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# COMMISSION STAFF WORKING PAPER

## The Economic Adjustment Programme for Greece Third review – winter 2010

**Accompanying document to the Communication from the Commission to the Council: Follow-up to the Council Decision 2010/320/EU addressed to Greece, with a view to reinforcing and deepening fiscal surveillance and giving notice to Greece to take measures for the deficit reduction judged necessary to remedy the situation of excessive deficit**

COM(2011) 85 final

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ACKNOWLEDGEMENTS

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# EXECUTIVE SUMMARY AND CONCLUSION

*A joint Commission/ECB/IMF mission met with the Greek authorities in Athens on 27 January–10 February 2011. The mission assessed compliance with the terms and conditions of the third review under the economic adjustment programme and updated conditionality for the next reviews. Completion of the review will release the fourth tranche of financial assistance from euro-area Member States to Greece (EUR 10.9 billion) according to the loan facility agreement. Completion of the IMF review under the stand-by arrangement is expected to release an additional EUR 4.1 billion.*

**The programme's objectives remain intact**. The objectives of the adjustment programme are financial stability and adequate liquidity in the banking sector, reduction in fiscal deficit to bend the increasing dynamics in the government debt-to-GDP ratio, and a change to a growth model based on exports and investment, to ensure growth and jobs and the sustainability of the external accounts. As this compliance report documents, these objectives remain intact. Despite a number of hurdles, including a tense financial situation, contagion from other peripheral economies, persistent slippages in tax collection and delays in the adoption of complex and far-reaching structural reforms, the programme is broadly on track. However, determination in the implementation of economic policy is necessary for the programme to remain on track.

**The main features of the macroeconomic scenario remain valid, but growth composition needs reshaping**. Economic activity contracted by 4.5 percent in 2010, broadly as planned when the adjustment programme was designed. However, available data suggest that the downturn in domestic demand, mainly private consumption, was deeper than expected, while exports and non-domestic orders were strong at the end of 2010. The inflexion point of activity is estimated to sit in Q4-2010, while positive quarterly growth rates are expected to be recorded in the second half of 2011. The progressive rebalancing of the economy, supportive external demand and growth-friendly reforms will move the economy back to its potential. Growth rates for 2012–14, which underlie the programme, are prudent. Inflation at constant tax rates is hovering zero and are expected to remain moderate, despite commodity price-related upward risks.

**Most fiscal criteria for 2010 have been met, but action is needed for the 2011 fiscal targets to remain credible**. A severe contraction in payments by the end of the year offset large shortfalls in tax collection, thus resulting in the fulfilment of the cash-based quantitative criteria. The ESA fiscal deficit – which has a wider coverage and refers to underlying expenditure commitments rather than cash outflows – is estimated to have exceeded its ceiling by 1½ percent of GDP, as already projected at the time of the previous review in November. This slippage was in part because of the revision of historical statistics in autumn. Fiscal policy in 2011 aims at further reducing the deficit-to-GDP ratio, effectively cutting it to less than half the peak of 2009. However, meeting and over achieving those targets will require discretionary actions beyond the measures in the budget and an enhancement of the mechanisms to monitor expenditure commitments, and to ensure a successful fight against pervasive tax evasion.

**The government is preparing its medium-term fiscal strategy**. Fiscal consolidation measures adopted in the course of 2010 and in the budget for 2011 have been in excess of 14½ percent of GDP and aim at reducing the deficit ratio in two years (from 2009 to planned 2011) by around 8 points of GDP. However, the primary balance is still negative in 2011 and the increasing debt dynamics has not been stopped. The government has committed to identify additional consolidation measures, which will be implemented in 2012-14, so that fiscal targets are met. On current projections, these measures will have to be of at least 8 percent of GDP, though part of this total has already been identified.

**Following a slowdown in momentum in autumn, a wave of structural reforms is now underway**. After some early reforms adopted before the summer 2010, including a landmark pension reform and a first leg of labour reforms, the structural reform momentum lost traction last autumn, and there have been delays compared to earlier policy commitments. A law to further liberalise the labour market was adopted at the end of the year, with a reform of collective bargaining and other associated measures: its ambition was below expectations, though time is necessary to assess its effectiveness. Several other reforms are being prepared. The removal of unnecessary hurdles to the access and exercise of professions is a flagship reform of the whole adjustment programme. The reform of the national healthcare system aims at reducing costs without endangering the quality of care. A number of business environment-related measures, such as a new investment law, a new competition law or new rules on licensing have been adopted are approaching parliamentary proceedings. Irrespective of the urgency in adopting these reforms, it is critical to ensure the quality and ambition of legislation, and determined and effective implementation.

