

Memorandum of Understanding on Specific Economic Policy Conditionality

The economic adjustment programme will address short- and medium-term financial, fiscal and structural challenges facing Cyprus. The key programme objectives are:

- to restore the soundness of the Cypriot banking sector by thoroughly restructuring, resolving and downsizing financial institutions, strengthening of supervision, addressing expected capital shortfall and improving liquidity management;
- to continue the on-going process of fiscal consolidation in order to correct the excessive general government deficit, in particular through measures to reduce current primary expenditure, and maintain fiscal consolidation in the medium-term, in particular through measures to increase the efficiency of public spending within a medium-term budgetary framework, enhance revenue collection and improve the functioning of the public sector; and
- to implement structural reforms to support competitiveness and sustainable and balanced growth, allowing for the unwinding of macroeconomic imbalances, in particular by reforming the wage indexation system and removing obstacles to the smooth functioning of services markets.

1. Fiscal policy

Key objectives

Putting public finances on a sustainable path is of overriding importance in order to stabilise the economy and to restore the confidence of companies, citizens and foreign investors in the longer-term economic prospects of Cyprus.

In this context, the objectives are: (1) to continue the on-going process of fiscal consolidation in order to achieve a 4% of GDP primary balance in 2017 and maintain at least such a level thereafter; (2) to correct the excessive general government deficit as soon as possible; (3) to this end, to fully implement the fiscal measures agreed in the 23 November 2012 staff-level agreement¹ and the additional fiscal consolidation measures agreed for 2013, totalling 1.5% in 2013; (4) to achieve the annual budgetary targets as set out in this Memorandum through high-quality permanent measures, and additional measures in the outer years, in particular to reduce the growth in expenditure on the public sector wage bill and social benefits, while minimising the impact of consolidation on vulnerable groups; and (5) to maintain fiscal consolidation over the medium term, converging towards Cyprus' medium-term budgetary objective, by containing expenditure growth, improving the structure of taxation and undertaking fiscal-structural measures (see section 3), including the implementation of a Medium-Term Budgetary Framework designed in accordance with EU specifications.

Pursuing its commitments as stipulated in the provisional staff level agreement reached on 23 November 2012 between Cyprus and the EC/ECB/IMF on a draft Memorandum of Understanding (MoU), the Cypriot authorities adopted a number of fiscal measures for 2012-2014 as well as initial steps in relation to fiscal-structural reforms.² The Cypriot authorities commit to the full implementation of these measures, to monitor the budgetary effect of the measures taken on a monthly basis and to address any deviation from the projected budgetary effect. The fiscal measures taking effect in 2012 were included in the amended 2012 Budget Law, which was presented to programme partners for review before submission to the House of Representatives. Likewise, the budgetary measures with effect in 2013 were embedded in the 2013 Budget Law after having been reviewed by programme partners. The impact of the additional permanent measures for 2014 have been embedded in the multi-annual expenditure targets accompanying the 2013 Budget Law (see Annex I).

In the event of underperformance of revenues or higher social spending needs due to adverse macroeconomic effects, the government should stand ready to take additional measures to preserve the programme objectives, including by reducing discretionary spending. Over the programme period, cash revenues above programme projections, including any windfall gains, will be used to reduce debt. If instead over-performance materialises, to the extent that it is deemed permanent, this can reduce the need for additional measures in the outer years.

¹ The measures were estimated to total 7¼% of GDP during 2012-2016, based on the macro-economic projection underpinning the 23 November 2012 staff-level agreement. For 2012-13: 3% of GDP; 2014: 1¾% of GDP; 2015: 1½% of GDP; and 2016: 1% of GDP.

² The adopted bills amounted to consolidation measures of about 5.0% of GDP for 2012-2016, in particular 0.3% of GDP in 2012, 2.3% of GDP in 2013, and 1.9% of GDP in 2014, and ½% of GDP in 2015-2016 based on the macro-economic projection underpinning the 23 November 2012 staff-level agreement.

Fiscal policy in 2013

1.1. The authorities will achieve a general government primary deficit of no more than EUR 395 million (2.4% of GDP) in 2013³. Over 2013, the authorities will rigorously implement the 2013 Budget Law with additional permanent measures of at least EUR 351 million (2.1% of GDP).

The 2013 Budget Law was presented for review by the programme partners before submission to the House of Representatives and was adopted on 20 December 2012. The budgetary target for 2013 was accompanied by elements for a medium-term budgetary framework, which were adopted accompanying the 2013 Budget Law, in particular expenditure ceilings for the budget years 2013-2015 for each government entity.

Additional permanent measures for 2013 will be presented for review by programme partners before submission to the House of Representatives, and shall be adopted prior to the granting of the first disbursement of financial assistance.

To this end, the authorities will amend the 2013 Budget Law that will contain the additional consolidation measures and accordingly, the revised general government primary deficit. In addition, the authorities will update the expenditure ceilings for the budget years of 2013-2015.

The additional consolidation measures will be applicable retroactively from 1 January 2013, unless otherwise specified, and will include the following:

Revenue measures

1.2. Ensure additional revenues from property taxation of at least 70 million by: (i) updating the 1980 prices through application of the CPI index for the period 1980 to 2012; and/or (ii) amending tax rates for the value bands.

1.3. Reduce the expenditure on various housing schemes by at least EUR 36 million by consolidating and streamlining the schemes for the displaced and the Comprehensive Housing Scheme, discontinuing the special grant for acquiring a first residence and ceasing the provision of loans and loan guarantees related to house construction and acquisition under all government-administered housing schemes. (see 3.9).

1.4. Increase the statutory corporate income tax rate to 12.5%.

1.5. Increase the tax rate on interest and dividend income to 30%.

1.6. Increase the bank levy on deposits raised by banks and credit institutions in Cyprus from 0.11% to 0.15% with 25/60 of the revenue earmarked for a special account for a Financial Stability Fund

1.7. Undertake a reform of the tax system for motor vehicles, based on environmentally-friendly principles, with a view to raising additional revenues, through the annual road tax,

³ The 2013 deficit target may be revised to take into account the potential compensation of pension funds' losses on deposits in Cyprus Popular Bank not covered by deposit guarantee scheme.

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the registration fee and excise duties, including motor fuel duties. The reform will take into account the related study of the University of Cyprus.

2.8 Introduce measures to control healthcare expenditure (see 3.2). In particular, improve cost efficiency in the healthcare sector by enhancing public hospitals' efficiency, competitiveness and cost-effectiveness. Also, introduce a co-payment system for a limited number of medical services and pharmaceuticals.

2.9 Increase fees for public services by at least 17% of the current values.

Fiscal policy in 2014

The authorities will achieve a deficit of the general government primary balance of no more EUR 678 million (4¼% of GDP) in 2014.

