Given the extended perimeter of the loans eligible for the scheme, and in order to ensure compliance with obligations under the restructuring agreement, the law foresees an observation period post-completion of the state subsidy payments (whose length varies according to the classification of the exposure) and a subsidy clawback. Until 9 September 2020, 125 590 applications have been initiated in the platform, of which 66 850 have been submitted, while only 1.3% of those have been considered so far as non-eligible under the scheme.

Clearing the backlog of household insolvency cases

The authorities intend to adopt measures, most notably the rescheduling of distant hearings through an electronic platform and the introduction of procedural simplifications, that are aimed at decisively accelerating the clearance of the household insolvency backlog, which has increased further as a result of the suspension of court proceedings during the pandemic. Following the completion of the public consultation process, the measures in question should be adopted shortly and are expected to palliate a number of observed procedural inefficiencies, by introducing strict deadlines to various procedural steps or actions, streamlining the conduct of the proceedings and making use of IT to facilitate notifications and the filing of documents.

The main features of the measures are the following:

- The mandatory rescheduling to near dates, by electronic means, of cases with a hearing date beyond 1 January 2021. This is a necessary measure towards achieving the timely elimination of the backlog, given that a significant number of cases are scheduled to be heard on dates extending to several years ahead. The cases will be rescheduled progressively, on a seniority basis. To avoid procrastination as part of strategic default tactics, failure on the part of the petitioner to ask for a rescheduling within the term set by the law will be considered as if they had never been filed. Any suspensions of enforcement proceedings granted will be automatically revoked.
- The electronic service of documents to institutional creditors, the state and social security entities.

⁽³⁵⁾Law 4714/2020 (OJ A-148/31 July 2020), articles 71-83.

- The use of mediation as a tool for resolving cases.
- The development of an e-platform for the rescheduling of distant hearings. The authorities are contemplating enhancing the functionality of the electronic platform by adding modules for e-notification to all parties to the proceedings who have electronic addresses, so as to minimise time and expense; also for uploading and distribution of the operative part of court decisions. The platform should be fully operational by the end of September.

Due to the coronavirus outbreak, which entailed an extended period of closure of the courts throughout the country prior to summer recess, no data on the evolution of the backlog in the second quarter of 2020 were submitted by the authorities. Once normal operation of courthouses resumes in mid-September 2020 and given the recent creation of a Justice Statistics Unit in the Ministry of Justice, the punctual availability of standardized, reliable and granular data, covering the entire territory should henceforth be facilitated. The use, by institutional creditors, of the electronic platform for eligibility control and for filtering out strategic defaulters is also expected to contribute to the efficient processing of the backlog.

E-auctions

The conduct of e-auctions had been halted as a result of the closure of courts and notarial offices due to the coronavirus pandemic. In view of their resuming as from 1 September 2020, the authorities are expected to adopt a number of measures aiming at enhancing the functionality and user-friendliness of the e-auctions platform and facilitating the relevant processes. These measures were submitted to public consultation and should be adopted in October 2020. Additional measures, including a revision of the mechanism for adjusting the reserve price and the interoperability of the e-auctions platform with other state databases, are part of the project for the revision the Code of Civil Procedure (see below). The intermediate progress report on the work of the law-drafting committee envisages, inter alia, changes to the price correction process, ensuring that the value of the seized property is provided by a certified appraiser. Additionally, an automatic price reduction of 20% in each of the two subsequent auctions is contemplated, in cases where if the initial one failed due to the lack of bidders.

The main features of the envisaged measures are the following:

- The obligation of bailiffs to file with the notary officiating as an auction official a copy of the valuation report by the certified expert as well as photographs of the property, both digitally and in print, to be uploaded to the e-auctions website, effective as of 1 October 2020. This measure will enhance the usability and user-friendliness by enabling prospective purchasers to consult the relevant valuation documentation online as well as to acquire visual information on the property's layout and state, in addition to the description contained in the titles of ownership.
- The amendment of the technical specifications of the e-auctions platform to accommodate the extra storage space requirements for the addition of above-described material to the platform, followed by the publication, by the Athens notary

association, of an explanatory note to all notaries acting as e-auction officials, regarding the new requirements.

- The publication, by of a timeline for the implementation of accrued interoperability of the e-auction website with other government and non-government operating frameworks (e.g. cadastre).

The authorities have expressed their intention to suspend auctions of primary residences of vulnerable debtors (i.e. debtors who fulfil the criteria of the housing benefit) until the end of the year in view of the entry into force of the insolvency legislation and the entry into force of associated social policy measures in January 2021.

Clearing the backlog of called state guarantees

The authorities are taking all necessary actions towards fully offsetting any coronavirus related delays in clearing called state guarantees, while committing to further frontload the overall processing and payment schedule. The examination and expected payments of claims for the second quarter of 2020 fell short of the original targets, mostly due to limits on the number of staff working on site during the containment period. In response, the authorities have upgraded the targets for the second half of 2020, in principle more than fully counteracting the delay by increasing the payment target for 2020 as a whole by 33%. At the same time, they have prepared a revised processing and payment plan, which envisages an acceleration of the examination period of pending claims by six months for natural persons' claims and by three months for corporate loans. Under this revised plan, full payment of all called guarantees is expected to occur by mid-2023 for natural persons' claims and by the end of the third quarter of 2024 for corporate loans. The longer deadline for corporate loans reflects additional documentation needs or allow for settling ongoing legal disputes. To achieve these targets, the authorities have upgraded their plan to enhance the workforce dealing with called state guarantees, by envisaging two additional temporary and seven permanent employees. Reducing further the delays between the call of a guarantee and its final processing, and completing the clearance of the existing backlog in the shortest time possible, would improve the effectiveness of the instrument.

The authorities are proceeding as planned with all the necessary structural changes in the clearance process of the, still considerable, backlog of called guarantees. The new ministerial decision on the electronic file repository, addressing previous shortcomings, was issued and entered into effect on 5 June 2020. All necessary technical adjustments have taken place. In the same vein, the system ensuring interoperability with local tax offices is close to entering its testing phase before it becomes fully operational in October, while relocation of the State Guarantees and Capital Movement Directorate is scheduled to take place in October 2020, in line with the original timeline. Cooperation with credit institutions is ongoing and they are expected to submit all new claims and supporting documents electronically and to upload in the electronic file repository all the supporting documents for the old claims concerning natural persons' loans by the fourth quarter of 2020.

Other initiatives

Work on the adoption of targeted amendments to the Code of Civil Procedure is ongoing at the level of the law-drafting committee, following the submission of the conclusions of the three-year implementation review. Submission of draft legislation to the authorities is due by end-January 2021, in view of the adoption of the revised code by end-February 2021; the entry into force is projected for the beginning of the next judicial year, in September 2021. Pending the submission of the draft legislation, the authorities shared with the institutions a partial intermediate progress report setting forth the main content of the enforcement section of the code.

A targeted adjustment of the primary legislation on deferred tax credits to ensure operational effectiveness has been submitted to Parliament and is expected to be adopted shortly. The aim of the legal amendment is to safeguard the loss-absorbing capacity of the banks' capital in all cases. Further technical and procedural aspects related to the process of deferred tax credits' use, particularly in resolution, will be clarified via secondary legislation when appropriate, including on the possibility of sale of the state's right to acquire a credit institution's shares upon conversion to existing or new private shareholders.

6.3. HELLENIC FINANCIAL STABILITY FUND (HFSF)

The Fund intensified its efforts to support the systemic banks in meeting their non-performing-loan reduction and business enhancement goals in the current, pandemic-stricken environment. Following the proposal by the Fund to the Ministry of Finance to amend its governing law in order to protect the ownership rights of the Fund / Greek state in case of hive-downs, the law was amended in June 2020. The Fund continued an ongoing steering dialogue with one of the banks, in order to shape a new transformational plan for the post-coronavirus era. In addition, the Fund is revising its shareholders' and business strategy expectations for two of the four systemic banks, taking into account the impact of the pandemic. Furthermore, the Fund concluded the evaluation and closed the recommendations related to Board/Bank Governance of its second governance review and plans to launch the third review in the coming weeks. The divestment strategy of the Fund still needs to be finalised, including the potential involvement of the authorities in the final stage of the divestment and the legal protection for the Fund's governing bodies and staff. Preserving the Fund's independence remains a cornerstone in the process toward restoring the health of the banking sector.

7. LABOUR AND PRODUCT MARKETS

7.1. LABOUR MARKET

The sudden plunge in economic activities following the coronavirus outbreak has not led to a sharp increase in unemployment, but rather to a ‘freeze’ of the labour market. The most recent data on labour contract registrations indicate a sharp fall in both the number of new hirings and job separations over the period March-July 2020, with the former exceeding the latter and thus leading to a decline in total employment. The limited extent of job destruction can be explained by the nature of the shock (external, and supposedly transitory) and by the effect of the emergency measures adopted to support businesses and protect jobs. The fall in employment has so far been accompanied by an increase in inactivity more than an increase in unemployment – a common pattern observed across EU Member States that implemented strict lockdown measures.

After a first set of emergency measures in March-April, the authorities introduced in June 2020 a new temporary short-time work scheme (SYNERGASIA), providing flexibility to companies to adjust working hours and compensation to workers for the hours not worked. This scheme is expected to play an important role in allowing the labour market to adjust to the shock caused by coronavirus outbreak. It entered into force on 15 June 2020 covering all sectors for an initial duration of four months, and is expected to reach 394 000 beneficiaries. Its costs, estimated initially at €440 million, are eligible for financing under the new European instrument for temporary support to mitigate unemployment risks in an emergency (SURE). The Commission will allocate to Greece €2.7 billion of financial assistance under this instrument, to support this and other measures protecting the employees and the self-employed. In view of a low initial take-up ⁽³⁶⁾, the design of the scheme was amended in July, increasing the share of social security contributions covered by the state from 60% to 100%. The duration of scheme has also been extended by 2 months, until December 2020.

In light of the coronavirus pandemic, the authorities decided in agreement with the social partners to postpone the annual update of the statutory minimum wage, from June 2020 to January 2021. The coronavirus outbreak created high uncertainty and directly affected the timeline of the consultation process for the revision of the statutory minimum wage envisaged in the legal framework. All the actors involved in the process had explicitly requested the government to suspend the procedure, postponing the start of the consultation process to mid-September, which implies a revision of the minimum wage level would take place in January 2021.

⁽³⁶⁾In July, some 5 500 companies and 48 500 employees benefited from the scheme (for a monthly expenditure of €11.2 million), corresponding to a coverage rate of around 5%. The numbers for August (4 900 firms and 41 200 beneficiary employees) show a decline rather than an increase in take-up, but this also coincides with a resumption of economic activities at the peak of the touristic season.

In the context of the process of labour law codification, some aspects of the existing labour legislation are being reviewed and modernised. These include the establishment of a new framework regulating new forms of work (such as platform work, sharing economy), and changes to the role of the Labour Inspections Directorate (SEPE), transferring its conciliation competencies to the Mediation and Arbitration Board (OMED), thereby disentangling its inspection and conciliation roles in line with the recommendations of the International Labour Office. Labour legislation is expected to be submitted to Parliament in October 2020 followed by its codification in November 2020 (see section 9.1).

Education

The authorities continue to pursue their comprehensive education policy plans, in line with the government's growth strategy, with a public school reform adopted in June 2020 and substantial progress made on vocational education and learning. The bill for Upgrading Public Schools (June 2020, L.4692/2020) is targeted towards the cultivation of soft skills, digital literacy and foreign language learning, the reinforcement of model and experimental schools, as well as the evaluation of school units. The comprehensive vocational education and training reform, which is currently being developed, aims at enhancing the quality of education offered, increasing the percentage of students choosing this path and better linking vocational education and lifelong learning with labour market needs.

Since the last report, there has been substantial progress on the preparation of a vocational education and training reform in consultation with social partners and in collaboration with the Ministry of Labour notably on the market diagnostic. The authorities intend to table the bill in Parliament in October 2020. The bill addresses the following issues: a) improving the quality of the provided vocational education; b) increasing its attractiveness; c) increasing the numbers of pupils choosing vocational training and the number of apprenticeships; d) facilitating the re-integration of students that follow the professional education path the formal education and e) upgrade the public professional schools (IEK) and lifelong learning.

Key features of the reform include joint strategic planning for vocational education, vocational training and lifelong learning. The reform aims at removing overlaps and directly linking vocational education, training and lifelong learning with the labour market, also through a more effective involvement of the social partners in their design. Technical support will be provided by the European Commission for the development of social partnerships in vocational education and training. Model professional lyceums will be created; new curricula are being prepared and labour market diagnostics is being put in place in cooperation with the Ministry of Labour. The plan foresees upgrading of the public professional schools. An important issue is also the accreditation and quality control of the institutes that provide continuous education (KEK). The plan foresees the creation of a new category of professional schools providing vocational training at level 3 of the European Qualifications Framework for students attending compulsory education.

