# Greece agrees package of measures with IMF, eurozone to seal review

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Greek Finance Minister Euclid Tsakalotos emerged from talks with the institutions at around 6 a.m. on Monday to announce that there had been an agreement between the various participants.

The Greek goverment will now have to complete the drafting of the relevant legislation so Parliament can approve the package of measures agreed in Athens.

The key measures included in the four draft memoranda prepared by the European institutions and the IMF were leaked in the Greek media over the weekend.

The documents consist of the eurozone's 51-page supplemental memorandum of understanding (sMoU) dated on April 23 and the 37-page technical MoU as well as the 5-page Memorandum of Economic and Financial Policies (MEFP) and the accompanied 39-page technical MoU (TMU) from the IMF.

On the fiscal front, reforms include the measures to cover the fiscal gap for 2018, the counter-measures as well as the pension cuts and reduction in the tax-free threshold yielding 1 percent of GDP each in 2019 and 2020 respectively. Privatisations, labour and public sector reforms are also outlined.

The MEFP foresees Greece having to achieve a primary surplus target of 3.5 percent of GDP for four years from 2018 until 2021 and of 1.5 percent of GDP thereafter. However, the duration of the first target and the second target are currently under discussion.

**Fiscal gap 2018**

In order to cover the 0.3 percent of GDP fiscal gap of by 2018, the government has committed to savings of 447 million euros. These will stem from clawback ceilings for the national health fund (EOPYY) spending (188 million), elimination of the personal income tax credit for medical expenses (121 million), scrapping of the tax credit of 1.5 percent on tax withheld from salaries and pensions (68 million), reduction by 50 percent in the heating oil allowance (58 million) and abolition of allowances for those covered by the Guaranteed Minimum Income – GMI (12 million).

**Counter-measures**

The IMF's TMU stresses that a package of growth-friendly measures will be implemented "only as long as the assessed permanent over-performance relative to the agreed medium-term targets is estimated to be larger than 0.2 percent of GDP every year in 2019-2021."

Based on the fiscal targets known at the moment, this means that the counter-measures will be implemented if Greece achieves a primary surplus of 3.7 percent of GDP.

The expansionary measures involve spending increases in 2019 and tax relief in 2020 to the tune of 1 percent of GDP each.

Specifically, the measures to reduce the tax burden include a cut in the lowest personal income tax rate from 22 to 20 percent with an estimated cost of 0.5 percent of GDP, progressive reduction in the solidarity levy rates (0.2 percent of GDP), reduction in the corporate tax rate from 29 to 26 percent (0.2 percent of GDP) and redesign of the single property tax entailing lower revenues (0.1 percent of GDP).

The targeted social expenses involve increase in the housing benefit for the most vulnerable households with an estimated cost of 0.2 percent of GDP, increase in the family allowance (0.1 percent), school meals in areas with high unemployment (0.1 percent), rise in the number of nursery schools and grants (0.15 percent) and means-tested reduction in individuals' contributions to medicine costs (0.1 percent).

The spending increase also includes high-quality public infrastructure investments, including for energy efficiency and agriculture with an estimated cost of 0.2 – 0.3 percent of GDP, and active labour market policies (0.1 – 0.2 percent of GDP).

**Pensions**

The government commits to net pension savings of 1 percent of GDP in 2019 by extending the rules of last year's pension reform to those who were already pensioners then. The draft documents outline two alternatives for the targeted cuts.

The first involves full elimination of the so-called "personal difference" that would arise from the recalculation of pensions that are already being paid out based on the new pension rules adopted last May.

The second alternative relates to partial elimination of the personal difference for all current main pensions, with the resulting drop in an individual pension limited to 22 percent. This ceiling is currently under discussion with the institutions. If the resulting savings of this scenario do not yield 1 percent of GDP, the remaining amount will be covered by further cuts in the supplementary pensions.

According to the agreement clinched earlier today, main pensions will be cut by up to 18 percent, which means that a number of supplementary pensions will also have to be reduced. The weighted average drop in main pensions stands at 9 percent, a Labour Minister official said.

In addition, the indexation of all main pensions will be suspended for three years from 2019 until 2021.

**Personal income tax**

The government also pledges for a new personal income tax reform yielding 1 percent of GDP by lowering the tax-free threshold. This is due to be implemented in 2020 unless the IMF, in consultation with the European institutions based on a forward-looking assessment, considers that the tax reform should be implemented in 2019 for the primary surplus target of 3.5 percent of GDP in 2019 to be met.

Specifically, the tax credit is due to be reduced by 650 euros for all individual taxpayers and would range between 1,250 euros for singles and 1,450 euros for a family with three children.

This means the tax-free threshold would be cut to 5,681 (from 8,636 currently) – 6,590 (from 9,545) euros respectively. The final figures are currently under discussion.

It is worth noting that if the counter measures are implemented, the final tax burden would be lower due to the reduction in the lowest personal income tax rate from 22 to 20 percent.

**Privatisations**

The sMoU notes that the Hellenic Republic Asset Development Fund (HRADF) Asset Development Programme (ADP) should be implemented through direct sale, concessions, securitisations or other forms of monetisation to stimulate investment, increase efficiency and provide financing to the state.

Privatisation proceeds for 2017 and 2018 are estimated at 2.2 billion euros in each year, but both figures are under discussion.

As prior actions, the sMoU foresees the launch of procurement processes by HRADF to hire advisors for a number of key projects including Hellenic Petroleum, Public Power Corporation (PPC), Athens (EYDAP) and Thessaloniki (EYATH) Water utilities, Hellenic Telecom (OTE) and Athens International Airport. In addition, HRADF will initiate a new tender process for the privatisation of a 66 percent stake in Hellenic Gas Transmission System Operator (DESFA).

Moreover, around 40 percent of PPC lignite-fired generation capacity should be divested to existing or new alternative suppliers of other investors to comply with the recent ruling of the European Courts related to the European Commission (EC) decision in 2008 and 2009. The exact percentage will be defined after technical discussions with the EC.

**Labour market reforms**

The IMF's TMU mentions three interventions in the labour market. Specifically, the government will adopt legislation to extend the 2011 collective bargaining reforms for the duration of the current programme. These include the suspension of extensions of collective bargaining agreements and of the application of the favourability principle.

On collective dismissals, the current framework of administrative approval will be replaced with a notification procedure allowing collective redundancies to be effective within a 3-month period after the notification by the employer without requiring an ex-ante approval.

The SMoU also notes that consultations with the employees' representatives will last up to 30 days, while the firm may submit a social plan including measures for redeploying or retraining workers and commitment to re-hire first the workers dismissed.

According to the third intervention, the current framework will be amended to raise the minimum quorum level for voting on a strike to 50 percent of union representatives. In addition, the sMoU stresses that a digital registry for trade unions will be created, while the list of reasons for terminating the contract of trade unionists will be reviewed.

**Public administration**

The number of temporary contracts in the public sector will be reduced by 1,028 in the next two years from 49,448 at the end of 2016 to 49,104 at the end of 2017 and further down to 48,420 at the end of 2018. In addition, legislation has to be approved to introduce a new mobility scheme, to complete the rationalisation of specialised wage grids and to implement the reformed performance assessment.