The budgetary target and the permanent measures for 2014 already adopted by the Cypriot authorities (see Annex I) were considered in the adopted Medium-Term Budgetary Framework, accompanying the 2013 Budget Law. The 2014 Budget Law will be presented for review by the programme partners before submission to the House of Representatives [mid-September 2013] and will be adopted by [mid-December 2013]. The 2013-2015 expenditure ceilings will be updated for the period 2014-2016 and will accompany the 2014 Budget Law document. The presentation of these ceilings will evolve into a full-fledged Fiscal Strategy Statement in line with the MTBF requirements contained in Directive 2011/85/EU. Any deviation from the budgetary objectives contained in the 2013-2015 framework will be properly documented and reasons for such deviations will be provided.

Fiscal policy in 2015-16

The authorities will achieve a deficit in the 2015 general government primary balance of no more than EUR 344 million (2.1% of GDP) and a surplus in the 2016 general government primary balance of at least EUR 204 million (1.2% of GDP).

The 2015 and 2016 Budget Laws will be presented for review by the programme partners before submission to the House of Representatives and will be adopted, respectively, by mid-December 2014 and mid-December 2015.

The 2014-2016 expenditure ceilings will be updated for the period 2015-2017 and will accompany the 2015 Budget Law document. Any deviation from the budgetary objectives contained in the 2015-2017 framework will be properly documented and reasons for such deviations will be provided. The Cypriot authorities will present programme partners in Q2-2016 with a provisional list of measures to attain a primary surplus of 4% of GDP in 2017. These measures will be included in the draft 2017 Budget Law.

2. Fiscal-structural measures

Key objectives

Cyprus enjoyed above euro-area average growth rates for more than a decade and in parallel expanded its public sector employment, support and services considerably. Looking ahead, if the public sector is to provide appropriate support for the sustainable and balanced growth of the Cypriot economy, fiscal-structural reform steps are needed to ensure the long-term sustainability of public finances, to provide the fiscal space necessary to support the diversification of the economy, and to alleviate the adverse impact on jobs and growth arising from Cyprus's exposure to external shocks. In this context, the objectives are: (1) to improve the efficiency of public spending and the budgetary process by means of an effective Medium-Term Budgetary Framework (MTBF) that is fully compliant with the Directive on requirements for budgetary frameworks and the Treaty on Stability, Coordination and Governance (TSCG); (2) implement further reforms of the pension system to address the high projected increase in pension spending; (3) take further steps to control the growth of health expenditure; (4) enhance tax revenues by improving tax compliance and collection; (5) undertake reforms of the public administration to improve its functioning and cost-effectiveness, notably by reviewing the size, employment conditions and functional organisation of public services; (6) undertake reforms of the overall benefit structure with the aim of producing an efficient use of resources and ensuring an appropriate balance between welfare assistance and incentives to take up work; and (7) elaborate a programme for improving the efficiency of state-owned and semi-public enterprises and initiate a privatisation programme.

Pension reform

2.1. While taking note that the Cypriot authorities have recently introduced significant reforms (as noted below), the implementation of further reforms of the pension system to address the high projected increase in pension spending may be necessary in order to put the pension system on a sustainable path. The overarching objectives of the reforms are: i) to reduce the increase in pension spending, ii) to ensure the long-term financial viability of the pension system through 2060, and iii) to limit the fiscal subsidy to the General Social Insurance Scheme for credited contributions for current and future pensioners and for the non-contributory pension.

In view of this, the authorities have implemented/agreed to implement the following measures:

- separate in accounting terms the non-contributory pension benefit from the insurance-based (contributory) pension scheme [30 June 2013]. The non-contributory part will be tax financed;
- for the General Social Insurance System (GSIS): (i) increase the minimum age for entitlement to an unreduced pension by 6 months per year to be brought in line with the statutory retirement age; (ii) introduce an early retirement penalty of 0.5% per month of early retirement so as to make early retirement actuarially neutral; (iii) introduce an automatic adjustment of the statutory retirement age every 5 years in line with changes in life expectancy at the statutory retirement age, to be applied for the first time in 2018; and (iv) gradually (1 year per year) extend the minimum contributory period in the system from the current 10 years to at least 15 years over the period 2013-17 [in place since January 2013] ;
- for the Government Employee Pension Scheme (GEPS): (i) increase the statutory retirement age by 2 years for the various categories of employees; (ii) increase the minimum age for entitlement to an unreduced pension (by 6 months per year) to

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be in line with the statutory retirement age; (iii) while preserving acquired rights, introduce an early retirement penalty of 0.5% per month of early retirement so as to make early retirement actuarially neutral; (iv) introduce an automatic adjustment of the statutory retirement age every 5 years in line with changes in life expectancy at the statutory retirement age, to be applied for the first time in 2018; (v) introduce a change of indexation of all benefits from wages to prices; and (vi) pension benefits will be calculated on a pro-rata basis taking into account life-time service as of January 2013 [in place since January 2013];

- ensure that total annual public pension benefits for public sector employees and state officials do not exceed 50% of the annual pensionable salary earned at the time of retirement from the post with the highest pensionable salary of the official's career in the public sector and broader public sector [in place since January 2013];
- ensure that pension entitlements that will accrue after 1 January 2013 are considered as personal income, thus becoming fully taxable also in the case in which they are received as a lump-sum payment. At the same time, employees will be granted the option of converting all or part of the lump-sum into an actuarially neutral annuity [in place since January 2013];
- ensure that all of the above measures aimed at the GEPS will apply also to pension schemes in the broader public sector and to pension schemes for hourly-paid public employees [in place since January 2013]; and

An actuarial study for the GSIS will be carried out and submitted for peer review in the Ageing Working Group of the Economic Policy Committee by end of September 2013. The objective of the actuarial study is to provide additional reform options to ensure the long-run viability of the national pension system.

The actuarial study should project the scheme's finances on a cash basis. Given the financial sustainability focus, on the revenues side, the study should not take into account any government subsidy (i.e. contribution that is currently at 4.3% of the payroll and the return on the accumulated notional reserves as at the start of the projection period) with the exception of credited contributions and the contributions made by the government as an employer on behalf of its employees. On the expenditures side, the study should only take into account benefits related to contributions paid and credited contributions, i.e. excluding the costs related to the top-up for the minimum pension (which is considered to be tax financed). The study should analyse the impact of additional reform options such as benefit reductions (while considering adequacy), an increase in the statutory retirement age and increases in contribution rates or combinations thereof taking into account the impact on labour costs.

After consultation and agreement with programme partners, if needed, a comprehensive reform with the aim of establishing the long-run viability of the system, will be carried out; and, this reform will be adopted by end December 2013 and enter into force in Q1 2014.