Finally, the reform also improves the framework for apprenticeships. Businesses will be able to choose the candidates and will benefit from public support based on the number of hours of work provided.

7.2. PRODUCT MARKETS AND COMPETITIVENESS

The authorities continue working on major initiatives improving economic framework conditions, with a view to enhancing competitiveness and underpinning economic recovery following the coronavirus outbreak. To this end, they aim to finalise the new growth strategy shortly, introducing reform measures in key policy areas to boost private sector productivity and achieve sustainable growth. On the digital front, work on simplifying and digitalising electronic transactions for businesses and improving the digital performance of the economy as a whole continues (see section 9.1). Advances in specific commitments in relation to the investment licensing framework, namely the abolition of the obsolete nuisance classification system which was completed significantly earlier than the specific mid-2021 commitment deadline, are expected to materially ease the licensing burden for the industrial sector. What is more, the pursuit of further measures to improve other aspects of doing business by end-2021 are expected to further contribute to the creation of a simplified and predictable framework for business activity and the development of investment projects.

Investment licensing

The investment licensing reform is steadily progressing despite some delays, with a widened scope of ambition and longer implementation timelines in certain areas. Continued technical support through the European Commission and delivered by the World Bank is provided in all remaining areas. This comprehensive reform is particularly pertinent in supporting Greece's efforts for a sustainable recovery.

- *The full deployment of the relevant IT system to support the investment licensing framework, an end-2019 specific commitment, is delayed for reasons outside the authorities' control.* The successive complications in the tendering process for the procurement of this system due to the submission of an appeal against the award decision were recently resolved. Whilst a new appeal before the Athens Administrative Court of Appeal cannot be excluded, the authorities expect to sign the contract shortly.
- *The implementation of the inspections framework law, a mid-2020 specific commitment, steadily progresses with respect to the agreed priority areas of food safety, environmental protection and product safety, even though some work remains to be completed. The authorities committed to extend the implementation of the framework to four remaining domains by end-2021.* In relation to food safety, the authorities started deploying most tools. On environmental protection they finalised the inspection checklists, and aim to develop the risk based methodology and complain management system shortly. On product safety, proposals on a number of checklists, the risk based methodology, and the complaint management system were delivered, and are expected to be finalised shortly. What remains pending is the enforcement management model and the amendment of the sanctions system in the said three domains, once all tools are finalised and applied by inspectors. The

European institutions encouraged the authorities to develop a timeline for completing this work, including the adoption of all necessary enabling legislation, by the time of the next report, in order to fully operationalise the inspections framework with respect to these priority domains. What is more, with a view to implementing a comprehensive reform, the authorities committed to delivering the full roll-out of inspection tools across the remaining domains by end-2021, namely on consumer protection and safety and health of workers by March 2021, and public health and safety of infrastructures and construction by end-2021. The full deployment of the inspection framework is expected to reduce the necessity for ex-ante controls without compromising health and safety standards. The authorities also adopted provisions⁽³⁷⁾ to define the roles and responsibility of inspection bodies for product safety and consumer protection. Corresponding legislation on food safety and environmental protection is still pending. Clarifying the roles of inspection bodies in all domains is key so as to avoid overlaps and gaps.

- *The simplification of the investment licencing procedures in the remaining sectors, a mid-2020 specific commitment, is progressing, albeit with some delays.* The authorities adopted primary legislation for the simplification of the primary production sector⁽³⁸⁾, whilst secondary legislation on this area is expected shortly. With respect to most of the remaining sectors⁽³⁹⁾, the authorities delivered proposals for simplification, and are advancing with the drafting of primary legislation, which is expected to be adopted shortly. The European institutions encouraged the authorities, by the time of the next report, to develop a clear timeline for the adoption of all necessary secondary legislation on these sectors, as well as for the simplification of a few remaining activities not covered in the above context, so as to ensure full completion of this reform component.
- *The authorities successfully completed the commitment to revise/abolish the nuisance classification, well ahead of the mid-2021 specific commitment deadline.* The authorities committed to proceed faster on this front already in the Development Law of October 2019. The relevant Joint Ministerial Decision to abolish the nuisance classification and categorise economic activities according to their environmental classification was issued on 9 September 2020⁽⁴⁰⁾, on the basis of the recommendations of the technical advisor and key social partners.

The implementation of key business environment reforms initiated under the financial assistance programmes, which is a general commitment, continues, albeit with some delays in certain areas due to the coronavirus outbreak. Work continues on setting-up the framework for the certification of external environmental assessors, which has been pending since the European Stability Mechanism programme, and for the certification of external inspectors, however the adoption of necessary secondary legislation is still outstanding since spring 2020. Further, the authorities are reviewing

⁽³⁷⁾Law 4712 (OJ A 146/29.07.2020).

⁽³⁸⁾Law 4711 (OJ A 145/29.07.2020).

⁽³⁹⁾Namely transport and transport-related activities (sale, repair and maintenance of vehicles), education (post-secondary education, vocational training, life-long learning, language centres), social welfare, physical well-being, rent of leisure and sport equipment.

⁽⁴⁰⁾FEK 3833/09.09.2020.

provisions legislated by the previous administration in the area of thematic tourism⁽⁴¹⁾ to identify and address any potential deviations with the principles of the investment licensing reform, in addition to secondary legislation on measures to control the milk market⁽⁴²⁾ with a view to streamlining the administrative burden on producers and buyers of milk. The amendment of the abovementioned legal texts is expected shortly. Enhanced coordination and monitoring, in addition to actions promoting greater visibility of the reform across government stakeholders, would support the effectiveness of the investment licencing reform.

Economic diplomacy

A new strategy for promoting Greece's extroversion is about to be published, which is expected to strengthen the country's export potential and facilitate inward foreign direct investment. The new strategy aims at effectively combining direct policy delivery with better coordination of relevant institutions and improved outreach to stakeholders, in addition to identifying priority sectors and key markets for the development of more targeted export strategies. To steer the implementation of the trade policy, an inter-ministerial coordination committee has been set up, albeit with some delay. However, full and effective implementation of this strategy hinges on the adoption of legislation concerning the mandate and responsibilities of the Ministry of Foreign Affairs, and on the setting up of intergovernmental working groups at technical level on trade facilitation. Further, the establishment of other coordination committees, for example to coordinate policies with regard to important sectors, and also for facilitating foreign direct investment, would be useful to this end. In addition, budgetary constraints make operationalisation of the strategy objectives more difficult. On the IT front, following the completion of the tender specifications for the integrated Single Window system for imports and exports, the launch of the tender has been postponed to end-September due to the pandemic.

Doing business

The authorities are gradually progressing with additional measures to further ease doing business, inter alia, with technical support provided by the European Commission and delivered by the World Bank. The authorities made the registration through the electronic one-stop shop mandatory for private companies (IKE) except when notarial deeds are required. Moreover, to improve the framework for the protection of minority investors that applies to listed companies, the authorities strengthened the policy framework for selecting and evaluating the suitability of Board Members and introduced a rule that the Chair of the Board cannot be an executive member (in the opposite case, the deputy Chair should not be an executive member). The authorities also strengthened disclosure requirements for the candidates against the General Assembly, inter alia regarding other positions they may hold in other companies. Work continues, among others, with the support of the next inputs of technical assistance on the areas of protecting minority investors, enforcing contracts and contracting with the government, which are expected to be delivered shortly. To

⁽⁴¹⁾Law 4582/2018 (OJ A 208/11.12.2018).

⁽⁴²⁾Joint Ministerial Decision issued by the Ministry of Finance and the Ministry of Agricultural Development and Food on 21 March 2019.

this end, the design of broader set of interventions, capitalising on advances on the digital front such as the introduction of digital identity, would be particularly useful.

Cadastre

The coronavirus outbreak has affected the cadastre project and slippages of the recently updated roadmap for its completion have occurred. The appointment of the three Deputy General Managers is expected to be completed by October 2020, after several delays. The preparation of the Corporate Strategy – envisaged for June 2020 – is progressing and will be finalised in October 2020. The technical specifications for the archive digitisation have been completed and Terms of Reference for the procurement have been drafted. The tender is expected to be launched before the end of 2020. The purpose of the project is to design, establish, populate and operate a new centralised digital archive that will replace the existing paper-based archives located in the mortgage registry offices.

The commitment to the Eurogroup of June 2018 specifies that Greece will fully establish the cadastral agency and complete 45% of cadastral mapping by mid-2020. As of today, the collection of rights has been completed for 82% of the country and the cadastral mapping has been completed for the 33% of the rights. By October 2020, the cadastral mapping completion will reach 35%. The authorities are preparing legislation to impose penalties to citizens who fail to declare their properties within the applicable timeframe in order to accelerate the collection of the remaining rights. The award of the final five cadastral mapping contracts, which was delayed due to judicial proceedings, is progressing. The contract for Rethymnon has been signed in June 2020. The contract for Cyclades has passed all stages and reached the signature stage. For the remaining two contracts, there was a decision of the Management Board on 6 August 2020 and are expected to be signed after the regular controls. The last one concerning Thesprotia and Kerkyra will not be signed before end December.

Staffing of the Hellenic Cadastre proceeds according to plan. The recruitment of 49 staff of the migration team for the transition from the mortgage offices to the cadastral offices has been approved and the call is underway. The weakness in the supervision of the cadastral mapping contracts due to lack of adequate number of lawyers has been solved. Provisions for the recruitment of long-term staff have been included in the bill of the Ministry of Environment adopted on 5 May 2020. Therefore, the staffing of the Hellenic Cadastre is now adequate.

The public presentation of all remaining forest maps, scheduled to be completed in June 2020, has been delayed following adoption of legislation to address problems related to building concentrations and other land uses in presumed forestland. This will impact on the commitment to ratify all forest maps before mid-2021, which could be postponed to end 2021. The European institutions encouraged the authorities to proceed with the uploading and partial ratification of the maps to cover the whole of Greece (already 53% is covered) and continue in parallel to address problematic areas, correct errors and complete the maps gradually. The authorities confirmed that for those areas that will not be the subject of changes and where no objections by citizens were raised, they will not upload again the maps for public consultation, thereby not reversing the partial or complete ratification of the forest maps for those areas. The

delays in the uploading of the maps will have an impact on the completion of the cadastral mapping as a whole. The authorities have committed to upload all remaining maps by December 2020. The cadastral mapping is planned to be completed by May 2022 and this could be delayed by as much as eight months.

Finally, the coronavirus outbreak is delaying the establishment of 17 cadastral offices and branches. As of end of August only 1 out of 17 cadastral offices and 11 out of 75 cadastral branches had been established. The establishment of new offices is progressing at a pace of two offices per month. This pace is expected to increase as the recruitment of the migration team mentioned above progresses. By end October 2020, six additional mortgage offices will be abolished and one cadastral office (for Thrace) will be opened.

Energy

The Greek government has continued to engage constructively on a set of proposals that the Commission could submit for a market test in order to remedy the anti-trust case and deliver on an end-2020 specific commitment. The remedy proposal envisages the possibility for Public Power Corporation's competitors to access a certain share of its baseload generation. Improvements to the remedies are still being discussed so as to allow the Commission to carry out a market test with stakeholders, a key step in view of finally implementing the remedy and closing this case. In particular, improvements are sought in terms of ensuring that (i) there is a transparent selection process; (ii) smaller players in the Greek retail market can access the power sold through the remedy; (iii) a detailed implementation mechanism, with direct involvement of the Greek Government, is in place for the mechanism.

The final date for the go-live of the Target Model for electricity, a mid-2020 specific commitment, was announced by the energy regulator as 1 November. This followed an assessment of the dry-runs to test the market amongst market participants, which revealed more time was needed. The European institutions will report on the long-awaited go-live of the Target Model in the next report. The necessary legal framework had been put into place in time or is about to be finalised, as well as the main technical work by the transmission operator and the energy market operator, though some improvements are requested by market participants prior to the go-live. As mentioned in the previous report, coronavirus outbreak-related working constraints delayed the work beyond the authorities' initial goal of the second quarter of 2020. The launch of the Target Model's three related markets (day-ahead, intra-day, and balancing) is a huge step in setting up a modern energy market and will pave the way for Greece to couple with neighbouring electricity markets in the near future. The forward market was launched prior to this but so far seen little activity, so it will be interesting to see its interaction with the fully operational market. Following the market launch, the authorities are planning to set up a solid monitoring system. Greece carried out flexibility and interruptibility auctions in July and August, which met with good market interest as most of the offered volumes were taken up.

Greece's work towards achieving its ambition of transitioning away from lignite-based generation continued with progress on its Master Plan, where a draft plan is ready for public consultation. This work represents the strategy for the economic and

social transition of areas most affected by the end of lignite mining and lignite-based generation. European funding such as the Just Transition Fund can help these areas and their communities pivot away from this and find new forms of economic activity. Public Power Corporation's plan for decommissioning plants has progressed according to plan, and furthermore, other lignite plants that are still commissioned are often not entering the market, showing a big evolution in Greece's generation mix with other sources of energy filling in the gaps.