**The banking sector is stable, but tense**. The liquidity situation of banks remains tight; the outflow of deposits has not yet stopped. The collateral buffers of banks keep declining and the situation is likely to deteriorate due to changes in the ECB collateral framework and sovereign rating downgrades. Another tranche of the government-guaranteed bond scheme may be necessary in the course of the year. However, a number of banks are improving their solvency ratios by increasing share capital, selling subsidiaries abroad and cutting costs. No bank has had to get financing from the Hellenic Financial Stability Fund so far.

**Greece is suffering from contagion from other peripheral euro-area economies**. In order to convince markets, the programme benchmarks will have to be overachieved in the course of 2011. However, improvements in investor sentiment vis-à-vis Greece will depend very much on progress in the EU stability mechanisms. Therefore, progress in fiscal consolidation, structural reforms and growth prospects in Greece are a necessary but no longer a sufficient condition for confidence. Although a final decision on the extension of maturities would help overcoming the 2013 and 2014 financing humps, the main question that the markets are asking now is whether Greece will be able to return to the markets in 2012 to finance a substantial part of its long-term financing needs. In this respect, the recent decision by the Greek government to privatise assets worth EUR 50 billion in five years may substantially help in overcoming the immediate post-programme years.

**There is an intense debate on debt management transactions to reduce the debt stock**. These operations could cover buy-backs, rolling-over of debts or the voluntary extension of maturities. These transactions could be done by Greece with or without the support of EU facilities, without imposing a cost on creditors. Irrespective of the merit of those actions – which this report does not discuss – they would not do more than a small contribution to budgetary sustainability and financial stability in Greece. Therefore, this debate and those actions if implemented, must not reduce the political determination to, or distract the public opinion from, fiscal consolidation, privatisation and growth-enhancing structural reforms.

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**Subject to approval by the Eurogroup, the positive assessment of compliance with programme conditionality will release the fourth tranche of the loan from euro-area Member States (EUR 10.9 billion).** Overall, the mission concluded that the conditions for the fourth disbursement were broadly met. The government remains committed to the adjustment programme. In particular, the fiscal target for 2011 is within the interval of credible outcomes, and a wave of structural reforms is being prepared. The next steps in the implementation of the programme keep requiring the government's determination, political coordination and the consensus of the Greek society.

# 1. INTRODUCTION

1. **This report assesses compliance with the conditions of the third review of the Greek adjustment programme.** The assessment is based on the Greek government's quarterly progress report and the findings of the joint Commission/ECB/IMF review mission to Athens (27 January-10 February 2011). The mission assessed compliance with conditionality associated to the fourth disbursement and progress towards the key programme objectives of safeguarding the stability of the financial system, securing fiscal sustainability, and boosting competitiveness, potential growth and jobs. The mission discussed policy challenges and updated conditionality requirements for the next quarters. Updated memoranda were agreed with the authorities on 11 February 2011 and are attached to this compliance report.[*]

2. **In May 2010, the euro-area Member States and the IMF provided financial support to Greece given the deterioration of its financing conditions.** On 2 May 2010, the Eurogroup agreed to provide bilateral loans pooled by the European Commission for a total amount of EUR 80 billion to be disbursed over the period May 2010-June 2013. The financial assistance provided by the euro-area Member States is part of a joint package, with the IMF financing additional EUR 30 billion. This financial assistance package fully covers government financing needs related to its fiscal deficit and maturing medium- and long-term liabilities until the beginning of 2012, and progressively less thereafter. During the whole programme duration, Greece keeps its access to short-term financing.

3. **Three instalments have already been disbursed under the programme.** After the fourth disbursement, which, if approved by the Eurogroup and IMF board, is expected to take place by mid-March 2011, four tenths of the full package will have been disbursed. Two euro-area Member States – Ireland and Slovakia – are currently not participating in the disbursement of bilateral loans to Greece. Given the conditions of the loan facility agreement between Greece and the euro-area partners, this has no material impact on amounts that have already been paid or that are planned to be paid to Greece in 2010-12, as the relatively small shares of those two countries to the total euro-area loan to Greece are being redistributed among other partners.

