



EUROPEAN COMMISSION
DIRECTORATE GENERAL
ECONOMIC AND FINANCIAL AFFAIRS

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**Compliance note on mid-September milestones for the second
disbursement for debt servicing needs of the second tranche
under the Greek ESM programme**

This compliance note provides an assessment of the implementation of the set of milestones endorsed by the EWG on 9 June 2016 to pave the way to the disbursement of the € 1.1 bn sub-tranche of adjustment programme approved by the ESM in June 2016.¹ On one of the milestones, namely the appointment of the Supervisory Board of the new privatisation and investment fund, the Hellenic Corporation of Assets and Participations the European Commission and the ESM acted jointly. This compliance note was compiled by European Commission staff, in liaison with ECB staff.

Following the implementation of measures, which include the adoption of legislation on 27 September and on 6 October 2016, this report assesses that the received legislation and other actions taken by the authorities broadly comply with the list of 15 milestones endorsed by the EWG.

In light of the evaluation of the milestones the following considerations are relevant.

The Supplemental MoU of June 2016 contains additional commitments beyond the milestones to ensure that HCAP is fully operational. An important next step is the appointment of a Board of Directors who should have executive responsibilities. As required by the HCAP law, it is important that the Board of Directors, should be appointed on the basis of an open and transparent process, and that the successful candidates are professionals who are fully independent of inappropriate political or business links. In addition, the internal regulations of HCAP need to be in line with international best standards of corporate governance. As regards energy policies, the milestones are important actions as part of a wider strategy to establish efficient and competitive markets for gas and electricity. To this end, it is important that related actions not included in the milestones, such as relevant privatisation tenders and the NOME auctions, are also fully implemented and completed in line with MoU commitments and in full agreement with the European institutions.

Looking forward, and following the completion of the HFSF review of the Boards of Directors of the four systemic banks, the process of reconstituting the boards should be finalised as a matter of priority. All remaining and new board members, including State representatives, should meet the minimum criteria that are set out in the HFSF law.

¹ The list of milestones as approved by the EWG can be found in the Compliance Report of the First Review of the Third ESM Programme.

(http://ec.europa.eu/economy_finance/assistance_eu_ms/greek_loan_facility/pdf/cr_full_to_ewg_en.pdf)

I. PENSION REFORMS

II.1. Finalise the harmonisation of social security contributions:

- (i) eliminate the lower minimum contribution base for owners of tourist accommodation*
- (ii) repeal all exemptions allowing for lower health contributions*
- (iii) revise downwards the discount for lump sum payment of notional insurance periods*

The necessary legislation was adopted by the Parliament on 27 September as a part of the omnibus bill (Law 4425/2016).

DONE

II. BANK GOVERNANCE

II.1 The HFSF, with the help of an independent international consultant, will finalise the review of the boards of the banks in which the RFAs apply.

The financial sector milestone was completed following the conduct of the comprehensive review of the functioning and structure of the boards of directors of the four systemic banks by the HFSF with the support of an independent consultant; the communication of the results to the banks in early July; and the finalisation of the HFSF assessment of appeals to the review on 23 September 2016. The review was performed in line with prudent international practices by applying criteria that go beyond supervisory fit and proper requirements, as set out in Article 10 of Greek Law 3864/2010, which defines the minimum criteria that need to be applied in the review. While the review has been completed satisfactorily, the institutions consider that one of the criteria for the review, namely having 10 years of experience at senior managerial level in the areas of banking, audit, risk management and distressed asset management, has been interpreted in a broad way. Looking forward, the process of reconstituting the boards of the four systemic banks should be finalised as a matter of priority. In line with Law 3864/2010, the HFSF should undertake efforts to ensure that the findings of the review are adequately addressed by banks and that all remaining and new board members have adequate experience in the financial sector and meet all the criteria contained in the HFSF law, thereby preventing conflicts of interest. These efforts will form an important element of the second review of the ESM programme.

DONE

III. ENERGY

III.1 Continue the implementation of the gas market reform

- (i) RAE (the energy regulator) will adopt gas distribution and transmission tariffs*
- (ii) legislation will be amended, further facilitating the unbundling process*
- (iii) the authorities will complete the review of the gas release program, improving conditions of access for alternative suppliers and substantially increasing the quantities available*

On (i): On distribution, the methodology was published in the Official Gazette on the 26 September 2016 (FEK B 3067), and adoption of the actual tariffs has taken place on 7 October 2016. Transmission tariffs had their methodology changed retroactively through legislation (Law 4009/2016) without discussing or informing the institutions, in spite of repeated requests of information. Following extensive discussions, the authorities have amended the legislation through a provision in the omnibus bill (Law 4425/2016). Adoption of the actual tariff has taken place on 8 October 2016.