Greece is looking towards electro-mobility with the passing of an ambitious bill.

The provisions aim to provide support for the growth of the electric vehicles market and the related infrastructure, in order to meet the goals laid out in its National Energy and Climate Plan. Other incentives such as free parking will try to add to the appeal and grow what is currently a small market for alternative vehicles. Up to this point, Greece has been reliant on road-based transport, and urban centres had seen air pollution and traffic problems. Private sector interest will be important to delivering on these goals, and Public Power Corporation's plan develop charging stations is encouraging news in this respect. The recent launch of an online platform for subsidies related to electro-mobility attracted lots of interest.

As of June 2020, Public Power Corporation's share of the electricity retail market stood at 67.7%⁽⁴³⁾. This is around the level of March indicated in the last report, and lower than the previous year's share (73.5%) at the same time, showing the overall trend downwards, but remaining far from the programme's goal of 50% by 2020. This declining share comes at a time when consumers are being offered different deals from providers, showing an element of competition in the market. Arrears remain a concern though the pandemic did not seem to worsen these issues. Regarding Public Power Corporation's arrears, it reached securitisation deals for packages of collectibles and wrote off some longstanding payables. There has been an increase in 'supply cut' orders to the distribution grid in recent weeks; stronger action towards strategic defaulters might make a positive impact regarding the build-up of new arrears. As far as industrial/high voltage consumers are concerned, Public Power Corporation is still dominant.

Greece's wholesale prices remained amongst the highest in the EU despite falling in the first half of the year⁽⁴⁴⁾, though its rapidly-changing energy mix might change this. Domestic wholesale prices fell in the first half of the year and as the Public power Corporation's lignite plants come out of the market (beyond those being decommissioned) and power is being taken up by different sources, particularly gas. Retail prices are notably on the cheaper side at a European level.

Regarding infrastructure, work began on the Crete-Greece interconnector. This project will be a major part of the country's longstanding goal of connecting islands to the mainland, and could have positive impacts for the uptake of renewable energy and for lessening the strain of the Public Service Obligation. On an international level,

⁽⁴³⁾Henex Monthly Day-Ahead Scheduling Report, July 2020.

⁽⁴⁴⁾Market Observatory for Energy, DG Energy Volume 13 (issue 1, first quarter of 2020), Quarterly Report on Electricity Markets.

several plans are moving ahead such as developments with the Trans-Adriatic Pipeline, contributing to Greece's development as an energy hub.

The deficit in the Renewable Energy Source's Special Account remains a concern for the future. The resulting lower wholesale prices and Emission Trading Scheme allowance prices resulting from the coronavirus outbreak, whilst generally having some positive impact on several market players, had a negative impact on the accounts inflows. The renewables market operator will be considering a new methodology for calculating inflows, to be more in line with the changing market. Finding a sustainable approach, which would ensure a balanced account also in the medium and longer term and suitable to Greece's current market and trajectory, remains very important. Renewable energy auctions took place in August, which were efficient in the sense of low prices and high take-up. The authorities plan to continue with auction system for another few years. The recent bill on licensing may already be reflected in the take up of new projects.

Transport and logistics

The transport sector is strongly impacted by the global dimension of the crisis and the resulting decline in global trade. In 2019, 24% of Greek exports were transportation services, making them the second largest Greek services export after tourism. Due to the global nature of the pandemic and the resulting slowdown in growth and trade, shipping services are strongly hit as well. The sector is experiencing negative growth rates since March (compared with the same months in 2019). In May 2020, receipts from the transport sector declined by 24%, followed by 19% in June compared to the same months in 2019.

In order to remedy the delays encountered on the implementation of the 2014-20 transport and environment operational programme, the authorities have prepared a pipeline of railway projects that will be reviewed by the European Investment Bank Joint Assistance to Support Projects in European Regions (JASPERS), the European Commission and the Managing Authorities. The projects are in line with the country-specific recommendations under the European Semester and include the installation of signalling on the line from Thessaloniki to the North Macedonian border, electrification and installation of signalling of a segment of the line Athens to Piraeus, and other projects. Particular attention will be given to the rail connection of the port of Thessaloniki. This project is delayed and needs to be revised to find a feasible technical solution. Further investments are still required to upgrade the country's backbone network from Patras-Athens-Piraeus-Thessalonica to the borders.

A condition for further EU investment in Greek railways is the modernisation of Organisation of Railways of Greece (OSE) and its subsidiary to implement railways infrastructure projects (ERGOSE), responsible for the development of the rail network. The rate of execution of projects is extremely slow. The rail network is due to play a major role in the greening of transport and the upgrading of logistics in Greece. The reform of the two companies should be implemented in 2020-21. The relevant ministerial decision for setting up the reform framework was signed in March 2020 but the implementation of the reform has not started yet. The authorities have set up a committee with the participation of the European Commission to rationalise the

way that railway projects are delivered and make proposals for new projects covering both the current programming period and the period 2021-27. This committee that will also set the Terms of Reference for the reform of the Railway Companies has not yet started working, but a road map for their implementation (with intermediate steps) will be prepared by October 2020. In order to facilitate the above reforms, implementation of technical support provided by the European Commission has been agreed.

Regarding the opening of Thriassio logistics complex, there has been some progress. The European Commission has asked for corrective action, which the Greek authorities intend to complete by end-September 2020. In the meantime, the Commission has initiated procedures for financial corrections related to the project.

A draft strategic plan for the transformation of Urban Transport of Thessaloniki (OASTH) has been prepared and was shared with the European institutions. The company was nationalised by Law 4482/2017 and operates now as a public sector body, without a clear objective and legal framework and weak corporate culture. In August 2019, only 213 buses were in circulation (covering only 40% of the transport needs). The rolling stock is obsolete and highly polluting, with the average age of the busses being 15 years old. Currently, the payroll costs represent approximately 65% of the general costs. Following its nationalisation, staff were transferred to the public sector and the salary is paid through the Single Payment Authority. In June 2020, the company tendered the lease of 180 to 450 diesel buses to cover the needs of the city for a period of 30 months during which time the Greek authorities are expected to finalise the future corporate scheme for the provision of urban transport services in Thessaloniki.

8. HELLENIC CORPORATION OF ASSETS AND PARTICIPATIONS (HCAP) AND PRIVATISATION

8.1. HELLENIC CORPORATION OF ASSETS AND PARTICIPATIONS

The authorities have continued their support for the Corporation. They continue to provide support for corporate turnaround plans at key state-owned enterprises where this requires government involvement. They have engaged with the European institutions as part of drafting the updated Ministerial Guidance. The authorities have also proposed the establishment of an innovative new entity under the umbrella of the Corporation, fully respecting its governance principles and in close and careful cooperation with the European institutions. It will be important to ensure that the Corporation's rights and competencies are safeguarded with respect to placing further new structures or entities under its supervision.

Managing the impact of the coronavirus pandemic on the Corporation's portfolio companies continues to be a priority. The pandemic has led to adjustments and/or a change of priorities for the Corporation as well as to unavoidable adjustments of the schedule of part of Greece's commitments.

As reported in the previous enhanced surveillance report, the negative repercussions of the coronavirus pandemic have been particularly severe for the Athens Urban Transport Organisation and the Hellenic Post. More specifically, the revenue of the Athens Urban Transport Organisation declined dramatically due to the uncertainty created and restrictions on the movement of citizens between mid-March and mid-May. Also the operation of post offices was disrupted, whereas the Hellenic Post had to continue rendering universal services with the associated costs.

Despite the difficulties caused by the pandemic, the work of the Corporation in key areas covered by the commitments to the Eurogroup continued. The implementation of the strategic plan is ongoing, and the work on the finalisation of the updated business plan for 2020-2022, which had to be delayed due to the unprecedented events, has been resumed and the draft business plan was prepared in August and approved by the Board of the Corporation. The review and replacement, if needed, of the boards of state-owned enterprises is close to being completed (see below for more detail).

The authorities have continued their strong engagement with the Corporation. The authorities and the Corporation have been in consultation in relation to measures necessary for ensuring business continuity and enterprise viability of the state-owned enterprises in the Corporation's portfolio, particularly in the cases of the Hellenic Post and the Athens Urban Transport Organisation. These companies have requested assistance from the state relating to the losses incurred due to the pandemic. The authorities responded positively to the Athens Urban Transport Organisation's request for the months of March, April and May. A supplementary request has been submitted for June. The corresponding request by the Hellenic Post is under examination by the European Commission. The latter company requires urgent restructuring to reduce its

cost base and to develop new and sustainable revenue streams over the medium to long term to ensure its viability.

The authorities intend to clarify their expectations for the financial performance of the portfolio of companies held by the Corporation in the updated Ministerial Guidance. This can be done by setting out targets and benchmarks per asset category in the updated Ministerial Guidance, as provided for in the law and internal regulation governing the functioning of the Corporation. The authorities had expected to provide updated Ministerial Guidance to the Corporation during the first quarter of 2020. Its release was postponed due to the coronavirus pandemic and is currently being drafted. The authorities have advised an intention to set out robust and commercially-oriented benchmarks, including by using peer analysis. The authorities have engaged with the European institutions during the early drafting process for the Ministerial Guidance. This is very welcome.

The authorities have chosen the Corporation as the umbrella entity for a new venture capital fund specialising in investing in start-ups developing 5G platform technologies. The fund management company will be fully owned by the Corporation and its governance will fully align with the Corporation's governance structure for direct subsidiaries. The authorities have engaged very thoroughly with the European institutions with the shared goal of ensuring high professional standards and independence on how the fund will function, and also ensured that enough time was made available for thorough consultations. The fund will be established with an initial commitment from the State, using part of the proceeds of the upcoming sale of 5G spectrum. The fund is expected to include private sector investors and will operate under Greece's legal framework for normal venture capital funds.

Despite the difficulties encountered by the coronavirus outbreak, the Corporation continued to the extent possible with the implementation of its strategic plan, a continuous commitment. The plan incorporates its overall approach for better management and use of the state assets in its portfolio. In particular, the Corporation is monitoring the key performance indicators it has set for its direct subsidiaries and the non-listed other subsidiaries (state-owned enterprises with majority participations). The key performance indicators for 2020 were adjusted to take into account the impact of the pandemic along with setting their values for 2021 and 2022. The strategic plan will be updated following the issuance of the Ministerial Guidance. The key performance indicators cover the following areas: enhancement of economic and public value, improvement of financial performance, corporate governance, and improvement of quality of services offered to customers, operational efficiency and innovation.

The next phase of the Coordination Mechanism will be carried out by the Corporation and the state-owned enterprises as soon as there is sufficient clarity on the impact of the pandemic. This next phase is to develop a statement of commitments for each applicable state-owned enterprise. It follows the finalisation of the mandates of the state-owned enterprises during February 2020, which were approved by the Cabinet Committee on 12 March. The statement of commitments are to be agreed between the Corporation and each state-owned enterprise, setting out the state-owned enterprise's financial, operational and other objectives. Some delay on this is considered reasonable, as the impact of the pandemic has to be taken into account in

designing the financial and operational objectives. The key performance indicators for the subsidiaries have been finalised, but are subject to risks should the macroeconomic environment deteriorate compared to what the authorities currently assume. Upon finalisation of both the key performance indicators for the subsidiaries and the Business Plan of the Corporation, the Corporation plans to proceed and finalise the statements of commitments by November 2020. Following that, the final phase of this initial implementation of the Coordination Mechanism will be the preparation of performance contracts setting out public service obligations for a limited set of state-owned enterprises. The authorities have also stated their intention to support that third phase of the Coordination Mechanism with the preparation of performance contracts setting out public service obligations for a limited set of state-owned enterprises.

The Corporation's real estate portfolio has made incremental progress but outcomes remain behind expectations. Strong performance of the real estate portfolio, which is held and managed by the Public Real Estate Company (ETAD), is critical to the overall long-term success of the Corporation in facilitating investment and debt reduction. The returns on the portfolio had showed some signs of improvement during 2019, following the restructuring of the Company. The Company is working to complete the valuation of its portfolio, which is an essential step toward transparency and improved performance. Despite these initiatives, overall results and the rate of improvement remain below expectations. In June 2020, a new Chairman of the Board of Directors was appointed. While the commercial environment in 2020 will pose an additional challenge, improvements should remain feasible. Furthermore, the Public Real Estate Company continues to face certain legal cases, which go back many years and could lead to a significant fiscal impact. Addressing these significant challenges and achieving the full potential of the real estate portfolio are key to the future of the Company.