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[*] This compliance report is released together with the Commission Communication "Follow-up to the Council Decision of 10 May 2010 addressed to Greece" (COM (2010) [*xxx*]) of 24 February 2011.
The quarterly report submitted on 12 February 2011, by the Greek Ministry of Finance is available for download at: http://ec.europa.eu/economy_finance/sgp/deficit/ countries/greece_en.htm.
During the review mission in Athens, the Commission/ECB/IMF staff teams met with the ministers of Finance, of Regional Development and Competitiveness, National Defence, Energy and Environment, Labour and Social Security, Health and Social Solidarity, Interior and e-Government, as well as with the governor of the Bank of Greece. Moreover the teams met with staff of these ministries and the central bank, as well as of the ministries of Infrastructure, Transport and Networks, Culture and Tourism, Education, Public Debt Management Agency, Hellenic Financial Stability Fund, Hellenic Statistical Authority, Hellenic Capital Markets Committee and Hellenic Competition Commission. Meetings also took place with social partners, think-tanks and several banks.

**Table 1. Disbursements under the economic adjustment programme (EUR billion)**

| Past disbursements | | | | | |
|---|---|---|---|---|---|
| | Euro-area Member States | | IMF | | Total |
| 1st tranche | 18 May 2010 | 14.5 | 12 May 2010 | 5.5 | 20.0 |
| 2nd tranche | 13 September 2010 | 6.5 | 14 September 2010 | 2.5 | 9.0 |
| 3rd tranche | 19 January 2011 | 6.5 | 21 December 2010 | 2.5 | 9.0 |
| Total past disbursements | | 27.5 | | 10.5 | 38.0 |
| **Planned disbursements** | | | | | |
| | Euro-area Member States | | IMF | | Total |
| 4th tranche | March 2011 | 10.9 | March 2011 | 4.1 | 15.0 |
| 5th tranche | June 2011 | 8.7 | June 2011 | 3.3 | 12.0 |
| 6th tranche | September 2011 | 5.8 | September 2011 | 2.2 | 8.0 |
| 7th tranche | December 2011 | 3.6 | December 2011 | 1.4 | 5.0 |
| 8th tranche | March 2012 | 7.3 | March 2012 | 2.7 | 10.0 |
| 9th tranche | June 2012 | 4.4 | June 2012 | 1.6 | 6.0 |
| 10th tranche | September 2012 | 4.4 | September 2012 | 1.6 | 6.0 |
| 11th tranche | December 2012 | 1.5 | December 2012 | 0.5 | 2.0 |
| 12th tranche | March 2013 | 4.4 | March 2013 | 1.6 | 6.0 |
| 13th tranche | June 2013 | 1.5 | June 2013 | 0.5 | 2.0 |
| Total planned disbursements | | 52.5 | | 19.5 | 72.0 |
| **Total programme** | | | | | **110.0** |

*Source*: Commission services and IMF.

**Table 2. Contributions by the euro-area Member States to disbursements to Greece (EUR million)**

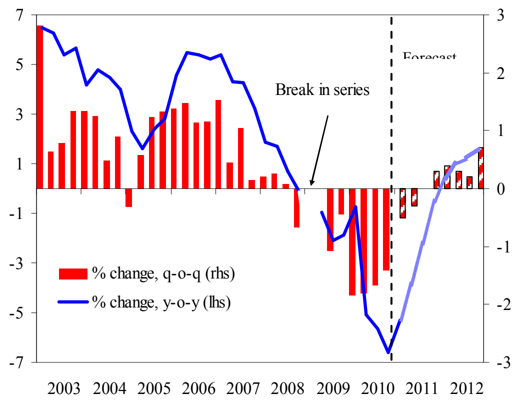
| | BE | DE | IE | ES | FR | IT | CY | LU |
|---|---|---|---|---|---|---|---|---|
| **May 2010** | 0.0 | 4427.9 | 0.0 | 1941.6 | 3325.2 | 2921.9 | 32.0 | 40.8 |
| **September 2010** | 758.8 | 1495.9 | 347.4 | 656.0 | 1123.4 | 987.2 | 10.8 | 13.8 |
| **January 2011** | 238.8 | 1864.4 | 0.0 | 817.5 | 1400.1 | 1230.3 | 13.5 | 17.2 |
| | **MT** | **NL** | **AT** | **PT** | **SI** | **SK** | **FI** | **Total** |
| **May 2010** | 14.8 | 932.5 | 454.0 | 409.3 | 0.0 | 0.0 | 0.0 | 14500.0 |
| **September 2010** | 5.0 | 315.0 | 153.4 | 138.3 | 102.9 | 0.0 | 392.2 | 6500.0 |
| **January 2011** | 6.2 | 392.6 | 191.2 | 172.3 | 32.4 | 0.0 | 123.4 | 6500.0 |