For work on unbundling (ii), the legislation was adopted initially on 4 August 2016 (Law 4414/2016). A number of necessary amendments were made in the omnibus bill (Law 4425/2016).

On gas release (iii), a written proposal by DEPA with revised commitments, i.e. improved access conditions and increased quantities up to 20% in 2020, has been sent to HCC and endorsed by HCC.

DONE

III.2 In the context of the implementation of the EU target model for the electricity market, pass the required legislation on the transposition of the high-level market design in June 2016

The legislation on the Target Model was adopted as part of the omnibus bill (Law 4425/2016).

DONE

III.3 Amend the current legislation on ETMEAR and/or the structure of the RES account to ensure that the debt in the RES account is eliminated over a 12-months forward looking horizon (not later than June 2017); the account will be kept annually in balance onwards.

The initial amendment on renewable energy incentives had been approved on 4 August 2016 (Law 4414/2016). An amendment which brings a number of points in line with the milestone has been legislated on 6 October 2016. It also foresees elimination of the debt in the RES account by December 2017, which is longer than the originally envisaged timeframe, but includes a corrective mechanism to prevent further or persisting imbalances of the RES account during this timeframe. Moreover, regular provision of data on the RES account has been agreed with the Greek authorities.

DONE

III.4 The General Assembly of PPC will authorize the sale of at least 20 percent of ADMIE to a strategic investor

The General Assembly took place on 11 July 2016 and voted the sale of 24%. The tender was launched by publication on PPC's website directly thereafter.

DONE

III.5 PPC will conclude the negotiations on HV tariffs with all its customers by signing the respective contracts, and the adopted tariffs shall be cost-based and take into account consumption characteristics.

Following extensive negotiations, the Board of Directors of PPC has approved on 28 September 2016 the terms of agreement with Aluminium of Greece (AoG), PPC's largest customer. These have been formally approved by the General Assembly on 5 October 2016 and the contract signed directly thereafter. With this signature, except for four cases concerning a company under liquidation and three companies which have ongoing legal disputes with PPC, all PPC's HV (industrial) customers have signed a cost- and consumption-profile based contract.

DONE

IV. PRIVATISATION

IV.1 The Government with the Institutions (a) agrees on the nominations of the Supervisory Board of the new Privatisation and Investment Fund (HCAP)

The Government has agreed with the institutions on the composition of the Supervisory Board of the new Privatisation and Investment Fund (HCAP). Among these, two have been jointly proposed by the European Commission and the ESM and three by the Greek authorities. The Ministerial Decision on the appointment of these members has been signed on 7 October 2016. The Board has already informally met on 5 October and has launched the process that will lead to the appointment of the Board of Directors.

DONE

IV.2 The Authorities will transfer to the new Fund a second group of SOEs as agreed with the institutions (list included in the TMU)

Following the establishment of HCAP and its subsidiary EDIS which will take under it many of the state-owned enterprises (SOEs) share ownerships of additional six entities have been transferred by law to EDIS (the water companies of Thessaloniki and Athens, KTIP, ELVO, Attiko Metro and the power company PPC). Regarding the Hellenic Aerospace Industries the Authorities and the institutions have agreed to have an external advisor report about the company's financial state and prospects and whether this company should be shifted under EDIS in order to have it restructured, without

compromising national security. This should be completed within the second review to consider the future of the company.

DONE

IV.3 The Authorities will ratify in Parliament the Share Purchase Agreement for Hellinikon

The share-purchase agreement for Hellinikon SA (a company that would develop the site of the former Athens International Airport) has been ratified by the Greek Parliament. This paves the way for financial closing which will take place when a number of conditions have been fulfilled; this is currently estimated to be completed within the next six months. The tender has been awarded in 2014 and will bring some EUR 900 million in proceeds.

DONE

IV.4 The Authorities take appropriate steps, and adopt legislation if needed on strengthening HCAA

An important new law reforming the Hellenic Civil Aviation Authority (HCAA) has been adopted by the Greek Parliament on 6 October 2016. Under the new framework HCAA will be split into two new entities: a regulator for economic matters and air-navigation services, and a separate operator for air navigation services and airports. The new authorities, and particularly the regulator, will be structured so that they operate at an arms' length distance from the Government in order to provide their services independently, especially in view of the prospective privatization of 14 regional airports that will be completed by February 2017. Overall, the Law is in line with the comments provided by the institutions. In agreement with the Commission services (MOVE/ECFIN), the authorities have agreed to make a number of technical adjustments to the legislation by end-October in the context of the second review. These include changes needed to address (i) restrictions on the nationality of the Governor unless these can be justified under national or EU law, (ii) a provision (art 2.1) according to which the Governor manages the Supervising agency in accordance to ministerial decisions and not only exclusively his/her Board decisions , (iii) a list of competences from the local offices that suggest a very decentralised approach which could unduly interfere with the smooth operation of the privately-managed airports. (iv) a transitional arrangement according to which the existing governor will continue to oversee both new institutions until the appointment of the new Governor of the Supervisor, and (v) a provision that would require a Presidential Decree to appoint the new Governor, something that will unnecessarily delay the process. In addition some transitional arrangements relating to staff appointments/transfers will need to be checked with Ministry of Administrative Reform and Ministry of Finance in order to ensure that they are consistent with the overall hiring ceiling and MTFS.