The authorities have made some further progress in evaluating an additional package of real estate assets included in the 10 119 real estate assets identified for transfer to the Public Real Estate Company in 2018 and are working on setting up a legally solid process for the transfer. The transfer will concern all assets eligible for transfer except those that are excluded via the relevant provisions of the Law on the Hellenic Corporation of Assets and Participations. The subsequent screening indicated that many of these 10 119 assets were ineligible for the transfer. Moreover, the Council of State decided at the end of May 2020 to cancel the transfer of these 10 119 assets to the Public Real Estate Company, on the ground that the process followed was not the correct one, because the eligibility for transfer was not checked by the competent administrative authorities in advance. The authorities intend to implement the transfer once the screening of the package is finalised. The authorities also intend to proceed with a comprehensive study that will help them in the elaboration of the holistic and coherent strategy aiming to optimise the protection, management and investment-oriented exploitation of public real estate.

The Corporation has continued its work on corporate governance, in particular regarding the review of the boards of the state-owned enterprises, a mid-2019 specific commitment, and improving internal and external audit capabilities. A new Chairman was appointed in the Board of Directors of the Public Real Estate Company in June 2020 as well as new Chair of the Audit Committee of the Hellenic

Post and the Central Market of Thessaloniki in May 2020. Of the thirteen state-owned enterprises in the Corporation's portfolio, only the assessment of the Board of Directors for the Hellenic Exhibition Organisation (HELEXPO) and the Greek Saltworks remain pending. The replacement of two non-executive positions at Hellenic Exhibition Organisation was decided by the Corporation's board on 9 April 2020 and the new members were subsequently appointed. The assessment of two remaining positions was scheduled to be launched in October after the Thessaloniki HELEXPO Forum. The appointment of a new Board of Directors for Greek Saltworks is expected to take place by the end of September. So far, the Corporation has identified and appointed more than 70 board members (executive and non-executive) in its portfolio enterprises through open, professional and transparent procedures. The Corporation is also preparing an e-learning compliance programme for its subsidiaries to promote corporate culture and enhance alertness in compliance, conflict of interest and business ethics issues that will be available not only for board members but also for employees of the portfolio companies. During the pandemic, the Corporation also launched an e-learning programme for business continuity issues addressed to board of directors' members and senior executives.

The transfer of the Olympic Athletic Centre, which was a specific end-2018 commitment, proves to be very complex, involving multiple stakeholders as well as a series of administrative (including maintenance requirements) and procurement steps. These include procurement for the repair or overhaul of significant facilities, in order to ensure that the asset is provided in a satisfactory condition. Nonetheless, work has continued throughout the pandemic and there is material progress. At the end of August 2020, the technical advisor for the project submitted detailed reports on the immediate maintenance issues and restoration needs on all its sport facilities. The next steps, by the end of September 2020, include the preparation of the files (technical specifications, budget, etc.) for the open tender documents for a technical consultant, who will perform the main technical study that will determine exactly the works needed for maintenance or overhauling of each installation of the Athletic Centre. The authorities are planning to prepare a development master plan for this extensive and important site in coordination with the Hellenic Corporation of Assets and Participations.

8.2. IMPLEMENTATION OF THE ASSET DEVELOPMENT PLAN

Implementation of the Asset Development Plan of the Hellenic Republic Asset Development Fund (HRADF/TAIPED) is key to stimulating private investment, increasing efficiency and providing financing to the state. In June 2018, the authorities made specific commitments to the Eurogroup to implement the Plan, which will be updated every six months. Progress with the remaining transactions included in the Asset Development Plan has been affected by the coronavirus outbreak but has resumed as from June, for a number of transactions also thanks to the fact that the Fund was proceeding with the maturing of the various transactions during the pandemic. As a result of the delays created through the coronavirus pandemic, the only transactions that have a chance to be financially closed in 2020 are Hellinikon and the Marina of Alimos.

The Asset Development Plan has been updated by the Fund, approved by its Board and sent to the authorities. The Plan was approved by the Government Council for

Economic Policy on 10 September (FEK B 3868/10.9.2020). It is noted that the updated Asset Development Plan includes also the transaction for a new long-term concession of Attiki Odos. The current concession expires in 2024 and its inclusion in the updated Asset Development Plan allows for the timely conclusion of a new long-term concession.

Progress with specific transactions

Hellinikon: Despite the strong engagement and efforts of the authorities to complete the prerequisites for the financial closing of the transaction, with the start of the demolition works in the beginning of July, the financial closing did not occur so far due to complications in the casino licence tender process and other judicial cases, concerning administrative acts, set for discussion in September 2020. The current state of play on key elements is as follows:

- *The tender process for awarding the casino licence is still ongoing.* The evaluation of the legal documents of the two bidders led to the exclusion of one of them, who subsequently lodged a petition for annulment along with interim relief measures before the Council of State. The Council of State rejected the petition for relief measures on 7 May 2020. This opened the way for a continuation of the process. However, the decision on the petition for annulment remains pending. The hearing took place on 3 July and the authorities feel confident that there will be a final decision soon.
- *The relocation of the public users is almost completed with only a few arrangements to be made for users staying on site.* The pending legal issue with the only remaining private user will continue before the Supreme Court but this does not hinder the enforcement process once the pending decision at a second instance court is issued.
- *The partition of the Hellinikon site agreed in February 2020 is currently being enshrined in a binding document (Partition Deed and Surface Rights Establishment Deed).* Following the enactment of the enabling provision for the process and the specifics of the partition, the Deed is still being drafted and will be finalised following the review process by all parties. It is noted that the legislative provisions regarding the surface rights have been agreed and have been sent for review to the Hellenic Cadastre Office, before their submission to Parliament.
- *Pending legal cases.* Petitions for annulment have been filed before the Council of State for a number of cases. All cases have been set for discussion in September and October 2020.
- *Demolition of current buildings on the site was launched on 3 July.* An amendment to the relevant legislation from February 2020 was passed in June, for interpretative purposes to provide the technical feasibility/possibility for the preferred investor (Lamda) to proceed to gradual demolitions of the first cluster of buildings. The launching of the demolition process took place on 3 July.

Marina of Alimos concession: The Marina of Alimos is one of the largest marinas in the South-Eastern Mediterranean, located on the South-Eastern waterfront of Athens.

Following the signing of the concession agreement on 13 May 2020, the financial closing of the transaction should have taken place within 120 days as provided for in the contract. The Board of the Fund extended on 3 September the 120 days for another 50 days (until 30 October 2020) to allow adequate time for the completion of the transaction.

Hellenic Petroleum: The financial closure is subject to significant delays following the failure of the first tender in mid-2019. The Fund is considering all options. However, following the significant fall in the capitalisation value of the company, the Fund considered appropriate to delay further the launching of the transaction to a later point in time.

Sale of 30% of Athens International Airport: The tendering process was proceeding well prior to the coronavirus outbreak. Ten investment parties expressed their interest to acquire a 30% stake in the first phase of the process concluded in October 2019. Following the evaluation of the investors' proposals, on 31 January 2020 the Board of Directors of the Fund decided that nine investment parties were qualified to proceed to the binding offers phase. However, due to the impact of the pandemic on the economy in general and on the air transport sector in particular, it was considered necessary to delay the scheduled timeline for the second phase of the tender and the deadline for the submission of binding offers. The Fund is monitoring market conditions and will determine the updated tender timeline and the submission of the binding offers date, once a normalisation of the situation takes place. This is not expected to be done prior to 2021.

Public Gas Corporation – DEPA: Tenders for both companies, launched in December 2019 for DEPA Infrastructure and in January 2020 for DEPA Commercial, attracted strong investment interest. Following the coronavirus outbreak, the Fund considered necessary to provide interested parties with some flexibility regarding the submission of the required documentation for their expression of interest. At the same time, the Fund and its consultants continued to evaluate the proposals. Six interested parties prequalified for the next phase for the 100% of DEPA Infrastructure and seven for the DEPA Commercial. In June 2020, the Board of the Fund decided to proceed to the binding offers phase for both transactions. Access of prequalified bidders to the Virtual Data Room was granted in late August for DEPA Infrastructure, whereas for DEPA Commercial it is expected before the end of September. It is further noted that on 22 June 2020, the Energy Regulatory Authority took a decision on a pending complaint against DEPA infrastructure, which is a welcomed step as it is expected to draw this long-standing case to a close. For both transactions there is a number of issues remaining to be settled ⁽⁴⁵⁾.

⁽⁴⁵⁾For DEPA Infrastructure, there is a (i) need for clarity on the regulatory framework for distribution system operators and (ii) full clarity on the DEPA (distribution) asset perimeter to ensure it remains a cohesive and attractive asset. On DEPA Commercial there is (i) a pending issue on the outcome of the court case regarding an industrial customer of DEPA, who was awarded damages as compensation for DEPA imposing abusive contractual terms upon it during the period 2010-2015, (ii) a need for a resolution between the State and the Public Power Corporation of any claim (if valid) regarding a potential call option for 30% in DEPA.

Egnatia: The privatisation process for the Egnatia motorway entails the award of a long-term concession for the operation and maintenance of the motorway and its three vertical axes. The deadline for the submission of binding bids has been further extended as significant open issues remained pending. The authorities have during the mission in July stressed their commitment to proceed with the transaction. Progress has been made with respect to the following actions:

- Resolution of open issues related to the motorist service stations contracts via a relevant decision of the Board of Egnatia on 2 July 2020.
- Regarding the works needed for bridges to be classified as safe, the Ministry of Infrastructure informed the European institutions that the issue will be resolved via the assumption of the cost up to €80 million for the required works by the state
- However, the progress made as far as the completion of the construction of all remaining frontal and lateral toll stations and the required works so that the remaining 14 tunnels can be licenced under category E (i.e. excluding the transport of dangerous cargo) over the last three months has been very limited.
- The authorities and Egnatia S.A. are expected to proceed with the acceleration in the implementation of the remaining pending actions in the coming weeks, namely:
- *Completion of the construction and operation of all remaining frontal and lateral toll stations:* A significant number of toll stations are expected to be completed and put in operation by the end of October and an additional number before the date of the submission of binding bids (the date of submission of binding bids has been extended to 11 December 2020) as this will demonstrate the authorities' commitment to proceed with the implementation of the project by securing its revenue streams. Furthermore, the Ministry committed to putting all the toll stations in operation before the commencement of the concession agreement.
- *Licensing of all tunnels by the Tunnel Licensing Authority:* The required works for the remaining 14 tunnels to be licenced under category E (i.e. excluding the transport of dangerous cargo) are expected to be completed by the end of October and the tunnels licenced by the end of November.

Regional Ports: Following a delay in launching of the transactions for a number of ports due to the pandemic, the Fund decided in June to proceed with the launching of the tender process for the sale of shares for the ports of Alexandroupolis and Igoumenitsa (sale of a majority stake of at least 67% in the share capital of the company) and the sub-concession of a multi-purpose terminal for the port of Kavala. The relevant tendering processes were launched on 17 July 2020 following the adoption of a new legislation, which passed the management of certain land areas to the relevant Port Authority.

Underground Natural Gas Storage South Kavala: The South Kavala gas field is an almost depleted natural gas field located in the North Aegean Sea. On 22 June 2020, the Fund launched an international public tender for the award of a concession agreement for the use, development and operation of the Gas Storage for a period of up to fifty

years following the licensing of the project. The tender shall be conducted in two stages: Phase A (submission of Expression of Interest and Pre-qualification of Candidates) and Phase B (submission of Binding Offers and selection of the Concessionaire). The exact duration and terms of the Concession Agreement shall be stipulated in the draft Concession Agreement to be made available to the pre-qualified Investors prior to the submission of their Binding Offers. The deadline for submission of Expressions of Interest has been extended to 30 September 2020.

9. PUBLIC ADMINISTRATION AND JUSTICE

9.1. PUBLIC ADMINISTRATION

Appointments of senior management positions in the public sector

The selection process for senior management posts is continuing. Following the completion of appointments of Permanent Secretaries (13 in total), a training course that had been postponed due to the coronavirus pandemic took place in July. Further, the selection process to appoint a Permanent Secretary at the Ministry of Migration and Asylum has been launched and is expected to be completed by end of September 2020. As some of the appointed Permanent Secretaries previously held the post of General Directors – a selection process for these vacant posts are expected to be launched in September. As concerns the Director posts, the selection boards have been re-established to include the recently appointed Permanent Secretary, whereas the selection process – which had been paused due to the coronavirus pandemic – is expected to be resumed. The schedule for launching the selection process for Heads of Division remains unclear.

Draft provisions have been prepared to set up a uniform selection process for senior management posts at public sector entities⁽⁴⁶⁾ that is expected to be adopted in September and to come into effect in October 2020. It is expected that selection procedures for around 30 posts will be launched during this year. Clarity about the selection process for managers involved in the management of the EU structural funds (National Strategic Reference Framework) under the mandate of the Ministry of Development and Investments is expected to be established ahead of the new programming period for EU funds (2021-2027). The ongoing selection process, which has encountered severe delays, concerns close to 200 posts of responsibility, which need to be completed timely so as to ensure a smooth start of the new programming period.