*Source*: Commission services.

# 2. MACROECONOMIC DEVELOPMENTS

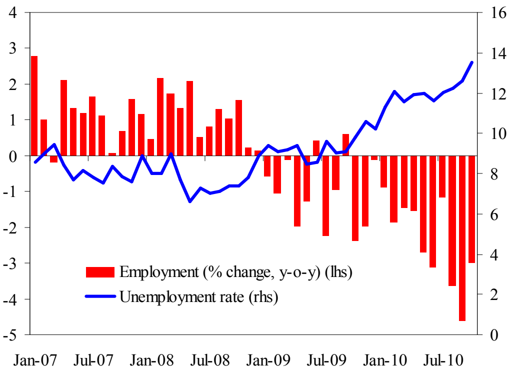
4. **The economy is contracting fast but the quarter of deeper contraction should be already behind us.** After a contraction by 5½ percent (year-on-year) in the second and third quarters of 2010, on average, the economy is estimated to have narrowed by 6½ percent in the last quarter of the year. For the year as a whole, real GDP growth was -4.5 percent. In 2010, private consumption fell by more than 4 percent, with a particularly strong contraction in the fourth quarter, consistent with a drop in consumer sentiment and a fall in credit to households, which resulted in a sharp deterioration in retail sales. In addition, employment and wage developments weighted on households' disposable income, in particular at the end of 2010: the full effect of public sector wage and pension cuts, including the year-end seasonal bonuses, which used to have a very large propensity to consume, materialised only at the end of the year. Investment recorded very negative readings, as business sentiment was depressed, capacity utilisation well below the historical average and credit supply restrained.

**Graph 1. Real GDP growth**



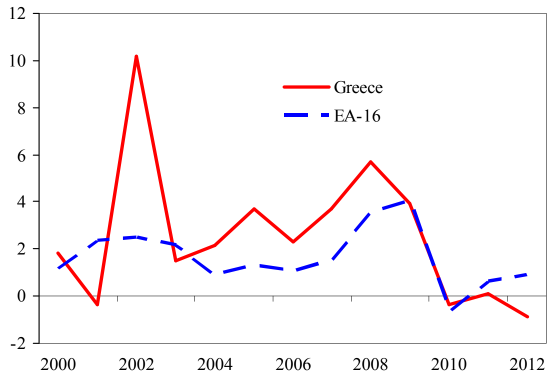

*Source :* EL.STAT and Commission services.

**Graph 2. Employment and unemployment rate**




*Source :* EL.STAT.

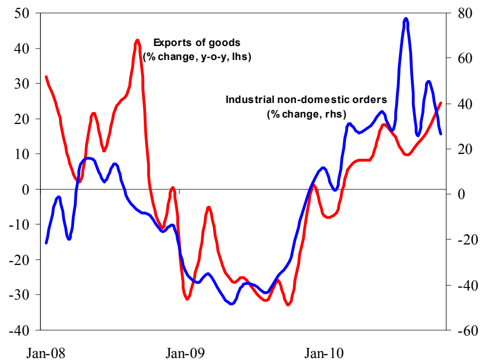
**Graph 3. Nominal unit labour cost (annual growth rate)**




*Source :* EL.STAT.

5. **The strength of external demand at the end of 2010 is encouraging.** Although complete data on the composition of demand are not yet available, high frequency indicators – such as monthly data on exports of goods and non-domestic orders – suggest a rebound in exports in autumn. Such a development reflects an improvement in the economic climate of Greece's main trading partners and gains in price competitiveness. Moreover, asymmetric developments in the domestic and global markets are prompting a diversion of Greek firms to foreign markets. This augurs well for the necessary change in the economy's growth model, with a shift of resources from the sheltered sectors to exports.