DONE

IV.5 HRADF will launch Expressions of interest for the long-term (35 years) concession of Egnatia Motorway S.A. and three Vertical Axes

The privatization process for Egnatia motorway has been launched after a decision of the Board of Directors of the Hellenic Republic Asset Development Fund (TAIPED) on 6 October 2016. The process will begin with a preparatory and consultative period with potential investors that will end with submission of expressions of interest, and tender is planned to be concluded by the third quarter of 2017. Before launching the process the company took a number of decisive steps to prepare the ground for the tender and create more certainty for potential investors (e.g, launching of processes for constructing eleven new toll stations which will be completed over the next one year, and provide data to advisors to complete new traffic models and to value the company).

DONE

IV.6 The authorities will conclude the Government Pending Actions identified by HRADF and which are due by August 2016. OTE shares to be transferred to TAIPED following new shareholder agreement. Completion of the GPA related to the railway infrastructure network maintenance.

A number of additional government pending actions have been concluded to facilitate the privatization process (e.g. notably Astir Palace legal steps to allow shares to be exchanged and financial closing to take place, a number of key steps to relocate services from within the Hellinikon site, a ministerial decision needed to regulate fees for regional airports etc.). Regarding the 5% of the shares of the Greek Telecom Company (OTE) that must be transferred to TAIPED for prospective sale significant progress has been achieved but a number of remaining steps are pending to complete the legal transfer. As part of this process the Hellenic Republic renegotiated successfully a new shareholders agreement with Deutsche Telekom (DT) to adjust the rights of the Hellenic Republic to reflect the diminished state ownership of OTE as required by the European Commission. Additionally, the Commission has requested that this agreement is not ratified by parliament in order to close an open legal process and this added an additional step involving a small revision in the law that would abolish a previous ratification. Against this background the formal transfer of shares to TAIPED is ongoing and it is expected to be concluded by 14 October 2016.

DONE

V. REVENUE AGENCY

V.1 The authorities adopt measures to ensure an appropriate budget for the functioning of the agency.

- (i) a one-off injection of resources to address problems facing the agency with the initial stock in terms of both personnel and equipment and to ensure a sufficient level of resources to start to operate effectively;*
- (ii) an immediate increase in budget for discretionary operational activities;*
- (iii) the adequate appropriation to allow for the recruitments of sufficient staff in the agency in 2016 and 2017 to reduce the vacant positions to a normal level, consistent with the Attrition Rule.*

The authorities agreed with the institutions on the budget of the agency related to current expenditure, investment and staffing, including a detailed staffing and hiring plan for the years 2016 to 2019.

The current expenditures level will be of about EUR 380 million in 2017. Commitments on investments will be financed through the public investment programme or, if need be, on the reserve. Commitments were made on the hiring for the years 2016 to 2019 allowing to raise the current level of staffing to a normal level situated around the 13 500 organic positions by recruitments and transfers through the renewed mobility scheme. The authorities also agreed, once the agency will be fully functional and by April 2017 at the latest, to decide, in consultation with the agency board, on the appropriate level of staff over the medium term.

DONE

V.2 The authorities appoint the Board of Governors of the Agency

The five members of the management board of the Independent authority for public revenue have been appointed by ministerial decision published in the official Gazette issue n° 507, on 27 September 2016.

The procedure agreed with institutions and enacted by the agency law has been followed: A selection panel selected candidates and proposed to the minister on 21 July a ten-names list. The selection panel included two EC representatives. The minister proposed to Parliament in July a list of 5 names. The first parliamentary hearing voted four members out of five on the 6 September. The fifth candidate had to withdraw due to conflict of interest raised by his new employer. The parliamentary committee interviewed the fifth member of the board and agreed him the following week. A lot system has been put in place on 21 September, in the presence of the board members, to decide on the duration of the mandates of the members (by law all the board should not be renewed at the same time).

The independent international expert near the Agency board has been appointed and the decision published in the same official Gazette issue than the members of the board. He is a former head of tax administration of a Member State. He was chosen by the minister out of a list of four candidates provided to the minister by the EC².

DONE

Annex: Mid-September Milestones

² The Commission wishes to thank the member states which helped finding candidates.