Improving human resource management

Continued good progress has been made in developing the Human Resources Management System (HRMS), including completion of a significant number of digital organigrams and job descriptions, an end-2019 specific commitment that is expected to be completed by the end of 2020. Until August 2020, over 1 500 general government entities had completed its digital organigram, representing above 80% of all entities and 85% of personnel, including most of the large entities. During the next reporting period, the focus will especially be on the remaining entities (150 in total) with more than 20 employees that are yet to complete their digital organigrams and that are currently employing around 6% of all general government staff. By end-October 2020, the majority of these entities are expected to have finalised their digital organigrams. As concerns the process establishing a link between the job description and jobholder, it has been completed for around 75% of posts. The authorities plan to establish this link by end of 2020 for all posts at central government level and legal entities of public law, which remains below average compared to the completion rate of

⁽⁴⁶⁾In the Greek context, these public sector bodies are referred to as legal entities of public law and legal entities of private law.

other general government entities. Finally, the tender on Human Resources System Support Services (EU-funded through the National Strategic Reference Framework) was launched in July.

A draft law to update the enabling law of the Supreme Council for Civil Personnel Selection has been prepared. The draft law, which aims to enhance the overall capacity of the Supreme Council and put in place a coherent and uniform procedure for recruitment, is expected to be published for public consultation shortly with adoption to follow by November 2020. In parallel, work is continuing on streamlining the job classification system ('klados') and a proposed list of the job classification categories has been prepared with technical support provided by the European Commission. The relevant legislation⁽⁴⁷⁾ is expected to be revised later this year. This reform is directly related to the hiring procedures for public officials and is expected to reduce the time needed to prepare job announcements.

The authorities are carrying out a comprehensive review of the mobility scheme. Initial findings show that while each cycle seems to attract stronger interest in terms of vacant posts published, the proportion of actually filled posts at the end of each cycle remains relatively low (close to 20%). As part of this exercise, the authorities are also taking stock of existing procedures for transfers and secondments of personnel outside the standard mobility scheme with a view to reducing their number. At the same time, a recent provision⁽⁴⁸⁾ allowed for up to 80 public officials to be seconded outside the mobility scheme, which is a worrying development that risks sending a wrong signal regarding the authorities' commitment to uphold the mobility scheme and could set a precedent of parallel *ad hoc* hiring procedures being established. Finally, the third mobility cycle (a specific mid-2019 commitment) that was launched in August 2018 has been completed. Out of the 5 440 vacant posts, around 20% were filled (1 122 posts).

The performance assessment cycle for 2019, which had been delayed due to the coronavirus pandemic, was launched in July and is expected to be completed by the end of this year. In addition, the authorities are progressing with plans to strengthen the assessment framework, including introduction of goals.

Legal codification

Following the re-establishment of the Central Codification Committee in May 2020, the manual for legal codification was finalised and published in July⁽⁴⁹⁾. The manual, which has been prepared with technical support provided through the European Commission, set out guidance for practitioners involved in preparing legal codifications, in order to facilitate consistency across the sectors. The Committee has also prepared a draft annual codification plan for 2021 that is expected to be approved by the Council of Ministers in September. The Committee is also taking steps to strengthen the governing structure to ensure that allocated EU funds (through the National Strategic Reference Framework) for the preparation of legal codifications for various sectors are used in a timely manner, as the previously published call for tender has been cancelled. During the next review period, a joint regulatory act between the

⁽⁴⁷⁾ Presidential Decree 50/2001.

⁽⁴⁸⁾ OJ A 148/31.07.2020, Article 86.

⁽⁴⁹⁾ <https://gslegal.gov.gr/?p=7177>

Secretariat General for Legal and Parliamentary Affairs and the Ministry of Digital Governance is expected to be finalised. It will be important for the various tenders to be launched without further delays, as the funding available will have to be fully disbursed within the next two years.

The coronavirus pandemic has slightly delayed the adoption of the re-codified Labour Law Code and Code of Labour Regulatory Provisions, a mid-2020 specific commitment. The authorities plan to adopt the laws by September 2020. The codification process, expected for November 2020, is used as an opportunity to review and modernise some areas of the labour legislation, including new forms of work and the role of the labour inspectorate, which is most welcome (see section 7.1).

The tender for the flagship project to set up the national gateway for legal codification, a mid-2022 specific commitment, is progressing. The tender was launched in June 2020 and offers were submitted in July, which are currently being assessed. Contract signature is expected to take place by the end of 2020.

Implementation of the Executive State Law

The delegation of competencies from the political to non-political level, which came into effect in February 2020, is being applied efficiently and the authorities are considering to delegate additional competencies. A circular on the role of the Permanent Secretaries and a presidential decree on their additional competences is currently being finalised. Efforts are also being stepped up as concerns the establishment of three new job categories⁽⁵⁰⁾: political analysts, legal drafters and digital policy analysts. The authorities are attaching particular importance to these new categories of staff, who are expected to be involved in the preparation of draft laws and comprehensive impact assessments in accordance with the good law-making provisions that are part of the Executive State Law. As a next step, a circular is planned to be published in September 2020 that will define the number of officials per category. However, the completion of all steps to establish these three new executive job categories, including the necessary primary and secondary legislation, is currently expected to be finalised towards the end of 2021. Finally, as of 1 October 2020, all draft bills will be accompanied by a new impact assessment analysis that consolidates all existing accompanying reports and new reports on legality and implementation of proposed legislation. Work is ongoing for the impact analysis report to be completed digitally.

Controlling the size and cost of the public sector

The evolution of personnel in 2020, both permanent and temporary, remains in accordance with the hiring plans, but the envisaged reduction of temporary posts following their conversion to permanent positions is yet to materialise. As regards permanent staff, it is estimated that hirings in 2020 will be approximately 40% below plan, as selection processes have been prolonged due to the coronavirus pandemic. Most of the new hirings aim at strengthening the public health system, military schools and the Independent Authority for Public Revenue. The hirings that will not be completed during this year will be carried out in 2021. The average number of temporary personnel

⁽⁵⁰⁾OJ A 133/07.08.2019, Article 104.

for the first half of 2020 remained stable compared to the respective period in 2019. It is encouraging that the increasing trend of the previous years has been reversed, however the number of temporary staff remains well above the level in 2018 when Greece exited the European Stability Mechanism programme. Furthermore, the conversion of temporary contracts into permanent, in particular for municipalities and education sector⁽⁵¹⁾, has to date not resulted in the corresponding decrease of the number of temporary staff. The authorities have confirmed that the estimated decrease, at least for teachers on temporary contracts, should be visible by end-September 2020. The European institutions encouraged the authorities to implement the expected reduction of the remaining temporary posts during the next review period.

The authorities are carrying out a comprehensive analysis of temporary staff to remove posts of a permanent nature. This exercise is expected to be completed by October 2020 and would allow for an annual ceiling on temporary staff covering seasonal needs for 2021 and beyond to be defined by the end of this year. The annual ceiling on temporary staff is expected to incorporate completed conversions of temporary posts into permanent posts, as mentioned in the previous paragraph.

The inter-ministerial committee mandated to strengthen central control over the wage grid and hiring procedures has established three working groups⁽⁵²⁾ to focus on specific areas. These working groups cover (i) the development of methodology for planning the hiring of temporary staff; (ii) the detection of possible deviations from the current recruitment and mobility regimes; and (iii) the collection of all regulations relating to wages and benefits adopted since July 2019. The inter-ministerial committee is expected to convene in September and set out specific time schedules for the work of the three working groups. Following the completion of the work assigned to the three working groups, it is expected that the inter-ministerial committee will proceed to present proposals on how to reduce the number of deviations from the unified wage grid and hiring procedures. In parallel, a study is carried out by technical support provided through the European Commission to assess appropriate employment levels in the public sector and is expected to be completed by October 2020. Further, the work to establish an integrated IT system for the general government payroll is ongoing. This IT system is planned to be tested in a pilot phase by the Single Payment Authority between May and October 2021, covering 300 000-350 000 public sector employees. The deadline for the coverage of the remaining public sector employees⁽⁵³⁾ is yet to be clarified and will depend on the outcome of the pilot phase. Finally, secondary legislation to define the new organisational structure of the Single Payment Authority is expected to be adopted in the coming months.

Digital governance

The ambitious digital transformation of the public administration and the economy as a whole remains a key priority for the authorities. To underpin these efforts, they aim to publish the new comprehensive national digital strategy ('Digital

⁽⁵¹⁾Concerns around 8 000 municipal posts (mainly regarding waste management) and 4 250 special teachers.

⁽⁵²⁾O.J. YODD Issue No 676/28.8.2020.

⁽⁵³⁾Once the IT system will be finalised it is expected that all staff of general government entities (approximately 700 000) will be covered.

Bible’) for public consultation shortly. The strategy is expected to lay down an ambitious and dynamic pipeline of some 300 horizontal and sectoral projects and set out a portfolio management system to monitor their implementation. Within this context, the authorities have already advanced with a number of projects.

Key projects go in the direction of upskilling, simplifying and digitalising transactions and public sector data, enhancing the interoperability and robustness of systems in the public administration, and promoting connectivity and the development of 5G applications. Through the development of a National Digital Academy, citizens enjoy free access to both basic and specialised digital skills courses⁽⁵⁴⁾. The authorities are also pursuing the simplification and digitalisation of transactions with and within the public sector to ease the administrative burden, through the implementation of the National Programme for Process Simplification and the development of the integrated transactions portal (gov.gr). Further, they continue to enhance the interoperability of public sector systems and registries, inter alia to accommodate the Simplification Programme, whilst ensuring the sufficiency and robustness of public sector IT infrastructure, including through security enhancements for electronic transactions and expansion of the public sector’s capacity for telework and teleconferencing. Amongst other initiatives, the final offers for the ‘Syzefxis II’ project aiming at improving the telecommunication infrastructure of the existing public administration network are being evaluated, with a view to signing most of the contracts by the end of 2020. Concerning connectivity, the tender on the ‘Ultra-Fast Broadband’ project aiming to fill gaps in very-high-speed connectivity has entered the second phase and the authorities expect to receive binding offers by November 2020. Work is also proceeding with a project to establish fibre interconnections with the main islands. Further, the authorities delivered an innovative proposal for developing the ecosystem for the industrial application of 5G technologies (see section 8.1). Lastly, through projects such as the creation of the Single Digital Map and the State Infrastructures Registry, the authorities aim to digitalise geospatial data for the use of the public administration and the private sector alike.

As regards the National Programme for Process Simplification, the authorities completed the necessary legal and organisational set up for its implementation, which is already underway. Specifically, they adopted secondary legislation to set out the responsibilities of the Ministry of Digital Governance, leading the reform, and other ministries. With the help of technical support provided by the European Commission, they also prepared a Process Design and Simplification Guide intended for use across the government. Albeit with some delay due to the coronavirus outbreak, the authorities are expected to deliver shortly an annual action plan to prioritise the simplification domains and web services in each of the intervention areas to be launched over the next year. Within this context, a number of Memoranda of Cooperation and Programmatic Agreements have already been signed to set out priority areas for the Programme⁽⁵⁵⁾.

⁽⁵⁴⁾To date, the National Digital Academy provides access to 214 free online basic and specialised digital upskilling programmes to all citizens, featuring more than 1 800 hours of free learning.

⁽⁵⁵⁾Inter alia, priority areas include the digitisation of courts (e.g. electronic delivery of certificates, digital signatures for court staff and judges and online tools for judicial and prejudicial procedures), procedures for securing Greek citizenship, and the creation of systems for monitoring the implementation of sustainable urban mobility plans.

As regards the development of such agreements, close cooperation between the Ministry of Digital Governance and the Ministry of Development and Investments – which is leading the investment licencing reform, including the simplification of licensing legislation – would help avoid any overlap between the two reform streams.

Progress is recorded with respect to the development of the digital transactions portal with the government (gov.gr) and the establishment of a unified legal framework to encompass all digital policy elements. A dedicated unit was set up at the Ministry of Digital Governance as of July 2020 ⁽⁵⁶⁾ to coordinate the development of gov.gr, which, to date, offers more than 610 services (i.e. some 110 new services since the last review). The authorities aim to introduce some further 40 new services by the end of the year. To this end, they prepared a comprehensive roadmap for the implementation of technical functionalities and the soon-to-be digitalised procedures, such as local government services, by end-2021. In addition, the new Code of Digital Governance was published for public consultation in July and is expected to be adopted soon, whilst the authorities are working towards an action plan on the steps necessary for the operationalisation of provisions of new law. The Code aims at creating a comprehensive and transparent legal framework on digital policy, while establishing, amongst other objectives, a unique number for citizens to transact with the government. Lastly, to support this work and with a view to facilitating the business continuity of information systems, the authorities expect to launch shortly the tender to provide Database Private Cloud Computing services and are currently preparing the tender documents for the Database Backup Infrastructure.