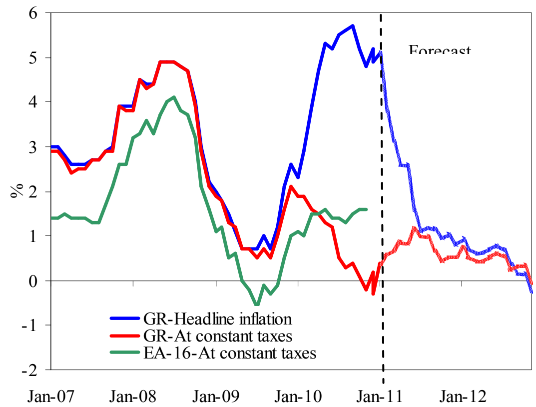
**Graph 4. Exports and non-domestic industrial orders**




*Sources:* EL.STAT and Bank of Greece.

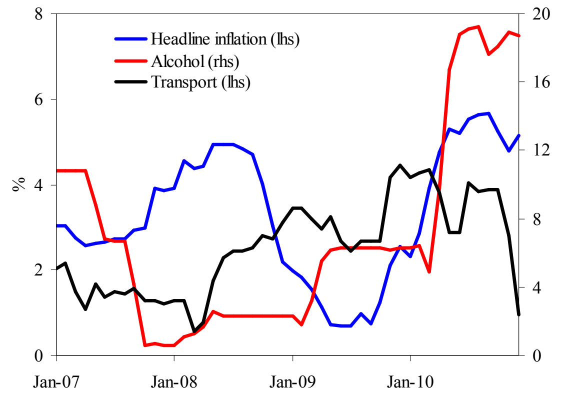
6. **Inflation has surprised again on the high side**. Inflation may have already passed its peak – in September the annual growth rate reached a peak of 5.7 percent – but remains stubbornly high. For 2010, average consumer price inflation was 4.7 percent. In January 2011, HICP increased by 4.9 percent (year-on-year). These growth rates are being driven by the tax increases adopted in several waves over the last twelve months: for 2010 as a whole, the tax component of the inflation rate was in excess of 3½ percentage points. Constant-tax inflation has touched negative territory in November, and this indicator is expected to be very moderate in the near future.

**Graph 5. HICP inflation developments and projections (% change, y-o-y)**

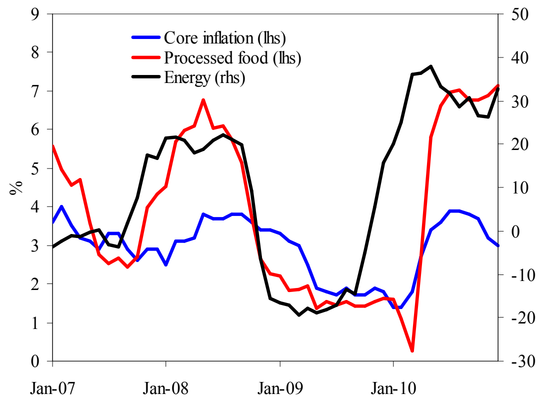



*Source:* EL.STAT.

**Graph 6. HICP inflation main drivers developments (% change, y-o-y)**




*Source:* EL.STAT.




*Source:* EL.STAT.

**7. The mission revisited the macroeconomic scenario in light of new, albeit limited, evidence:**

- **Economic activity should start growing in the second half of 2011.** GDP is projected to decline by 3 percent in real terms in 2011. This remains unchanged as compared to the previous compliance report. However, the composition of demand has changed with stronger net exports and weaker internal demand as higher consumer prices compress disposable income: during the three years 2009-11, per capital private consumption is falling by around. 10 percent The average growth rate for the year as a whole hides substantial differences in quarterly growth rates – positive growth rates are expected for the second half of the year – and a strong negative carryover coming from 2010. Risks to the macroeconomic scenario for 2011 and onwards are balanced. These risks are related to both the strength of external demand and domestic developments. In particular, risks on net exports are on the upside, but less favourable employment could depress income and consumption.