Health care expenditure

2.2. To strengthen the sustainability of the funding structure and the efficiency of public healthcare provision, the following measures will be presented for programme-partner review before their implementation:

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- assess and publish before parliamentary discussion the potential risks and benefits of the planned introduction of the National Health System (NHS) in an updated actuarial study, taking into account possible proposals for implementing NHS in stages [Q2-2013];
- make the award of the tender for the IT-infrastructure conditional upon the results of the study and the decision for implementing NHS;
- abolish the category of beneficiaries class "B" and all exemptions for access to free public health care based on all non-income related categories except for persons suffering from certain chronic diseases depending on illness severity; and review income thresholds for free public health care in line with the eligibility criteria for social assistance while ensuring that co-payments to public health care are set so as to protect individuals/households effectively from catastrophic health expenditures [Q2-2013];
- increase fees for medical services for non-beneficiaries by 30% to reflect the associated costs of medical services and create a co-payment formula with zero or low admission fees for visiting general practitioners, and increasing fees for using higher levels of care for all patients irrespective of age [Q2-2013];
- set-up a system of family doctors acting as gate-keepers for access to further levels of care, including effective financial disincentives for bypassing family doctors and for using emergency care services in non-urgent situations [Q2-2013];
- create protocols for laboratory tests and the prescription of pharmaceuticals based on thorough scientific evidence, including financial disincentives (co-payment) to minimize the provision of medically unnecessary laboratory test and pharmaceuticals [Q2-2013];
- introduce a coherent regulatory framework for pricing and reimbursement of goods and services based on the actual level of costs incurred in accordance with Article 7 of Directive 2011/24/EU of the European Parliament and of the Council of 9 March 2011. An interim report will be ready by [Q3-2013];
- conduct an assessment of the basket of the top 10 publicly reimbursable healthcare products in terms of annual spending to increase cost-effectiveness of the basket of publicly reimbursed products and prepare the implementation of 10 new clinical guidelines focusing on high annual volume and high cost diseases [Q2-2013];
- adopt a restructuring plan for public hospitals improving quality and optimizing costs and redesigning the organisational structure of the hospital management, by putting into practice recommendations from the 2009 "Public Hospital Roadmap" [Q2-2013];
- start coding inpatient cases by the system of diagnosis-related groups (DRGs) with the aim of replacing the current hospital payment system by payments based on DRGs [Q3-2013];
- in a first step, establish working time in the Health Service, in conjunction with moving the starting time by half an hour (from 7.30 to 8.00) and extending the flexibility period from a half to one hour. With this modification, the weekly working hours of public officers remain unchanged, but are distributed throughout the year as

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follows: 37 ½ hours per week, 7 ½ hours per day, daily (Monday to Friday): 8.00/9.00 to 15.30/16.30. The same applies for the transitional period of 1.1.2013-31.8.2013 but the starting time remains the same (7:30) and thus the ending time is moved back by half an hour (15:00/16:00). Following a review, in a second step, revise the regular working hours and stand-by shifts of healthcare staff, including rules to increase the mobility of staff; revise current regulations on overtime pay and fully implement existing laws on recording/monitoring overtime payments (see 3.11) [Q1-2014]; and

- define a basket of publicly reimbursable medical services based on objective, verifiable criteria including on cost-effectiveness criteria [Q2-2013].

Budgetary framework

2.3. The authorities will:

- provide for the establishment of a Fiscal Council with a statutory regime, functions, nomination procedures of its governing body and funding arrangements grounded in law [Q2-2013];
- complete the adoption of the law transposing Council Directive 2011/85/EU on requirements for budgetary frameworks, and provisions pertaining to the fiscal compact of the Treaty on Stability, Coordination and Governance (TSCG) on the basis of the Common Principles for national fiscal correction mechanisms laid down in Commission Communication COM(2012)342, with implementing texts ensuring that adopted measures are fully effective [Q2-2013]. In particular, integrate the presentation of the existing multi-annual budgetary objectives (MoU fiscal targets and the rolling three-year expenditure ceilings) into a comprehensive Fiscal Strategy Statement in compliance with MTBF requirements in the sense of Directive 2011/85/EU to guide the preparation of the 2014 budget [Q2-2013]; and
- submit to Parliament a draft high-level Fiscal Responsibility and Budget System Law applicable to the entire general government sector. The draft law will encompass, inter alia, macro-fiscal policy-making, and budget formulation and approval. It will address remaining gaps and inconsistencies and codify existing good budget practices [Q4-2013].

Public private partnerships (PPPs)

2.4. The authorities will:

- create an inventory of PPPs including information on the objectives of current and planned PPPs and more detailed information on signed contracts, including their nature, the private partner, capital value, future service payments, size and nature of contingent liabilities, amount and terms of financing. In addition, an inventory of contingent liabilities including information on the nature, intended purpose, beneficiaries, expected duration, payments made, reimbursements, recoveries, financial claims established against beneficiaries, waivers of such claims, guarantee fees or other revenues received, indication of amount and form of allowance made in the budget for expected calls, and forecast and explanation of new contingent liabilities entered into in the budget year will be compiled. The inventories will be shared by [Q3-2013] with the programme partners. As of 2014, the inventories will be

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updated annually and included as “Statement of PPPs” and “Statement of Contingent Liabilities” in appendices to the annual budget law and to the annual financial report;

- put in place an adequate legal and institutional framework for PPPs designed according to best practices, including ex-ante assessment and monitoring of the fiscal risks of engaging in PPPs and concessions as compared to other public investments. A proposal for such a strengthened legal and institutional framework for PPPs should be drafted [Q2-2013] and implemented [Q4-2013]; and
- commit not to enter into any new tendering process and not to sign any new PPP contract before the implementation of the legal and institutional PPP framework, excluding any project having reached commercial close by end-October 2012.

State-owned enterprises and privatisation

2.5. As regards extra-budgetary funds and entities, in particular the State-Owned Enterprises (SOEs) and other state-owned assets, the authorities will:

- establish an inventory of assets, including real estate, owned by central government, municipalities and regional administrations, in view of possible divestments or restructurings. To this end, the inventory will indicate which State-Owned Enterprises could be subject to divestment, which could be subject to restructuring and which could be considered for liquidation [Q2-2013];
- prepare a plan to strengthen the governance of SOEs in accordance with international best practices and draft a report reviewing the operations and finances of SOEs (see 3.11). The report will assess these companies' business prospects, the potential exposure of the government to the SOEs and the scope for orderly privatisation. The authorities will adopt the necessary legal changes to fulfil this requirement [Q3-2013]. No additional SOEs will be created throughout the duration of the Programme; and
- submit to the Parliament a draft law to regulate the creation and the functioning of SOEs at the central and local levels and enhance the monitoring powers of the central administration, including reporting on SOEs in the context of the annual budgetary procedure [Q3-2013].