The first steps in relation to the planning of projects in relation to the digitisation of geospatial data have been completed. These refer to the creation of the Single Digital Map, aiming at increasing transparency for investors concerning land use rules across Greece, and the State Infrastructures Registry, intended to encapsulate electronically technical and geospatial information on all public infrastructure projects. In relation to the State Infrastructures Registry, the authorities delivered a two-year action plan for the development and pilot implementation of this tool and issued secondary legislation to define responsibilities for the development and oversight of this project ⁽⁵⁷⁾. A two-year action plan for the creation and pilot implementation of the Single Digital Map was also delivered. These projects are expected to facilitate private sector investment projects and the improvement of public infrastructure management.

9.2. JUSTICE

Work on the transition to mandatory electronic filing and processing of documents in civil and penal jurisdictions is ongoing. The authorities formed a working group along with stakeholders, with the objective of planning and overseeing the deployment of electronic filing and processing, in both jurisdictions. A list detailing digitalisation initiatives has been drafted, to serve as the basis for the planning of relevant activities. Among the tasks due for completion by end-September 2020 are the following:

⁽⁵⁶⁾Law 4704/2020 (OJ A 133/14.07.2020).

⁽⁵⁷⁾FEK B' 3200/03.08.2020.

- The consolidation of a number of different insolvency-related certificates into one that will be issued and delivered electronically by the General Commercial Registry;
- The issuance of an electronic divorce certificate;
- The issuance of a criminal record certificate.

In parallel, efforts are now underway to implement a reliable and effective mechanism for the distribution of digital signatures. Discussions are ongoing between the Greek state on one part and the Athens bar and notarial associations on the other for the provision and certification of over 30 000 signatures is being. The e-signatures are to be made available to lawyers as well as notaries and bailiffs and their certification should be carried out remotely, dispensing with the need for physical equipment. Regarding judges and court secretaries, the electronic platform for the distribution of e-signatures has been delivered to the Ministry of Digital Governance, and instructions to the users of the system have been published online⁽⁵⁸⁾. The authorities are expected to provide a status report, documenting progress and next steps, by October 2020.

The distribution of digital signatures will also enable the implementation of a recently introduced amendment to the Code of Civil Procedure, allowing for electronic notifications of legal documents by judicial bailiffs⁽⁵⁹⁾. The use of this new procedure will significantly enhance the efficient and speedy conduct of notifications, increase legal security and reduce the use of resources regarding the processing and dissemination of notified documents that concern, in particular, major handlers such as administrative services, credit institutions and large corporates.

Following the submission of bids for the second phase of the Integrated Judicial Case Management System, the authorities are in the process of evaluating the offers with a view to completing the tender procedure, a mid-2020 specific commitment, by November 2020. The procedure was extended in view of the disruptions caused by the coronavirus pandemic. The evaluation of offers should be completed shortly and the contract awarded by 15 December 2020. Completion of the projects is foreseen within 36 months from the signature of the contract.

Mandatory mediation is fully in force as of 1 July 2020 and the authorities are engaged in planning the provision of training to stakeholders (mainly lawyers). The launch of a tender for the provision of the relevant know-how is planned – including the drafting of manuals and preparation of training materials; the project should run for a period of eighteen to twenty four months and is aimed at training 60% of lawyers. An action plan detailing the deployment of the relevant activities should be presented by the authorities in November 2020.

The authorities adopted legislation for the creation of specialised chambers in civil and administrative courts, with a view to increasing the effectiveness and efficiency

⁽⁵⁸⁾<https://support.mindigital-shde.gr/faqs>

⁽⁵⁹⁾Article 67 of law 4869/2020 (OJ A 105/27.5.2020), adding article 122A to the Greek Code of Civil Procedure.

of justice in the context of cases of major importance for the economy. The relevant provisions ⁽⁶⁰⁾ allow for new chambers that will deal with specific categories of majorly significant cases. Special chambers in civil jurisdictions in Athens and Thessaloniki will deal with cases involving claims for damages, based on the transgression of national and EU legislation on electronic communication, energy and the protection of private data; the addition of further categories of cases is also allowed. Moreover, the creation of special chambers dealing with categories of cases to be defined by their respective heads of administration is allowed in bigger administrative courts operating more than three sections. Lastly, the creation of specific chambers dealing with the backlogs of legacy household insolvency cases, is allowed in Magistrate's courts operating more than one sections. A full report on the application of said provisions is expected by end-October 2020.

The authorities adopted the code of procedure before the Court of Audit and are proceeding with the adoption of the Code of Judicial (Clerical) Staff and the revision of the Code on the Status of Judges and the Organisation of Courts, all of them introducing significant revisions that should contribute to enhancing the function of justice. The code of procedure before the Court of Audit was adopted in June ⁽⁶¹⁾ and entered into force in the beginning of the new judicial year, in September 2020. The Code of Judicial Staff should be adopted in December 2020. Regarding the Code on the Status of Judges and the Organisation of Courts the formation of a law-drafting committee, in November 2020, is being envisaged, for the purpose of assessing and revising its provisions on training, evaluation, promotion and adding new disciplinary measures to address excessive delays in caseload processing . Above issues are of importance for the effective functioning of justice, as they regulate the assessment of the performance of magistrates' duties, their professional advancement, disciplinary matters, etc. The success of other justice-related reforms (Code of Civil Procedure, Insolvency Code, the functioning of special chambers, etc.) relies on the effective implementation of a modern set of rules for the performance of judicial duties.

Following the adoption of legislation for the creation of the 'JustStat' unit in the Ministry of Justice for statistical data collection and processing in June 2020, the authorities will proceed with the drafting of the relevant Presidential Decree and its submission to the Council of State by end-December 2020; concurrently, a working group will be established and entrusted with improving the quality of statistics collected by the Ministry of Justice. The deployment of the activities of the unit as described in the law ⁽⁶²⁾ is a task of high priority, given the importance of standardised, comprehensive, granular and reliable statistics for monitoring and assessing the performance of the justice system, identifying problems and shortcomings and formulating proposals for addressing them.

9.3. FIGHT AGAINST CORRUPTION

The operational capacity of the National Authority for Transparency has been enhanced. In line with the initial timeline, the Authority plans to be fully operational by

⁽⁶⁰⁾ Articles 359 and 360 of law 4700/2020 (OJ A/29.6.2020).

⁽⁶¹⁾ Articles 1 to 356 of above law.

⁽⁶²⁾ Article 358 of above law.

November 2020. The awareness raising- pillar of the Authority's portfolio, which was rather under-developed so far, is being strengthened. The Authority is joining forces with line ministries on sectorial plans that include an awareness-raising component. For instance, a Memorandum of Cooperation has been drafted with the Ministry of Education, with the aim of developing a culture of integrity and accountability in the educational sector. The National Authority for Transparency has offered to the Ministry of Education a set of proposals for integrity awareness actions for students.

The National Anticorruption Plan, monitored by the Authority, is showing encouraging results. Under the 147 actions of the plan, 68 are reported as completed, 74 are on-going and 5 are pending. A recent significant step concerns activities coordinating the fight against corruption, where the authorities fully operationalised in June 2020 the National Coordinating Body for Audit and Accountability (ESOEL), which is chaired by the National Authority for Transparency. The coronavirus pandemic has impacted the on-going technical support and the timelines of 49 actions linked to these projects will need to be updated⁽⁶³⁾. The National Anticorruption Plan for 2018-2021 is scheduled to receive an external appraisal in early 2021. The timeline for launching the tender for the appraisal is on track and the authorities intend to build on the results of this assessment when designing their next pluriennial plan.

The National Authority for Transparency is working with a view to strengthening the internal control systems, to implementing a sound national integrity system and to regulating lobbying activities. In collaboration with the Ministry of Interior, the Authority is drafting a new law on internal control that should be finalised shortly (see section 3.4). Moreover, a Memorandum of Cooperation was signed between the Authority and the Ministry of Interior for the design and the implementation of a complete national integrity system. The Memorandum includes an action plan and a detailed timeline with milestones such as adopting a protocol for handling cases of corruption before end-September. Its implementation would be a crucial improvement of the institutional framework for fighting against corruption. Finally, the absence of an effective legal, and institutional framework specifically addressing lobbying activities has led the National Transparency Authority to proceed with a draft proposal of a law that regulates lobbying activities that should be adopted before June 2021.

Sectoral anti-corruption plans are being developed in the health and public procurement sectors and usefully complement the existing set of sectorial anti-corruption actions. In the health sector, the authorities have set up a committee to review the existing legislation regarding corruption. The institutional framework is also under review with a view to drafting a new anti-corruption policy by end-October and to getting tangible results by the end of the year. On the public procurement side, the National Strategy on Public Procurement includes a set of anti-corruption and anti-fraud provisions and measures. The National Authority for Transparency's role is to monitor the progress made through the review of the annual report published by the Independent Authority for Public Procurement, which is the competent authority for the design, the monitoring, the evaluation and the update of the strategy. However, the National Authority for Transparency will participate in the upcoming revision of the National Strategy on Public Procurement, which is expected to take place in 2021 (see section

⁽⁶³⁾The authorities foresee that the projects will be delayed by a maximum of 6 months.

3.4). The timely adoption and operationalisation of these plans are expected to contribute to the efficient management of funds, including from the Recovery and Resilience Facility.

The authorities have started to upgrade the framework for the management of seized or frozen assets. A Legislative Committee has been set up⁽⁶⁴⁾ to further strengthen the institutional framework for the management of seized and confiscated assets. However, despite the existence of relevant legislation, there is no centralised monitoring mechanism for the management of frozen or seized and confiscated assets. The authorities requested EU funding for a project that would strengthen and modernise the institutional framework through an integrated IT system. The implementation of the project would improve the coordination and the cooperation between the competent authorities, accelerate the processes, put an end to the duplication of responsibilities and improve the management of the recovered and confiscated assets.

The report on political party financing for the year 2018 has been made public and, for the first time, triggered imposition of fines to nine political parties. This is a major move forward towards increasing transparency in the political sphere. For the first time, the report of the committee in charge of controlling the political party financing delivered detailed information on the misappropriation that were investigated, including the names of the parties, the exact breaches of the regulation as well as the amounts of public funds that were misused. The findings flagged in the report for year 2017 have not been followed up in such a transparent manner: the committee detected in its 3 previous reports a series of cases where state funding was used inappropriately. However, the authorities reported that the legal framework did not allow them to follow-up in the report published mid-2020. The work of the committee for 2019, which was a multiple election year, has been delayed due to the coronavirus pandemic and should begin by October 2020, in line with the legislation⁽⁶⁵⁾. The legislative framework of party financing has been flagged by the authorities as an additional area for legal codification. The European institutions encouraged the authorities to include it in the annual codification plan for 2021 that is expected to be adopted by end-September 2020 (see section 9.1). Moreover, the authorities are encouraged to report on the legal and practical difficulties that prevent them from following a risk based approach when performing their controls on the asset declarations of politically exposed people.

A committee is in charge of taking into account the recommendations of the Group of States against Corruption (GRECO) but the project is likely to fall behind schedule. A committee has been set up with a view to offering some amendments to the Criminal Code and the Criminal Procedure Code that would take on board the recommendations made by the Group of States against Corruption. However, according to the authorities, it is likely that the initial timeline (December 2020) will be impacted by the coronavirus containment measures. It is expected that the Committee will produce some initial results around June 2021.

⁽⁶⁴⁾ Joint Ministerial Decision 58506/4-6-2019.

⁽⁶⁵⁾ Law 3023/2020.