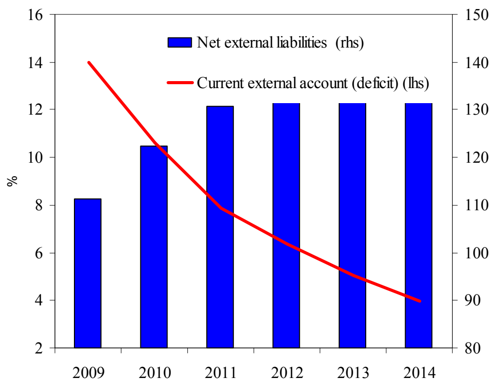
- **The inflation outlook has been revised upwards.** HICP inflation is projected to moderate from 4.7 in 2010 to 2.4 percent in 2011. This is in spite of the VAT increase in January 2011, the plans to increase excises on heating oil in autumn and the cost recovery in the tariff policy of state-owned enterprises. The forecast has been slightly revised upwards, mostly due to revised prospects for commodities and oil prices. Constant-tax inflation is expected to be negative during 2011 and to remain close to zero thereafter. This forecast does not yet fully reflect the impact of the ongoing structural reforms, which will contribute to productivity, competition and higher price flexibility. Therefore, prices could fall by more than in the central scenario. However, there are also upward risks in relation to import prices. Overall inflation is expected to decelerate markedly in the course of 2011 and to remain below or around 1 percent in 2012-13.

- **The labour market is adjusting fast.** There is evidence of strong downward pressure on labour costs, in particular non-basic pay, as the cuts in public sector wages spill over the private sector and firms endeavour to recover competitiveness, and to absorb indirect taxes in their margins and costs. Employment has contracted in 2010 and is projected to decline further by some 2½ percent in 2011, with the unemployment rate peaking at above 14¾ percent – higher than previously projected. On the other hand, a symmetric faster rebound of employment in the recovery phase is possible, especially if ongoing labour market reforms are implemented as planned, and the economy is successful in swiftly reallocating resources from the non-traded sectors to tradables. Wage projections remain very subdued in line with the national collective agreement of July 2010 (for minimum wages, but which also play a guiding role for other wages as well).

- **The external deficit is contracting, but remains high.** The current account was marginally below 11 percent of GDP in 2010, and is estimated to decline to about 8 percent in 2010. This improvement resulted mainly from a contraction in imports (by more than 6 percent in real terms), while the strong exports in the last months of 2010 have only partially offset anaemic external demand in the first half of the year. For 2011 and beyond, the external current account is projected to fall to 6¼ percent of GDP in 2012 and 5 percent in 2013. The net external debt-to-GDP ratio is projected to increase to 134 percent to in 2012 and stabilising after then.

8. **The success of the programme and the orderly adjustment of the Greek economy depend very much on a strong recovery from 2012 onwards.** The economy is currently projected to grow by 1 percent in 2012 and by slightly above 2 percent in 2013 and 2014. These growth rates are still below potential growth rate for the Greek economy once barriers hampering growth are removed, markets are liberalized, credit flow normalizes and confidence returns. After three years of contraction in economic activity, potential for a larger rebound is substantial if implementation of programme policies proceeds as planned, with key reforms enacted upfront. However, given the necessary large-scale change in the growth model and the need to improve price and non-price competitiveness of Greek firms, prudent medium-term projections appear appropriate and contribute to robust fiscal planning.

**Graph 7. Current account and net external liabilities (percent of GDP)**




*Source:* EL.STAT and Commission services.

**Table 3. Macroeconomic scenario: main features**

| | 2010 | 2011 | 2012 | 2013 | 2014 |
|---|---|---|---|---|---|
| Real GDP (growth rate) | -4,5 | -3,0 | 1,1 | 2,1 | 2,1 |
| Domestic demand contribution* | -8,0 | -6,2 | -1,0 | 0,8 | 1,0 |
| Net trade contribution | 3,9 | 3,1 | 1,8 | 1,4 | 1,1 |
| Employment (growth rate) | -2,8 | -2,6 | 0,1 | 0,9 | 1,2 |
| Unemployment rate (percent of labour force) | 12,1 | 14,7 | 14,9 | 14,3 | 13,5 |
| Unit labour cost (growth rate) | -1,1 | -0,5 | 0,2 | -0,3 | 0,0 |
| HICP inflation | 4,7 | 2,4 | 0,6 | 0,7 | 1,1 |
| Current account balance (percent of GDP) | -10,6 | -7,9 | -6,3 | -5,0 | -4,0 |
| Net borrowing vis-à-vis RoW (percent of GDP) | -9,5 | -6,6 | -5,0 | -3,6 | -2,4 |

** Excluding change in inventories and net acquisition of valuables*

*Source* : Commission services.