2.6. The authorities will initiate a privatisation plan to help improve economic efficiency through enhanced competition and encouragement of capital inflows, and to restore debt sustainability:

- This plan should consider the privatisation prospects of state-owned enterprises (SOEs) and semi-governmental organisations (SGOs), including, inter alia, CyTA (telecom), EAC (electricity), CPA (ports authority), as well as real estate/land assets. For the privatisation of natural monopolies an appropriate regulatory framework is a prerequisite;
- The privatisation plan will be based on the report reviewing the operations and finances of SOEs, as well as the inventory of assets [both due in Q2-2013]. The privatisation plan will be created in conjunction with the EC/ECB/IMF, including asset-specific timelines and intermediate steps by [Q3-2013];

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- In parallel, the specific legal and institutional framework on the privatisation process will be drafted and approved by [Q3-2013], subject to the scrutiny of the EC/ECB/IMF; and
- The privatisation plan identified between the Government and the EC/ECB/IMF will raise at least EUR [1.4] bn in 2013-2016.

Revenue administration, tax compliance, and international tax cooperation

2.7. The authorities will propose a comprehensive reform plan to improve the effectiveness and efficiency of tax collection and administration by [Q4 2013], for implementation as of the budget year 2014. The reform shall encompass the following elements:

- attribute personal responsibility for payment of company taxes to those, who in the case of non-listed companies truly and effectively control a company;
- attribute personal responsibility to the responsible manager for fraudulent filing of company taxes;
- strengthen powers by the tax authorities to ensure payment of outstanding tax obligations, e.g. by having authority to seize corporate assets, prohibiting alienation or use of assets including property and bank accounts by the taxpayer;
- harmonise the legislation among tax types so that not paying taxes is a criminal offense regardless of the type of tax and that there is an administrative appeals process for all of these taxes before going to the courts;
- increase staff mobility between different tax administration entities in order to ensure appropriate staffing of entities with high revenue collection capacities;
- where not in place, establish clear performance objectives, including on revenue collection results, for each revenue administration entity, and improved transparency regarding the performance of revenue administration entities, e.g. via publication of the tax gap for main revenue categories (the difference between the tax owed and the amount actually collected);
- optimise use of IT systems in the tax administration based on: (i) facilitating information exchange between tax administration entities; (ii) enhancing the use of e-filing of tax returns and e-payment (e.g. by allowing payment through bank transfers); (iii) improving the exchange of information, including data on natural and legal persons, between relevant authorities for tax collection purposes, taking into account legal provisions for data protection;
- enhance the efforts to reduce administrative burden on businesses, with a view to reducing informal activities and achieving voluntary compliance to the widest possible extent. In this respect, systematically measure the time and cost for taxpayers to complete revenue administration procedures such as registration or filing;
- step up administrative tax fraud investigations and enhance cooperation between the tax and judicial systems, while addressing potential bottlenecks in the tax appeal system, e.g. through the strengthening of arbitration procedures;
- improve capacity of the Inland Revenue Department to follow-up on tax information received from other countries, e.g. by permitting the department to access databases

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of other public entities in order to facilitate and expedite the identification of the taxpayer; and

- remove from the income tax law the Director's prerogative to act as deemed necessary in relation to the application of the Law's provisions, including actions with regard to the negotiation of the amount due and the decision on the withdrawal of lawsuit for unpaid taxes.

3.8. The authorities will implement reforms, which build on the main recommendations derived from the diagnostic technical assistance mission conducted by the IMF in February 2013, inter alia:

- integration of the Internal Revenue Department and the VAT Services. As a first step, a high-level transition plan will be developed [Q3-2013], followed by the establishment of an integrated Large Taxpayer Office [Q1-2014];
- establishment of self-assessment for all income taxpayers, starting with tax year 2012, by changing from a pre-assessment verification of income tax returns to post assessment audits selected on the basis of risk; and
- establishment of a specialised tax court as the first stage in the judicial process [Q1-2014].

3.9. The Cypriot authorities will safeguard the timely and effective exchange of information in regard to tax matters, fully ensuring the applicability of laws and standards governing international exchange of tax information. In this respect, the Cypriot authorities will enhance the practice of timely delivery of relevant and accessible tax information to other EU Member States. The authorities will:

- respect their legal commitment to fully transpose, without further delay, the Directive 2011/16/EU on administrative cooperation in the field of taxation by and abide by Art 7 of the Directive and Art 10, 19 and 21 of Council Regulation 904/210 on administrative cooperation and combating fraud in the field of value added tax, which prescribe specific timeframes within which Member States shall provide information to each other;
- ensure timely access to information on beneficial ownership of trusts and to an audit trail of financial transactions of trustees. To this end, programme partners take note of the authorities' intention to establish registers of trusts held by the respective competent supervisory authority and of the recently-introduced obligation to have, at any given time, for express trusts created under and governed by Cyprus law at least one trustee who is a resident in Cyprus. Professional trustees should be authorised or otherwise regulated (i.e. as lawyers, accountants or Trust and Company Service Providers (TCSPs)) and all other trustees should be registered. Trustees should report information to their respective supervisors on their relation to a trust. In addition, the authorities will require trustees of express trusts created under and governed by Cyprus law to declare their status to the financial intermediaries when using the financial system in Cyprus, and require the financial intermediaries established in Cyprus to obtain a corresponding declaration of status from trustees of trusts created under and governed by foreign law as a mandatory condition for using the financial system in Cyprus. [Q3-2013];
- ensure that they have timely access to information on who truly and effectively controls a company established in Cyprus. To this end, they will either a) require nominee directors and nominee shareholders to disclose the identity of their

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nominator to the company and to the company register; or b) require that all nominee directors and nominee shareholders be authorised or otherwise regulated (i.e. as lawyers, accountants or TCSPs) and maintain information on the identity of their nominator, which is to be made available to the competent authorities upon request, and record a director's [or shareholder's] nominee status in the company register. In the case of the trustee service being provided by a TCSP, it is suggested that the nominee be an employee of the TCSP (a natural person residing in Cyprus) [Q3-2013];

- ensure the systematic follow-up and use of information received from other countries about income payments received by Cyprus resident individuals and by entities and legal arrangements such as trusts established or managed in Cyprus, notably those entities and legal arrangements the beneficial owners of which are resident in other EU Member States; and
- implement the recommendations put forward in the in-depth review of Cyprus' legal and regulatory framework under the OECD Global Forum on Transparency and Exchange of Information for Tax Purposes and commit to address any shortcomings to be identified in the forthcoming evaluation of implementation issues.