ANNEX

Progress with the implementation of due specific commitments and relevant continuous commitments (*) given to the Eurogroup ([Annex to the Eurogroup statement, 22 June 2018](#))

Commitment	State of play and next steps
<p>(*) Fiscal. Achieve a primary surplus of 3.5% of GDP over the medium-term.</p>	<p>Taking into account the European Commission's 2020 summer interim forecast and the main measures adopted since May 2020 to mitigate the consequences of the pandemic, the primary deficit is currently expected at around 5.8% of GDP in 2020. These projections do not yet include the impact of the Council of State's pension ruling from 14 July, neither the pending ruling of the Court of Auditors, the total cost of which is currently estimated at 0.8% of GDP. A full update of the fiscal forecast will be prepared in the context of the assessment of the 2021 Draft Budgetary Plans.</p>
<p>Public financial management. Complete the cash monitoring and forecasting for the General Government Treasury account system.</p>	<p>The Treasury Single Account system is operational and the entities that remain outside of the scheme are not significant in terms of total liquidity. The Ministry of Finance will perform an assessment of the entities' compliance with the liquidity buffer rules by end-October 2020, which would effectively complete this part of the specific commitment. The authorities are encouraged to set up dedicated tools for the close monitoring of entities deemed to be at risk. By contrast, progress on the currently running cash-forecasting pilot has suffered delays due to the coronavirus pandemic and will be reassessed in the next report</p>
<p>(*) Arrears. The authorities will implement the arrears clearance plan and avoid the accumulation of new arrears.</p>	<p>In June 2020, the stock of arrears amounted to €1.5 billion, that is to say €667 million above the targets set in the clearance plan adopted in October 2019. These developments only partially reflect disruptions in labour-intensive processes caused by the pandemic. The authorities</p>

Commitment	State of play and next steps
	<p>committed to update their plan by end-October 2020, with detailed information regarding the clearance of the additional pension backlog. Nevertheless, some crucial structural measures – including the automation of the processing and awarding of the new pensions claims as well as the digitalisation of the Single Social Security Fund (e-EFKA) – are reported to be broadly on track.</p>
<p>Tax administration. Reach the agreed permanent staffing positions at the Independent Authority of Public Revenue (IAPR) of 12 500.</p>	<p>Staffing levels at the end of the second quarter stood at 11 916, compared to 12 500 set as the target by end of 2019. Moreover, the authorities have adopted legal provisions that have resulted in staff from the Independent Authority being transferred to other bodies, thus making the achievement of the set staffing targets even more difficult. The completion of the human resources reform, expected to greatly facilitate the Independent Authority's capacity to attract and maintain the high calibre staff it needs, hinges on the adoption of the wage grid legislation. The European institutions encouraged the authorities to adopt it during the next review period.</p>
<p>Tax policy. Greece will undertake a nationwide valuation exercise of property tax value based on market values and will update property tax values for ENFIA and other taxes fully in line with market values.</p>	<p>The authorities have restarted work towards completing the nationwide reassessment of property values, which serve as base for the single property tax (ENFIA). The inevitable delays occurred earlier in the year due to the coronavirus lockdown. The work of data collection and quality assessment, leading to the final determination of prices for existing value zones is expected to be completed by the end of the year. This year's ENFIA single property tax assessments will thus mainly be based on the previous property tax values. The further expansion of the existing value zone system across the entire country will need to be addressed in the course of next year with a rescheduled deadline of mid-2021.</p>
<p>(*) Health care. The authorities will complete the full offsetting and collection of the clawback by June every year for the previous</p>	<p>The rising clawback amounts and delays in its collection are a cause of concern. The European institutions encourage the authorities to adopt the</p>

Commitment	State of play and next steps
<p>calendar year.</p>	<p>necessary legislation to finalise legislative and administrative procedures necessary for the start of collection by October 2020 – in order to preserve the fiscal credibility of the clawback – and to review the current definition of the clawback with a view to introducing a risk-sharing component and enhancing the incentives to avoid the creation of new clawbacks and curb supply-induced demand, thus reducing high out-of-pocket payments.</p>
<p>Health care. Greece will ensure the rollout of the primary health care system, in particular by opening all 240 primary health care units.</p>	<p>The redesign of the primary health-care system will take a longer time to be implemented, to reflect changes in the delivery of some of its main elements and due to inevitable delays caused by the need to manage the response to the pandemic. Legislative changes are still at a drafting stage but their adoption is expected by spring 2021. The authorities are encouraged to speed up the implementation of compulsory registration and gatekeeping, which – as agreed – should remain core elements of any new system as they are key for a successful establishment of a robust and well-functioning system of primary health care. The authorities plan to resume the rollout of the primary health care network no earlier than spring 2021, given the short-term need to focus the efforts on the response to the current challenge to increase the available number of family doctors contracted by Public Health Fund.</p>
<p>Health care. Achieve a share of centralised procurement in total hospital expenditure of 30%.</p>	<p>Centralised procurement is already being partly implemented and the overall set up of the National Health Authority for Health Procurements is progressing, but yet to be completed also due to delays caused by the pandemic. Draft legislation to define the new legal framework for the Authority was finalised and is planned for adoption by the end of the year. The authorities also shared an operational plan for procurements to be launched in 2020, according to which the target of 40% of centrally procured total hospital expenditure, a mid-2022 specific commitment, remains achievable and the authorities' aim is to reach 30% by the first</p>

Commitment	State of play and next steps
<p>Social welfare. Complete the rollout of all three pillars of the Social Solidarity Income scheme.</p>	<p>quarter of 2021.</p> <p>During 2019, a pilot project to ensure the provision of social support and labour market activation services was implemented in 32 municipalities across the country. The findings of the pilot project have been evaluated in view of its national implementation in 2020. However, due to the coronavirus outbreak, there was a need to adapt the business processes of the public employment service (OAED) to the new situation and, in turn, to adjust the terms of the national rollout of the new framework. The rollout should be launched in autumn 2020.</p>
<p>Social welfare. Review the system of subsidies for local public transport.</p>	<p>The revised primary legislation for the new system was adopted in July 2020. Secondary legislation, to be adopted in September 2020, is under preparation to allow a regular and objectively-based reimbursement of subsidised public transport tickets to operators in Athens and Thessaloniki.</p>
<p>Social welfare. Complete the set-up of the single pension fund EFKA.</p>	<p>The authorities are making progress in completing the setup of the Single Social Security Fund (EFKA). Among others, the digital transformation of the Fund into 'e-EFKA' is expected to be implemented by end-2020. The first stage of merging the public sector and supplementary pension functions has already been implemented and the physical move of employees, initially delayed by the pandemic, should be completed by the end of the year. Therefore, the commitment is rescheduled to end-2020. The follow-up steps, including the establishment of certain regional offices, should be completed by mid-2021.</p>
<p>(*) Financial stability. Greece will continue to implement reforms aimed at restoring the health of the banking system, including non-performing loans resolution efforts by ensuring the continued effectiveness of the relevant legal framework (i.e. household and</p>	<ul style="list-style-type: none"> • The authorities intend to shortly submit a bill to Parliament that will lead to a major overhaul of the insolvency framework. The code will enter into force on 1 January 2021 and will require the adoption of a significant amount of secondary legislation, which will determine

Commitment	State of play and next steps
<p>corporate insolvency, out-of-court workout, non-performing loans sales, e-auctions) and taking all necessary actions to this effect.</p>	<p>some aspects of the reform and the completion of the IT platform, both of which are underway.</p> <ul style="list-style-type: none"> • At the same time, the authorities allowed the expiry of the Primary Residence Protection scheme and the Out of Court Workout scheme, while setting up alternative social protection schemes for vulnerable debtors. In the context of the pre-bankruptcy proceedings, vulnerable debtors will be eligible for a temporary subsidy, which should further support the reduction of non-performing loans and avoid the accumulation of new ones. Moreover, the code introduces a special sale-and-leaseback regime allowing eligible distressed debtors to remain in their primary residence as tenants, who may further benefit from a subsidy to facilitate the payment of the rent. • The authorities will also submit shortly to Parliament measures that are aimed at accelerating the clearance of the household insolvency backlog, which has increased further as a result of the suspension of court proceedings during the pandemic. • The authorities intend to adopt a number of measures aiming at enhancing the functionality and user-friendliness of the e-auctions platform and facilitating the relevant processes. The measures are expected to be adopted in October 2020 and include the obligation for auction officials to upload a copy of the valuation report and photographs of the property on the e-auctions website. Other measures will be introduced as part of the revision of the Code of Civil Procedure. The conduct of e-auctions resumed on 1 September but the intention is to suspend them for vulnerable debtors until the end of December 2020 in view of the entry into force of the insolvency legislation and the associated social policy measures in January 2021.

Commitment	State of play and next steps
	<ul style="list-style-type: none"> • Regarding the clearance of the backlog of called state guarantees, the authorities are taking actions towards fully offsetting any pandemic-related delays, while committing to further frontload the overall processing and payment schedule. • Work on the adoption of targeted amendments to the Code of Civil Procedure is ongoing. The law-drafting committee is expected to submit a draft of the legislation by end-January 2021, in view of the adoption of the revised code by end-February 2021, with a projected entry into force in September 2021. • A targeted adjustment of the primary legislation on deferred tax credits to ensure operational effectiveness has been submitted to Parliament and is expected to be adopted shortly.
<p>Labour market. Implement action plan on undeclared work.</p>	<p>The authorities have completed the implementation of the 2017-2019 action plan to fight undeclared work.</p>
<p>(*) Labour markets, product markets and competitiveness.</p>	<p>In light of the coronavirus pandemic, the authorities decided in agreement with the social partners to postpone the annual update of the statutory minimum wage, from June 2020 to January 2021.</p>
<p>Investment licensing. Complete the investment licensing reform, and to this end fully deploy the relevant ICT.</p>	<p>The deployment of the IT system to support the investment licensing framework is delayed due to complications in the tendering process. Nonetheless, in absence of further appeals at courts, the authorities expect to sign the contract shortly.</p>
<p>Investment licensing. Greece will finalise inspection legislation.</p>	<ul style="list-style-type: none"> • The implementation of the inspections framework law steadily progresses with respect to the agreed priority areas, even though some

Commitment	State of play and next steps
	<p>work remains to be completed. The European institutions encouraged the authorities to develop a timeline for completing this work, including the adoption of all necessary enabling legislation, by the time of the next report. The authorities committed to extend the framework to four remaining domains by end-2021. Its full deployment would be a major step, as it would reduce the necessity for ex-ante controls without compromising health and safety standards.</p>
<p>Investment licensing. Greece will finalise the simplification of investment licensing procedures in the agreed remaining sectors.</p>	<ul style="list-style-type: none"> • The simplification of the investment licencing procedures is progressing, albeit with some delays. The authorities adopted primary legislation for the simplification of the primary production sector and secondary legislation is expected shortly. Proposals for simplification of most remaining sectors have been delivered, and primary legislation is expected to be adopted shortly. The authorities are encouraged by the time of the next report to develop a timeline for the adoption of all necessary secondary legislation on all sectors, as well as for the simplification of the few remaining activities.
<p>Investment licensing. Greece will revise the nuisance classification (a mid-2021 specific commitment, the authorities aim to complete this action by mid-2020).</p>	<p>The authorities successfully completed the commitment to revise/abolish the nuisance classification, well ahead of the mid-2021 specific commitment deadline.</p>
<p>Cadastral. Greece will fully establish the cadastral agency and complete 45% of cadastral mapping.</p>	<p>Implementation of the recently updated roadmap towards completion of the cadastre project has restarted, following delays due to the coronavirus outbreak. The collection of land rights has been completed for 82% of the country and the cadastral mapping has been completed for the 33% of the rights, below the target to complete 45% of rights. By October 2020, the cadastral mapping completion is expected to reach 35%. By end October 2020, six additional mortgage offices are expected to be abolished and one cadastral office (for Thrace) will open. All remaining forests maps</p>

Commitment	State of play and next steps
<p>Energy. With a view to completing reforms in the energy sector, implement the measures agreed as part of the joint assessment on the NOME auction system.</p>	<p>will be uploaded by December 2020.</p> <p>The Greek government has continued to engage constructively on a set of proposals to remedy the anti-trust case. The proposals should eventually be submitted for a market test by the European Commission, a step in view of implementing the remedy and closing the case.</p>
<p>Energy. Launch the Target Model.</p>	<p>The final date for the go-live of the Target Model for electricity is expected to be announced shortly by the regulator. This followed an assessment of the energy regulator on the dry-run period to test the market, which concluded a small delay from the originally planned date of 17 September would be necessary. The European Institutions will report on the long-awaited go-live of the Target Model in the next report.</p>
<p>(*) HCAP. The Strategic Plan of HCAP will be implemented on a continuous basis.</p>	<p>Despite the difficulties caused by the pandemic, the implementation of the strategic plan is ongoing and a draft business plan for 2020-2022 was prepared in August and approved by the Board of the Corporation. Key performance indicators, which monitor the implementation of the strategic plan, have recently been adjusted to take into account the impact of the pandemic, along with setting their values for 2021 and 2022.</p>
<p>Privatisation. The Asset Development Plan will be implemented on a continuous basis.</p> <p>With a view to swiftly attracting investment to support a sustained economic recovery, complete the transactions on Egnatia, DEPA commercial, regional ports of Alexandroupoli and Kavala, AIA shares, EYDAP and EYATH.</p>	<p>Progress with the transactions included in the Asset Development Plan of the Hellenic Republic Asset Development Fund (TAIPED) has been affected by the coronavirus outbreak but has resumed for most of them as from June. A regular update of the Asset Development Plan was approved by the Government on 10 September. Progress with due specific commitments for transactions is as follows:</p> <p>Hellinikon: The authorities remain strongly engaged and undertake necessary efforts to complete the prerequisites for the financial closing of the transaction, having launched the demolition of current buildings on</p>