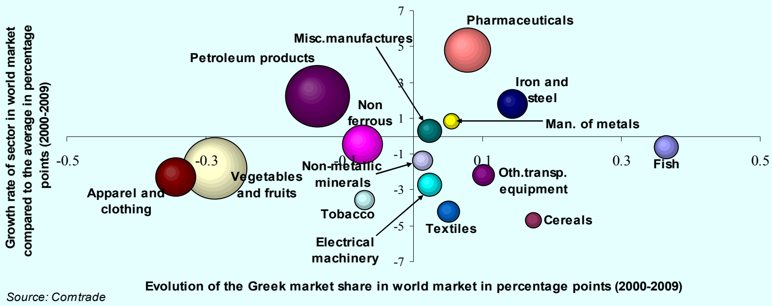
*Box 1:* **Export growth drivers**

**The Greek economic growth in the medium-term is expected to be driven by external trade, as the economy shifts to a more sustainable model**. GDP growth rates have been negative since Q4-2008 and activity is expected to further shrink in the first half of 2011, on the back of contraction in private and public consumption and sluggish investment. Net exports are the only GDP component which is estimated to have exhibited a positive contribution to growth in 2010. This reflected both strongly falling imports, and slightly positive growth in exports in 2010, after a 20 percent slump in the previous year. Exports are expected to rise by around 5 percent in real terms in 2011, as demand from trade partners accelerates and Greece recovers competitiveness. Given the losses in market share of goods and services exports accumulated during the pre-crisis decade, exploiting the potential of the underdeveloped external sector of Greece will play a key role in driving economic activity in the coming years.

**Greece is a relatively closed economy with a structural trade deficit.** Considering its size, the Greek economy is surprisingly closed, with imports at 30 percent, and exports of not more than 19 percent of GDP (2009 data). During the last decade, the goods and services deficit was systematically above 10 percent of GDP, though it fell slightly from 13½ percent in 2000 to 10¾ percent in 2009. The deficit in goods trade of 16½ percent of GDP in 2009 was only partly mitigated by a surplus in services of 5¾ percent. Therefore, while there is a large unexploited potential, the small size of Greek exports mean that very dynamic growth rates will be necessary to pull the whole economy.

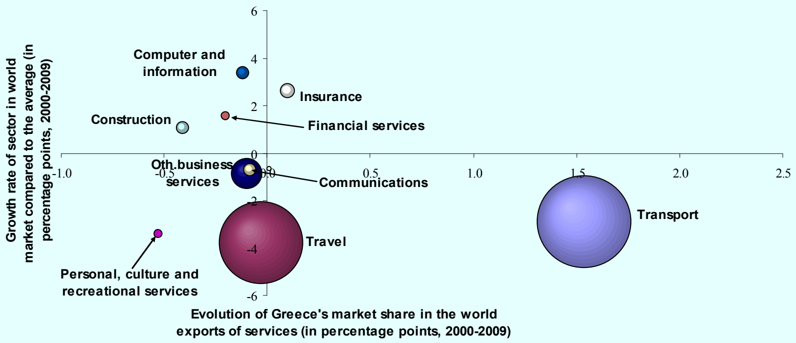
**Mapping the sectoral market shares and global export demand helps in identifying the opportunities and shortcomings of the Greek export sectors.** Graphs 1 and 2 show Greece's major export sectors in goods and services, in perspective of market shares and global export dynamics. Sectors with above-average growth rates in world markets are shown above the horizontal axis. To the right of the vertical axis, Greek export sectors that have increased their market shares are found. The top right quadrant, therefore, identifies the most promising sectors, benefiting from dynamic world demand and enjoying relatively large market shares. Sectors located in the top left quadrant imply growth opportunities since world demand for these products is above-average, while Greece's market share is still weak and could be expanded. Sectors in the bottom right quadrant, on the other hand, are well represented in Greece's exports and could yield sizeable earnings, but world demand has not been, or is not expected to be, dynamic. Finally, the sectors in the bottom-left quadrant are the least promising, characterised by sluggish world demand and low Greek market shares. The size of the bubbles is proportional to the share of each sector in total Greek exports of goods and services. This mapping suggests that Greece's most promising export sectors are pharmaceuticals, petroleum products and transport services, while the outlook for tourism is mixed.