In addition, for an accurate monitoring of the correct implementation of Council Directive 2003/48/EC on taxation of savings income in the form of interest payments (the EUSD), the Cypriot authorities will provide to the European Commission, on an annual basis and starting from the tax year ending on 31 December 2013, a breakdown of the information provided under the EUSD by sector of activity of the paying agents, a report on the results of audits, including possible sanctions actually claimed of paying agents for their application of the EUSD, and detailed sectoral deposit statistics with a breakdown of foreign deposits by country.

Immovable Property Tax Reform

The following measures will be taken to increase revenue and to improve the fairness of the tax burden by levying the recurrent property tax on current market values. An additional objective is to reduce overhead cost in tax base administration.

3.10. In view of this, the authorities have agreed to implement the following measures:

- implement a property price index that establishes the average property market valuation in 2013 by square meter of habitable surface and land plot. This index shall be operational to provide imputed market valuations for each non-agricultural cadastral plot [Q2 2014], in time for its application in the calculation of the immovable property tax in 2014. The index shall vary according to location and zoning as well as other building- and plot-related characteristics. Moreover, propose and implement a methodology for annual updates of such imputed market valuations;
- implement the recurrent immovable property tax based on imputed market valuations of land plots according to a unit tax base established by this property index [Q3 2014]. The tax rates shall reflect the progressivity and revenue of the preceding property tax. For co-owned land plots, individual owners shall be taxed according to ownership proportions as provided in the cadastre;
- establish the legal basis for a mandatory annual adjustment of the property unit tax base by a competent executive authority [Q3 2014]; and

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- in order to retain a stimulus to property demand and reduce distortions in property prices, provide for an extension of the reduction in property transaction fees until 2016 [Q2 2013].

In addition, the following studies should be initiated by [mid 2013], and their recommendations implemented at the latest from [1 January 2015] onwards:

- a study on refining the parameters of the imputed property market value index within the bounds of administrative and legal simplicity. In particular, the study shall assess the feasibility of a unit tax base for individual dwellings. Moreover, the study shall report on a mechanism to dampen cyclical variations in the index.
- a further study on the scope of consolidating the collection and administration of the municipal recurrent property tax and sewage tax. The study will also review existing exemptions and derogations from property taxation. It will also report on the scope of shifting revenue from transaction fees and taxes to recurrent taxation [early 2015].

Public administration reform

3.11. The public sector represents a large share of public expenditures in Cyprus. To ensure an efficient use of government resources, while delivering a quality service to the population; the authorities will undertake the following reform measures [Q2-2013]:

- reduce impediments to staff mobility within the public and broader public sector, inter alia, by removing restrictions arising from the Public/Broader Public Service Laws as to the duration and placement of secondments, as well as the need for employee consent; and
- in a first step, as of 1.9.2013, establish working time in the Public Service, in conjunction with moving the starting time by half an hour (from 7:30 to 8:00) and extending the flexibility period from a half to one hour. With this modification, the weekly working hours of public officers remain unchanged, but are distributed throughout the year as follows: 37 ½ hours per week, 7 ½ hours per day, daily (Monday to Friday): 8.00/9.00 to 15.30/16.30. The same applies for the transitional period of 1.1.2013-31.8.2013 but the starting time remains the same (7:30) and thus the ending time is moved back by half an hour (15:00/16:00). Following part 1 of the below review, in a second step, further reduce overtime and related costs to the public sector wage bill by making working time more flexible so as to cover - as a minimum - service hours from 7:00 until 17:00 in the entire public sector and service hours from 7:00 to 19:00 for public sector services with extended operating hours (including, but not limited to, healthcare and security), under regular working time. Working hours outside regular working time shall be limited by enforcing strict controls, including requiring pre-approval of any non-emergency work outside regular working time. (see 3.2) [Q1-2014]

In addition, the authorities will commission an independent external review of possible further reforms of the public administration based on the agreed terms of reference.

The review will comprise two parts, covering the following areas:

Part 1:

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- examination of the role, the competences, the organizational structure and the size/ staffing of relevant ministries, services and independent authorities;
- examination of the possibility of abolishing or merging/ consolidating Non-profit Organisations/ Companies and publicly owned enterprises; and
- re-organisation/ re-structuring of local government.

Part 2:

- appropriate system of remuneration and working conditions / conditions of employment in the public sector (e.g. annual vacation leave, sick leave, maternity leave, working time), in relation to the private sector and to other EU countries and based on best practices; and
- introduction of a new performance based appraisal system in the public sector, for development and promotion purposes, linking performance with the remuneration system/ increments.

The first part of the review will be published by [Q1-2014]. The second part of the review will be published by [Q3-2014]. Based on the findings of the review, the authorities will agree upon a reform with the programme partners, submit it to the Parliament for approval and implement a reform of the public administration (part 1 by [Q2-2014] and part 2 by [Q4-2014]).

Welfare system

3.12. The welfare system in Cyprus encompasses a broad range of individual benefits provided by different Ministries and Departments. To ensure efficient use of public funds within the welfare system, while at the same time ensuring an appropriate balance between welfare benefits and incentives to take up work (as further specified in section 4.3 below), the authorities will carry out a reform of the welfare system to be implemented and applied as of 1 January 2014 after consultation and agreement with programme partners (draft reform plan to be submitted by [Q2-2013]). The reform will cover the following elements:

- streamlining the number of benefits available through merging and phasing out;
- better targeting of various social transfers, so as to reduce the total number of beneficiaries while protecting the most vulnerable by:
 - the introduction of a common definition of income sources, financial assets and movable and immovable property to be taken into account for means-testing, so as to ensure consistency across different benefit schemes;
 - the introduction or tightening of means-testing criteria, on the basis of the above definition, for benefit provision and continued access to benefits by lowering income thresholds, accounting for wealth such as financial assets, movable and immovable property, and broadening the sources of income to be taken into consideration. With respect to the latter, as a general principle benefits provided should be fully accounted for in the computation of personal income;
- a review of the appropriate levels of individual benefits and the index for adjustment of benefit levels; and

- transferring of all the relevant competences and responsibilities related to the administration and provision of all social benefits to the Ministry of Labour and Social Security, which should be appropriately equipped in terms of financial and human resources, reassigned from other departments of the public administration [Q1 2014] (see 3.11).

The reforms must be consistent with the fiscal targets defined in this Memorandum of Understanding.

3. Labour market

Key objectives

While Cyprus' labour market was characterised by high employment rates and low unemployment in the years leading up to the crisis, the unwinding of unsustainable imbalances and worsening of macroeconomic conditions and prospects have resulted in rapidly rising unemployment and important labour market challenges over the medium-term. Labour market reforms can mitigate the impact of the crisis on employment, limit the occurrence of long-term and youth unemployment, facilitate occupational mobility and contribute to improving the future resilience of the Cypriot economy in the face of adverse economic shocks. In this context, the objectives are: (1) to implement a reform of the system of wage indexation commensurate with ensuring a sustainable improvement in the competitiveness of the economy and allowing wage formation to better reflect productivity developments; (2) to prepare and implement a comprehensive reform of public assistance in order to achieve an appropriate balance between public assistance and incentives to take up work, target income support to the most vulnerable, strengthen activation policies and contain the public finance impact of rising unemployment; and (3) to help attenuate adverse competitiveness and employment effects by linking any change in the minimum wage to economic conditions.