Commitment	State of play and next steps
	<p>the site, on the 3rd of July. The financial closing of the transaction is still pending the resolution of legal cases against the casino licence tender process and other judicial cases.</p> <ul style="list-style-type: none"> • Marina of Alimos concession: The Board of the Fund extended on 3 September the 120 days for another 50 days (until 30 October 2020) to allow adequate time for the completion of the transaction. • Hellenic Petroleum: Following the failure of the first tender in mid-2019 and considering the significant fall in the capitalisation value of the company, the Fund considered appropriate to delay further the launching of the transaction to a later point in time. • Sale of 30% of Athens International Airport: The tendering process was proceeding well prior to the coronavirus outbreak, with nine investment parties qualified to proceed to the Binding Offers Phase. However, the deadline for the submission of binding offers was delayed due to the impact of the pandemic on the air transport sector. The Fund will determine next steps once the situation improves, likely not before 2021. • Public Gas Corporation (DEPA): The tenders for DEPA Infrastructure and DEPA Commercial, launched in December 2019 and January 2020 respectively, attracted strong investment interest. In June 2020, the Board of the Fund decided to proceed to the binding offers phase for both transactions. • Egnatia: The privatisation process continued, although with mixed progress. Some of the open issues have been resolved, such as the uncertainty on the construction of the motorist service stations and the rehabilitation cost of bridges classified as unsafe. However, very

Commitment	State of play and next steps
	<p>limited progress has been made over the last three months on the completion of the construction of the remaining toll stations and the required works so that the remaining 14 tunnels can be licensed. The European institutions encourage the authorities to significantly advance on these areas by the time of the next report.</p> <ul style="list-style-type: none"> • Regional Ports: Following a delay due to the pandemic, the Fund decided in June to proceed with the launching of the tender process for the sale of shares for the ports of Alexandroupolis and Igoumenitsa and the sub-concession of a multi-purpose terminal for the port of Kavala.
<p>Public administration. Complete the integrated HR Management System (digital organigram for all public entities and link with single payment authority).</p>	<p>Good progress has been made during this review period in developing the Human Resources Management System. The process has been affected by the confinement measures due to the pandemic but overall good progress has been made. Until August 2020, over 1 500 general government entities had completed their digital organigram, representing around 80% of all entities and 85% of personnel, including most of the large entities. A majority of the remaining larger entities are set to be completed by end-October 2020. The link between a job description and a jobholder has been established for around 75% of posts and the authorities plan to establish this link for all posts for general government entities by the end of 2020.</p>
<p>Legal codification. In view of enhancing legal certainty and access to law through legal codification, adopt the Labour Law Code and Code of Labour Regulatory Provisions.</p>	<p>The coronavirus pandemic has slightly delayed the adoption of the re-codified Labour Law Code and Code of Labour Regulatory Provisions. The authorities plan to adopt the laws by November 2020. The codification process is used as an opportunity to review and modernise some areas of the labour legislation, including new forms of work and the role of the labour inspectorate, which is most welcome.</p>
<p>Justice. In the context of implementing the Three-Year Action Plan</p>	<p>Work on the transition to mandatory electronic filing and processing of</p>

Commitment	State of play and next steps
<p>on Justice, implement the electronic filing of legal documents throughout the Courts, having completed the tendering procedure.</p>	<p>documents is ongoing. The tasks due for completion by the end of September 2020 include the consolidation of a number of insolvency-related certificates and the issuance of electronic criminal record and divorce certificates. In parallel, efforts are underway to implement a mechanism for the distribution of digital signatures.</p>
<p>Justice. In the context of implementing the Three-Year Action Plan on Justice, complete phase II of the establishment of the e-justice system (OSDDY-PP).</p>	<p>The tender procedure for the second phase of the Integrated Judicial Case Management System is now scheduled to be completed by December 2020. The procedure was extended due to disruptions caused by the coronavirus pandemic. Following the submission of bids, the authorities are in the process of evaluating the offers. Completion of the project is foreseen within 36 months from the signature of the contract.</p>

Complementary commitments undertaken by Greek authorities in May 2020

Complementary commitment	State of play and next steps
<p>Better regulation. Achieve improvements in the regulatory framework for doing business in the areas of construction permits, obtaining access to electricity, registering property, resolving insolvency, accessing credit, protecting minority investors, contracting with the government, enforcing contracts, starting a business, paying taxes, and trading across borders by mid-2021.</p>	<p>Registration through the electronic one-stop shop has been made mandatory for most private companies, whilst the framework for the protection of minority investors was strengthened through a number of safeguards concerning the selection, appointment and evaluation of board members, and increased disclosure requirements.</p>
<p>Labour law. Improve and modernize the framework for individual labour law, including tackling the issues of highly restrictive overtime rules, unnecessary sectoral differentiation, white collar/blue collar rules, and take account of flexible and home working, as well as implement these measures through secondary</p>	<p>The coronavirus pandemic has slightly delayed the adoption of the re-codified Labour Law Code and Code of Labour Regulatory Provisions. The authorities plan to adopt the laws by November 2020. The codification process is used as an opportunity to review and modernise some areas of the labour legislation, including new forms of work and the role of the labour</p>

Complementary commitment	State of play and next steps
legislation, by September 2020.	inspectorate, which is most welcome.
Justice. Introduce an action plan for the creation of specialized court chambers for specific categories of cases to improve the delivery of justice, particularly in areas of high economic impact, and introduce the adequate legislation by mid-2020.	The authorities adopted legislation for the creation of specialised chambers in civil and administrative courts and are proceeding with a number of other important initiatives. A full report on the application of said legislation is expected by end-October 2020.
Justice. Enact the new Code of Judicial Staff and present a timetable for the adoption of the New Code for the Organization of Justice and the Status of Officers of the Courts by May 2020.	The authorities are proceeding with the adoption of the Code of Judicial Staff and the Code on the Status of Judges and the Organisation of Courts, all of them introducing revisions that should contribute to enhancing the function of justice and the success of other justice reforms.
Justice. Present an action plan for the Creation of a specialized 'JustStat' unit for data collection and processing to measure and improve the performance of the judicial system by mid-2020; introduce the relevant legislation by June 2020.	The authorities adopted legislation for the creation of the 'JustStat' unit for collection of statistical data in June 2020 and plan to draft the relevant secondary legislation by December 2020.
Justice. Present an action plan for the implementation of mediation legislation by mid-2020.	Mandatory mediation is fully in force as of 1 July 2020 and an action plan detailing the deployment of relevant activities is due by November 2020.
Public administration. Strengthen the efficiency of the personnel selection system through improving the capacity of the Supreme Council for Civil Personnel Selection (ASEP), including in the areas of competition procedures, scoring classification procedures, temporary staff hiring procedures, and the Council's organisation by end-2022.	A capacity-enhancing reform of the Supreme Council for Civil Personnel Selection (ASEP) is set to be adopted in November 2020.
Public administration. Strengthen the hiring control of the public sector through setting an annual ceiling of temporary staff by end-2020, which will be applied from 2021.	The authorities are carrying out a comprehensive analysis of temporary staff, which is expected to be completed by October 2020, with a view to removing posts of a permanent nature and plan to set an annual ceiling on

Complementary commitment	State of play and next steps
<p>Transport. Adopt and implement the National Transport Master Plan and establish a priority list of projects for railways by June 2020.</p>	<p>temporary staff by end of the year.</p> <p>The National Transport Master Plan has been completed and approved by the Ministry of Infrastructure and Transport. The authorities have prepared a pipeline of railway projects in order to remedy the delays encountered on the implementation of the 2014-20 transport and environment operational programme.</p>
<p>Transport. Revise the legal framework for approving the sustainable urban mobility plans according to best European practices by September 2020. Following this revision, report on the progress of the elaboration of sustainable urban mobility plans for the main urban centres by October 2020.</p>	<p>In progress. This action will be assessed in the 8th enhanced surveillance report.</p>
<p>Management of public real estate. Draw up a holistic and coherent strategy aiming to optimize the protection, management and investment-oriented exploitation of public real estate, including all organizations involved with public real estate management, without prejudice to their mandates, by September 2020.</p>	<p>The authorities intend to proceed with a comprehensive study that will help them in the elaboration of the holistic and coherent strategy aiming to optimise the protection, management and investment-oriented exploitation of public real estate.</p>
<p>Strategic project pipeline. Fully develop a Strategic Project Pipeline of large infrastructure projects with the objective to better coordinate and monitor future public expenditures and maximize complementarities between private, public and EU funded projects by January 2021.</p>	<p>The characteristics and role of the Strategic Project Pipeline as well as a timetable for its implementation were agreed in July 2020. It will be set up as an independent unit coordinated by the Presidency of the Government and will deal with priority infrastructure projects worth over €10 million.</p>
<p>Project preparation facility. Develop and fully operationalize an improved support and delivery mechanism for project preparation and implementation to ensure efficiency and quality of both public sector infrastructure projects as well as Public Private Partnerships</p>	<p>The authorities are setting up the Project Preparation Facility, which will help the preparation and implementation of the projects included in the Strategic Project Pipeline. Its placement and details are currently being worked out. It will be important to ensure that its placement safeguards the</p>

Complementary commitment	State of play and next steps
by March 2021.	rights and competencies of established independent institutions.
Public procurement. Adopt a new public procurement strategy for 2021–2025 by end 2020.	The authorities are preparing a legislative amendment to address the most urgent issues in public procurement and have taken initial steps towards the adoption a new public procurement strategy for 2021-2025 that would contribute to a more sustainable and efficient use of public resources.
E-Health. Develop an electronic Medical Health Record to streamline the use of existing electronic medical record applications and update as necessary the design and use of agreed electronic medical record standard across public (and private) healthcare institutions by end-2020.	The Ministry of Health has revised its digital strategy and progressed on issues such as the design of the national e-health interoperability framework, with technical support provided through the European Commission, and on the digital health action plan.
E-Health. Extend the application of the electronic prescription project (2nd phase), including through therapeutic protocols, back-end integrations, artificial intelligence driven inquiries, necessary interconnection with information systems, and enabling electronic request and access to medicine for all outpatients with chronic diseases by end-2020.	In progress. This action will be assessed in the 8 th enhanced surveillance report.
E-Health. Enable the provision of remote health care through the expansion of the capacity of the existing telemedicine network by end-2020.	Telemedicine has been strengthened both on the side of consultations and on that of prescriptions, to ensure access, while avoiding any unnecessary contact between potentially infected patients and other patients and/or health-care staff.
Health care strategy. Develop a National strategic policy framework for healthcare by end-2020.	In progress. This action will be assessed in the 8 th enhanced surveillance report.
Health care planning. Map health and long-term care needs with available human and technical resources, and take measures to ensure the efficiency, sustainability, accessibility and affordability	In progress. This action will be assessed in the 8 th enhanced surveillance report.

Complementary commitment	State of play and next steps
<p>of health and long-term care services, as well as promote community-based services, by end 2020.</p>	
<p>Education. Enhance the autonomy of higher education by strengthening the accountability and transparency framework and through the introduction of the University Council by end-2020.</p>	<p>In progress. This action will be assessed in the 8th enhanced surveillance report.</p>
<p>Education. Improve vocational education through the establishment of the National System of Vocational Education and Training by end-2020.</p>	<p>A comprehensive vocational education and training reform is currently being developed. It aims at enhancing the quality of education offered, increasing the percentage of students choosing this path and better linking vocational education and lifelong learning with labour market needs.</p>
<p>Education. Introduce internal school-unit evaluations, institutionalize external assessment of schools, and design new curricula for all subjects across all school levels by end-2021.</p>	<p>The authorities adopted a public school reform in June 2020. The Upgrading Public Schools bill aims, among others, at promoting soft skills, digital literacy, foreign language learning and the evaluation of school units.</p>
<p>E-governance. Develop the single digital portal (gov.gr) to integrate all electronic transactions for citizens and businesses with the state and related information, unify the legal framework on digital policy, and safeguard business continuity by ensuring sufficiency of digital infrastructure mid-2021.</p>	<p>The public portal gov.gr offers by now some 610 services, more than 110 more since the last review, and some 40 new services are in the pipeline. The authorities prepared a comprehensive roadmap for the portal's implementation by end-2021. A new Code of Digital Governance, to create a comprehensive legal framework on digital policy is expected to be adopted shortly. The authorities are preparing the relevant tender procedures to ensure business continuity.</p>
<p>E-governance. Implement the National Programme for Process Simplification in key policy areas and promote the interoperability of registries, data and IT systems to ease the administrative burden for businesses and citizens by end-2021.</p>	<p>The authorities have completed the set up for the National Programme for Process Simplification, which aims to ease the administrative burden for citizens and businesses.</p>
<p>Digitisation of geospatial data. Develop a State Infrastructures Registry to encapsulate technical and geospatial information about</p>	<p>The authorities have completed the first steps for the digitisation of geospatial data. The authorities delivered a two-year action plan for the</p>

Complementary commitment	State of play and next steps
<p>all public infrastructure projects to enable better planning and management of these projects, including for construction and maintenance purposes by end-2021.</p>	<p>development and pilot implementation of the State Infrastructures Registry and issued secondary legislation to define responsibilities for the development and oversight of this project.</p>
<p>Digitisation of geospatial data. Develop an Integrated Geospatial Data Mapping tool (Single Digital Map) to increase transparency to investors concerning land use rules across Greece and reduce unpredictability in relation to investment licensing decisions by end-2021.</p>	<p>The authorities have prepared a two-year action plan for the creation and pilot implementation of the Single Digital Map.</p>