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Athens told to change spending and taxes

By Peter Spiegel in Brussels, Gerrit Wiesmann in Berlin and Kerin Hope in Athens

European creditor countries are demanding 38 specific changes in Greek tax, spending and wage policies by the end of this month and have laid out extra reforms that amount to micromanaging the country's government for two years, according to documents obtained by the Financial Times.

The reforms, spelt out in three separate memoranda of a combined 90 pages, are the price that Greece has agreed to pay to obtain a €130bn second bail-out and avoid a sovereign default that the government feared would throw Greek society into turmoil.

They range from the sweeping – overhauling judicial procedures, centralising health insurance, completing an accurate land registry – to the mundane – buying a new computer system for tax collectors, changing the way drugs are prescribed and setting minimum crude oil stocks.

"The programme is much, much more ambitious than economic reform," said Mujtaba Rahman, Europe analyst at the Eurasia Group risk consultancy. "This is state building, as typically understood in traditional low-income contexts."

Most urgency is attached to a 10-page list of "prior actions" that must be completed by Wednesday in order for eurozone finance ministers to give a final sign-off to the new bail-out at an emergency meeting scheduled for Thursday.

The 38 measures are a mix of laws that must be passed by parliament, ministerial decisions and presidential decrees that affect a complete cross-section of Greek economic activity, from health spending to municipal administration to tax collection.

Only a handful of the measures are listed as passed or in the process of being implemented, including a highly publicised €300m in pension reductions and €325m in other spending cuts. The other reforms are grouped under six categories, though most of the changes fall under spending cuts, bank regulations, and economic reforms.

Among the measures that must be completed in the next seven days are reducing state spending on pharmaceuticals by €1.1bn; completing 75 full-scale audits and 225 value added tax audits of large taxpayers; and liberalising professions such as beauty salons, tour guides and diet centres.

Even the longer-term reforms must be completed quickly. A draft 49-page "memorandum of understanding on specific economic policy conditionality", dated February 9, includes dozens of measures that must be completed in the first half of the year.

Many structural measures were agreed in 2010 as part of Greece's first rescue package but were blocked by influential interest groups, trade unions and some senior finance ministry officials.

The opening up of closed professions – including pharmacists, lawyers, and truck and taxi-drivers – was due in September 2010, for example. While legislation liberalising 130 sectors was passed last year, back-up measures needed to implement the law were postponed indefinitely after a fierce backlash, including a three-week strike by taxi drivers at the height of the tourist season.

Similarly, a delay in reforms of healthcare procurement, which are opposed by doctors, medical suppliers and hospital managers, meant that savings of only €500m were achieved in 2011 against a target of €1bn, leaving the missing amount to be collected this year.

Mr Rahman said the scale and the speed of the reforms demanded raised questions about whether sceptical eurozone lenders were setting up Greece to fail sometime within the next year.

"Even if one understands the political imperative, the programme is being set up to fail as many of the targets will be impossible to achieve," he said.