Cost of living adjustment (COLA) of wages and salaries

3.1. To ensure that wage growth better reflects developments in labour productivity and competitiveness, in both expansions and recessions, the authorities will reform the wage-setting framework for the public and private sector in such a way as to improve real wage adjustment. To this end, the effective application of the reform of the wage indexation system (COLA) applicable to the broader public sector, as determined in the budget of 2013 and embedded in the Medium-Term Budget, must be ensured. This reform acts on relevant elements of the indexation system, as follows:

- a lower frequency of adjustment, with the base period for calculating the indexation (COLA) being lengthened from the current period of six months to twelve months. Indexation would take place on 1st January each year;
- a mechanism for automatic suspension of application and derogation procedures during adverse economic conditions, such that if in the second and third quarters of a given year negative rates of growth of seasonally adjusted real GDP are registered, no indexation would be effected for the following year; and
- a move from full to partial indexation, with the rate of wage indexation being set at 50% of the rate of increase of the underlying price index over the previous year.

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As foreseen in section I.2 of this agreement, the suspension of wage indexation in the wider public sector will remain in place until the end of the programme (end-Q1-2016).

A tripartite agreement will be pursued with social partners for the application of the reformed system in the private sector [end-2013]. Furthermore, based on the current economic outlook, wage and salary indexation is foreseen not to be applied in the private sector until 2014.

Minimum wage

3.2. With a view to preventing possible adverse competitiveness and employment effects, the authorities commit that, over the programme period, any change in the minimum wage covering specific professions and categories of workers should be in line with economic and labour market developments and will take place only upon consultation and agreement with the programme partners.

Public assistance and activation of the unemployed

3.3. The increase in unemployment underlines the need for an overall assessment of activation policies and available instruments for income support after the expiration of unemployment insurance benefits. The planned reform of public assistance should ensure that social assistance serves as a safety net to ensure a minimum income for those unable to support a basic standard of living, while safeguarding incentives to take up work, ensuring consistency with the reform of the welfare system as described in section 3.12. Therefore, the authorities will:

- ensure that the planned reform of public assistance includes measures aimed at activating benefit recipients by facilitating their reinsertion in the labour market, reducing disincentives to work and imposing job-search requirements for continued benefit receipt. To this end, the draft reform plan on public assistance will be submitted to programme partners by [Q2-2013] for consultation and agreement;
- provide an assessment of current activation policies by [Q2-2013]; and
- review and enhance the cooperation between the public employment service and the benefit-paying institutions in the activation of the unemployed.

4. Goods and services markets

Key objectives

Addressing issues of a structural nature is critical for rebalancing the Cypriot economy, restoring its growth potential and improving competitiveness. Removing unjustified obstacles in services markets can have a significant impact on growth, in particular for the services-intensive Cypriot economy. In addition, improving the quality and reducing the cost of regulated professional services can play an important role for the business environment and for Cyprus' competitive position. Since tourism is one of Cyprus' largest sectors and an important potential driver of future growth, a reinvigoration of the competitiveness of this sector is warranted. Improving the regulation of administration related to the real estate sector will contribute to the overall functioning of the housing market and help to foster foreign demand at a time when the prospects of this sector are affected by downside risks. Finally, the exploitation of the domestic offshore natural gas potential offers the medium- to long

term prospect for reducing Cyprus' energy import dependency and the security and sustainability of energy supply. This would help to address Cyprus' sustained current account deficit and high public debt. However, these positive effects will accrue only after overcoming the challenges of financing and planning the infrastructure investments, designing effective energy markets and an adequate regulatory regime.

Services Directive: Sector-specific legislation

4.1. The authorities will adopt the remaining necessary amendments to the sector-specific legislation in order to fully implement the Services Directive, easing the requirements related to entry and establishment. In addition, requirements concerning minimum tariffs should be eliminated unless they have a clearly defined economic justification and/or are justified by an overriding reason of public interest. Amendments will be presented to the Parliament [Q2-2013] and minimum tariff requirements without justification will be abolished by [Q2-2013].

Services Directive: Regulated professions

4.2. The authorities will:

- eliminate any existing total bans on the use of a form of commercial communication (advertising) in regulated professions, as required by the Services Directive [Q2-2013]; and
- further improve the functioning of the regulated professions sector (such as lawyers, engineers, architects) by carrying out a comprehensive review of requirements affecting the exercise of activity and eliminating those that are not justified or proportional. Requirements affecting the access to the activity shall be assessed in order to repeal those which are not justified or proportionate after the adoption of the Directive amending Directive 2005/36/EC on the recognition of professional qualifications and Regulation on administrative cooperation through the Internal Market Information System, and in accordance with the evaluation, methodology and timeframe to be defined in the said amending Directive.

Competition and sectoral regulatory authorities

4.3. The authorities will:

- ensure the independence and enhance the effective functioning of the Commission for the Protection of Competition and its ability to enforce effectively the competition rules [Q4-2013]; and
- ensure the necessary independence and power of the national regulatory authorities (NRA) and enhance their ability to exercise their responsibilities and to carry out effectively their tasks, including monitoring the competitive situation in their respective sector [Q4 -2013].

Housing market and immovable property regulation

4.4. The authorities will take the following measures to ensure market clearing of the property market, allow for efficient seizure of property collateral, and for market-based assessment of property prices, as well as alleviating the factors deterring both domestic and

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foreign demand. A particular risk arises from legal disputes, which may be due to incomplete documentation of ownership and property rights and the slow pace of judicial procedures.

The authorities will:

- provide for mandatory registration of sales contracts for immovable property by [Q2 2013]. By [Q4-2014], eliminate the title deed issuance backlog to less than 2,000 cases of immovable property sales contracts with title deed issuance pending for more than one year. The authorities will enhance cooperation with the financial sector to ensure the swift clearing of encumbrances on title deeds to be transferred to purchasers of immovable property, and implement guaranteed timeframes for the issuance of building certificates and title deeds;
- publish quarterly progress reviews of the issuance of building and planning permits, certificates, and title deeds, as well as title deed transfers and related mortgage operations throughout the duration of the programme;
- implement electronic access to the registries of title deeds, mortgages, sales contracts and cadastre for the financial sector and government services [Q4-2014]. Personal data privacy legislation shall be reviewed and amended to alleviate legal impediments to such electronic access, in particular concerning the procedures for proof of legal interest [Q2-2013];
- introduce legislation on amending the procedure on the forced sale of mortgaged property to allow for private auctions as under the rules for immovable property recovery under bankruptcy regulations. The authorities shall enact regulations to provide for the conclusion of such private auctions within shortest feasible timespans (see 1.11) [by end 2013]; and
- better target the rules of court to improve the pace of court case handling. The authorities shall assess the need for additional measures – including if necessary legislative reforms - to eliminate court backlogs by end of the programme. Moreover the authorities shall provide for specialized judges akin to the rules for criminal case handling in order to expedite the handling of cases under commercial and immovable property laws [Q2-2013].

