

**Report on Greece's compliance with the Milestones
for the disbursement of the second tranche of 0.5bn of the fifth instalment
to the Hellenic Republic under the second programme
(16 December 2013)**

This report has been compiled by European Commission staff in liaison with ECB and IMF staff.

Eurogroup decision on disbursement of the fifth instalment

The Eurogroup of 8 July concluded that the necessary elements were in place for the approval of the fifth EFSF instalment under the second programme, which amounts to EUR 3 billion. Member States also agreed that the disbursement would take place in two tranches. A first tranche of EUR 2.5 billion was approved by the EWG and the EFSF Board of Directors on 26 July, after the full implementation of the related prior actions. Following the completion of national procedures, the first tranche of EUR 2.5 billion was disbursed on 31 July 2013. At the same time, EUR 1.5 billion of income on the SMP portfolio accruing to euro area national central banks – not counted in the financial envelope – was also transferred to Greece. The disbursement of the second tranche of EUR 0.5 billion (and of a further EUR 0.5 billion of income on the SMP portfolio) was linked to the implementation of four MoU milestones, as published in Table 8 of the July 2013 Compliance Report (Third Review of the 2nd Economic Adjustment Programme):

Table 8: Milestones to be achieved by end-September 2013

Milestones	Area	MoU Section
Adopts irreversible decisions by August 2013 on the restructuring, involving substantial downsizing, ahead of privatisation or on the resolution of ELVO, HDS, and LARCO, both in compliance with State aid rules, with a view to implementing these decisions by December-2013	Privatising to boost efficiency	2.1
General Government entities validate outstanding water and drainage bills to EYDAP and EYATH, confirm the level of outstanding debt and agreed claims and pay directly all undisputed claims (August 2013)	Payment flows and clearance of arrears (to speed up privatisation)	2.4.2.8
Place 12.500 ordinary employees in the mobility scheme (September 2013)	Reforming the public administration	2.7.1.1
A Code of Lawyers revising Legislative Decree 3026/1954 is adopted (July 2013)	Regulated professions, professional qualifications and provision of services	6.5.1.1

Source: Compliance report: Occasional Paper 159, 2013
http://ec.europa.eu/economy_finance/publications/occasional_paper/2013/op159_en.htm

Assessment of compliance with the milestones

Restructuring of companies

Concerning ELVO, the Authorities notified the Commission on 30 October 2013 of their decision to put ELVO in liquidation (“special liquidation” to allow completion of existing contracts). Through the liquidation proceedings, the Hellenic Armed Forces (Ministry of Defence) will bid for acquisition of

military production through an open and transparent tender. Subject to the implementation of these commitments, and without prejudice to any new elements, the Commission services do not consider it necessary to initiate an investigation regarding State aid to ELVO. The special liquidation process is expected to start shortly.

Concerning LARCO, the authorities notified to the Commission on 15 December 2013 a transaction structure to privatise part of the mining company. The transaction structure implies no economic continuity with LARCO, with privatisation of several assets through two parallel tenders, and no specific requirement for employee transfers to the new schemes except those provided by general law (including on employment aspects). Following completion of transactions related to the tenders, LARCO will enter into liquidation.

Concerning HDS, the authorities notified the Commission on 16 December 2013 of their decision regarding the future of HDS. The authorities committed to immediately cease any civil use goods' production/transaction/delivery of HDS and split by April 2014 the civil use activities from HDS, and to limit the latter's production to products necessary for the protection of the essential interests of Greece's security, including those supplied in the context of export contracts. The authorities committed to undertake a significant restructuring plan to make HDS viable or, if certain targets concerning economic viability are not reached by end 2014, initiate a liquidation process for the remaining military activities.

Government debt to water companies

Water arrears have been validated and paid to the water companies. Other investment-related arrears have been validated and the decision to pay them has been issued through a Ministerial Decision, with the remainder being off-set against obligations by the water companies to the state, or written off with all relevant parties in agreement. The Board of EYDAP has recommended to its General Assembly, meeting on 27 December 2013, to accept the settlement with the government laid out in a Joint Ministerial Decision issued on 3 December 2013, and hence recognise that there is no outstanding debt. On 13 December 2013 the Chairman of Hellenic Republic Asset Development Fund (HRADF), the majority shareholder in EYDAP, has notified the Minister of Finance that, at the General Assembly meeting on 27 December 2013, HRADF will endorse the recommendation by the EYDAP management.

Mobility scheme

The number of public sector employees placed in the mobility scheme has reached 12,799 on 27 November 2013. Their status has been flagged in the Census and their pay has been reduced to 75% or will be so reduced on the next payment date of the Single Payment Authority.

Code of Lawyers

The Parliament adopted the Code of Lawyers on 19 September (Law 4194/2013), in line with the MoU.

Recommendation

Based upon this report, the Euro Working Group is asked to endorse the disbursement of the second tranche of EUR 0.5 billion of the fifth instalment to the Hellenic Republic under the second programme. Following this endorsement, the EFSF Board of Directors will take the formal decision for the disbursement.