Tourism

4.5. Tourism is an important export sector and is of great importance to domestic value added and employment. Since 2011, tourism has experienced a significant increase in tourism arrivals and incomes, while the prospects for the continuation of that upward trend in 2013 are excellent. In particular, in 2011, there was an increase of 10.1% in tourism arrivals and 12.9% in revenue growth compared to 2010, while in 2012 (latest data August) there was a further increase of 5% and 8.5% respectively compared to 2011. To strengthen the competitiveness of the tourism sector, the authorities will:

- carry out a study on how to improve the tourism sector business model, in particular, with a view to lengthening the tourist season, increasing occupancy rates of hotels and promoting resident tourism during winter time, developing a multi-dimensional and high quality tourism, *inter alia*, by defining thematic niches such as sport, cultural and medical tourism, developing individual tourism, promoting professionalism of tourist service providers and ensuring the dissemination of best-practices on upgrading the

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quality of the services provided, improving the role of tourism-related infrastructure investment. The Tourism Strategy for 2011-2015 will be reviewed and, if necessary, revised based on the study's findings [Q2-2013];

- facilitate condo hotel projects with the aim of enhancing access to financing investment in hotel development, including the removal of any legal impediments [Q2-2013]; and
- in order to enhance attractiveness of the country as a destination and hub, engage in a gradual transition to an open skies regime through the conclusion of bilateral and multilateral free access agreements on the basis of reciprocity, in line with EU requirements.

Energy

4.6. The authorities will:

- ensure, without delay, that the Third Energy Package has been completely transposed and fully implemented and notify the European Commission that the necessary legislation has been transposed; indicate the date of delivery of the first commercial supply of natural gas under a long-term supply contract, thereby ending Cyprus' derogation of an isolated energy network and initiating the application of the emergent market derogation; and indicate the intended duration of the latter derogation;
- formulate a comprehensive strategy for the rearrangement of the Cypriot energy sector. This strategy should include the following three key elements, which should be presented to the programme partners for review according to the timeline specified below:
 1. a roll-out plan for the infrastructure required for the exploitation of natural gas, taking into account the current large uncertainties and risks in this context. The plan should cover: the required investments, associated costs, financing sources and methods, related major planning risks and bottlenecks; and a projection of the revenue streams over time [first version Q2-2013];
 2. *an outline of the regulatory regime (CERA) and market organisation* for the energy sector and gas exports, which would be conducive to the introduction and proper functioning of open, transparent, competitive energy markets, taking into account the size of the Cypriot economy, the integration of Cyprus' energy system into regional markets, the principle of independent regulatory oversight, and the EU targets for energy efficiency, renewable energy and carbon emissions. Specifically, the outline should include the following elements: the potential for setting-up wholesale markets for gas and electricity, of which the latter should be open to non-producing traders; the freedom for customers to make an effective choice of supplier; full unbundling of gas suppliers and customers, in particular electricity companies; and a single sales organisation for the off-shore gas supply (for both exports and domestic markets), aimed at maximising revenues [Q2 2013]; and
 3. a plan to establish the institutional framework for the management of hydrocarbon resources, including a *resource fund*, which should receive and manage the public revenues from offshore gas exploitation. The preparatory phase should include the

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required legal steps and their adoption. In order to ensure transparency, accountability and effectiveness, the resource fund should benefit from a solid legal base and governance structure, drawing on internationally-recognized best practices. In particular, clear rules governing inflows and outflows should be established as part of Cyprus' budgetary framework, giving due respect to the need to develop the hydrocarbon industry, including the necessary infrastructure, the importance of bringing Cyprus' public debt on a steady downward path and the need to invest and generate value for all strata of society, including future generations. [Q2-2013].

Since these three key elements are strongly interdependent, they need to be developed together over time. In addition, the plan should take account of the current uncertainty over the actual size of domestic, offshore, commercially-viable, natural gas fields and possible changes in international gas prices and demand, and should be firmly based on *alternative world energy scenarios* from an internationally-reputed organization and on an appropriate level of technical assistance on technical aspects in this context.

Annex I

Budgetary measures adopted by Cyprus in line with the staff level agreement reached between Cyprus and the EC/ECB/IMF on policy adjustments laid down in the draft Memorandum of Understanding (MoU) of 23 November 2012.

Fiscal measures with effect in 2012

Expenditure measures

I.1 Implement a scaled reduction in emoluments of public and broader public sector pensioners and employees as follows: EUR 0-1000: 0%; EUR 1001-1500: 6.5%; EUR 1501-2000: 8.5%; EUR 2001-3000: 9.5%; EUR 3001-4000: 11.5%; above EUR 4001: 12.5%.

I.2 Extend the suspension of the practice of COLA for the public and broader public sector until the end of the programme (Q1-2016) (see section 4.1).

I.3 Extend the freeze of increments and general wage increases in the public and broader public sector and temporary contribution in the public, broader public and private sectors on gross earnings and pensions by three additional years until 31 December 2016.

I.4 Reduce the number of public sector employees by at least five thousand over the period of 2012-16 by: i) freezing the hiring of new personnel on first entry posts in the broader public sector for three additional years until 31 December 2016; ii) implementing a policy of recruiting one person for every four retirees (horizontal); iii) introducing measures to increase the mobility of civil servants within and across line ministries (see 3.11); and iv) implementing a four-year plan aimed at the abolition of at least 1880 permanent posts (see I.17).

I.5 Freeze the hiring of new hourly paid employees and enforce immediate application of mobility within and across ministries and other government entities. In the case of health and security posts, recruitment of one person for every five retirees will be possible to meet urgent needs.

Revenue measures

I.6 Appropriate a one-off additional dividend income collected from semi-governmental organisations.

I.7 Increase the bank levy on deposits raised by banks and credit institutions in Cyprus from 0.095% to 0.11% with 25/60 of the revenue earmarked for a special account for a Financial Stability Fund.

I.8 Introduce a mechanism for a regular review of excise taxes to secure the real value of excise tax revenue. Such a mechanism should be non-recurring and should, by no means lead to an automatic indexation mechanism of excise taxes to price developments.

Fiscal measures with effect in 2013

Expenditure measures

I.9 Ensure a reduction in total outlays for social transfers by at least EUR 113 million through: (a) the abolition of a number of redundant and overlapping schemes such as the mothers allowance, other family allowances and educational allowances; and (b) the abolition

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of supplementary allowances under public assistance, the abolition of the special grant and the streamlining of the Easter allowance for pensioners.

I.10 Ensure a reduction of at least EUR 29 million in the total outlays of allowances for employees in the public and broader public sector by:

- i. taxing pensionable allowances provided to senior government officials and employees (secretarial services, representation, and hospitality allowances) in the public and broader public sector;
- ii. reducing the allowances provided to broader public sector employees and reducing all other allowances of broader public sector employees, government officials and hourly paid employees by 15%; and
- iii. reducing the daily overseas subsistence allowance for business trips by 15%. Ensure a further reduction the subsistence allowance of the current allowance when lunch/dinner is offered by 50% (20% - 45% of overseas subsistence allowance instead of 40% - 90% currently paid).

I.11 Reduce certain benefits and privileges for state officials and senior government officials, in particular by:

- i. suspending the right to travel first/business class by state officials, senior government officials and employees with the exception of transatlantic travel. The right to business class travel shall be maintained for the President of the Republic of Cyprus and the President of the House of Representatives;
- ii) abolishing the right to duty free vehicles for employed and retired senior public sector officials; and
- iii) extending the wage freeze and temporary contribution on gross earnings to cover all state officials and permanent secretaries (129 individuals) for 2013-2016, including members of the House of Representatives. Include pensionable and tax-free allowances of these individuals in the calculation of their taxable income. Introduce a contribution of 6.8% on the pensionable earnings of these individuals.

I.12 Implement the following measures regarding the Government Pension Scheme (GEPS):

- i. freeze public sector pensions;
- ii. increase the statutory retirement age by 2 years for the various categories of employees; increase the minimum age for entitlement to an unreduced pension (by 6 months per year) to be in line with the statutory retirement age; while preserving acquired rights, introduce an early retirement penalty of 0.5% per month of early retirement so as to make early retirement actuarially neutral;
- iii. reduce preferential treatment of specific groups of employees, like members of the army and police force, in the occupational pension plans, in particular concerning the contribution to the lump-sum benefits;

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iv. introduce a permanent contribution of 3% on pensionable earnings to Widows and Orphans Fund by state officials who are entitled to a pension and gratuity. Introduce a contribution of 6.8% on pensionable earnings by officials, who are entitled to a pension and gratuity but are not covered by the government's pension scheme or any other similar plan;

v. amend Article 37 of the Pensions Law to abolish the provision according to which, in the case of death of an employee, if the deceased had a wife/husband at the time of his/her retirement and thereafter he/she remarried, his/her last wife/husband is considered a widow/widower. With the abolition of this provision, the second wife/husband will not be considered a widow/widower and thus she/he will not be entitled to pension;

vi. increase the contribution rate on the pensionable earnings of the members of the Tax Tribunal Council and the Tender Review Authority from 3.4% to 6.8%; and

vii. the contributions to the Widows and Orphans Fund will no longer be reimbursable.

I.13 Implement further reform steps under the General Social Insurance Scheme by:

i. actuarially reducing pension entitlements from the General Social Insurance Scheme by 0.5% per month for retirements earlier than the statutory retirement age at the latest from January 2013, in line with the planned increase in the minimum age for entitlement to an unreduced pension to reach 65 (by 6 months per year), between 2013 and 2016;

ii. freezing pensions under the Social Security Fund for the period 2013-2016;

iii. apportioning the pension rights of a deceased pensioner between multiple husbands or wives in accordance to their years of marriage; and

iv. abolishing the increase of pensions for a working dependent spouse under the General Social Insurance Scheme at the latest from January 2013 onwards.

I.14 Reduce transfers by EUR 25 million from central government to state-owned enterprises and semi-public institutions.

I.15 Ensure a targeted reduction of budgetary appropriations for a series of semi-governmental organisations in the 2013 Budget Law, supported by well-defined activity-reducing measures.

I.16 Ensure a reduction of seasonal hourly paid employees by 992 from 1806 in 2012 to 814.

I.17 Implement a four-year plan as prepared by the Public Administration and Personnel Department aimed at the abolition of at least 1880 permanent posts over the period 2013-2016.

Revenue measures

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I.18 Increase excise duties on tobacco products, in particular on fine-cut smoking tobacco, from EUR 60/kg to EUR 150/kg. Increase excise duties on cigarettes by EUR 0.20/per packet of 20 cigarettes.

I.19 Increase excise duties on beer by 25% from EUR 4.78 per hl to EUR 6.00 per hl per degree of pure alcohol of final product. Increase excise duties on ethyl alcohol from EUR 598.01 to EUR 956.82 per hl of pure alcohol.

I.20 Increase excise duties on energy, i.e., on oil products, by increasing tax rate on motor fuels (petrol and gasoil) by EUR 0.07.

I.21 Increase the standard VAT rate from 17% to 18%.

I.22 Introduce a tax of 20% on gains distributed to winners of betting by the Greek Organisation of Football Prognostics S.A. (OPAP) and the National Lottery for winnings of EUR 5,000 or more.

I.23 Increase fees for public services by at least 17% of the current values.

I.24 Abolish all exceptions currently in place for paying the annual company levy of EUR 350.

Fiscal measures with effect in 2014

Expenditure measures

I.25 Ensure a reduction in total outlays for social transfers by a at least EUR 28.5 million to be achieved through streamlining and better targeting of child benefits and educational grants, and abolition of social cohesion benefits provided by the welfare services.

I.26 Implement a further reduction in emoluments of public and broader public sector employees and pensioners by a flat rate reduction of 3% on all wages.

I.27 Introduce a fee on monthly transportation cards for the use of public transportation services by students and pensioners.

I.28 Increase teaching time of teachers by one academic period in due time to have full effect in budget year 2014.

Revenue measures

I.29 Extend the application of the temporary contribution on gross earnings and pensions of public and private sector employees up to 31 December 2016 as follows: EUR 0 – 1,500: 0%; EUR 1,501 – 2,500: 2.5%; EUR 2,501 – 3,500: 3.0%; and > EUR 3,501 - : 3.5%.

I.30 Increase the standard VAT rate from 18% in 2013 to 19% in 2014.

I.31 Increase the reduced VAT rate from 8% to 9%.

I.32 Increase excise duties on energy, i.e., on oil products, by increasing the tax rate on motor fuels (petrol and gasoil) by EUR 0.05.

I.33 Increase the contributions, as of 1.1.2014, of salaried employees and employers to the GSIS by an additional 1 p.p. on pensionable earnings, i.e. 0.5 p.p. from employees and 0.5 p.p. from employers and 1 p.p. in the case of self-employed persons.