**Graph 1. Mapping of opportunities for Greek exports of goods**




Source: Comtrade

**Graph 2. Mapping of opportunities for Greek exports of services**




**Pharmaceuticals are among the most promising export sectors.** Greek pharmaceuticals are characterised by both growing market share and above-average world export growth over the last decade. The presence of multinational pharmaceutical companies in Greece offers the opportunity for knowledge spill-overs and access to R&D resources which have been scarce in Greece due to the large share of SMEs. Significant investments are underway in this sector and an effort to promote FDI and improve the R&D framework could help to further improve competitiveness.

**Greece's petroleum sector has benefited from dynamic world markets and new projects are in the pipeline.** Greece operates ten oil terminals and four major refineries with a total crude oil refining capacity of 490 000 bbl./day, of which one third is exported. Greece's oil product exports increased by 57 percent in 2004-09. However, the feedstock is largely imported, thereby limiting the domestic value added. Future prospects of the petroleum sector may be fuelled by an envisaged new oil pipeline connecting Greece and Russia via Bulgaria, bypassing Turkey's Bosporus. The pipeline is expected to commence operation in 2013.

**Greece's market share of transport services has grown fast, although global dynamism in this sector was sluggish.** Greece's sea transport sector further increased its already dominant market share in recent years. The Greek maritime fleet is the largest in the world in terms of capacity. In the short-term, prospects for shipping remain difficult and uncertain, due to oversupply. In the medium to longer term, however, Greece could strengthen its role as a regional transportation hub and gateway to Southern Eastern Europe, provided that the infrastructure of other means of transport and their connectivity were sufficiently upgraded. The continuing rise in Chinese demand for containerised exports, already making up a quarter of the world total, also strengthens Greek potential.

**The Greek tourism sector has lost ground but bears the potential for higher growth contributions.** The contribution of tourism to GDP has been constant at around 15 percent since 1990. However, Greece has fallen behind its most important competitors. While Greece's tourist receipts grew by 57 percent in 2000-09, they rose by 116 percent in Egypt, 178 percent in Turkey and 219 percent in Croatia during the same period. As a result, Greece's world ranking in tourist receipts fell from rank 11 to 15. Greek tourism suffers from over-concentration of 65 percent of supply in only four geographical regions and an intense seasonality of demand with 50 percent of arrivals within three months. According to tourism experts, a new growth model to better develop the unexploited potentials of the tourism sector would include facilitating investment in the tourism sector by fast-track procedures and zoning simplifications; improving the coordination of tourism promotion efforts; creating a better marketing infrastructure via web applications and promoting niche markets such as winter holiday homes; developing more synergies with the culture, sports, education, medical and gastronomy sectors, and investing in technology and human resources with a view to improving value-for-money and positioning Greece as a high-quality tourist destination. Moreover, improving airline connections both with the European low-cost network and with long-haul emerging market origin countries has shown to vitalise the tourism industries in other countries and could also enhance Greece's attraction as a holiday destination.

**The food and beverage industry has experienced sluggish world market growth but Greek products could capitalise on their high quality.** The food and beverage industry is one of Greece's major export sectors, accounting for around 25 percent of manufacturing value added and 12 percent of goods exports. Agriculture and fish add another 13 percent. Greek food products generally benefit from exceptionally high quality and specific characteristics. However, the sector suffers from small average firm size, low market prices and difficulties in finding markets outside the EU. Greece has been losing ground to its competitors, notably Spain. In Turkey, Greece's market share in the food industry has remained constant at around 1.5 percent since the early 1990s, overtaken by that of Spain which rose from 0.5 to 2.5 percent during the same period. In Germany, Spain's market share increased from 12 percent to 17 percent while Greece's shrank from 3 to 2 percent. Opportunities for the Greek food and agricultural sector could be exploited by developing the market for traditional products, benefiting from the tendency to Mediterranean diets, and healthy and high-quality products.

**The Greek clothing industry has been facing structural challenges**, most notably by low-cost competitors, such as China and other Asian countries. Graph 1 shows that both apparel and textile have been growing below-average on world markets. In 2010, of the Greek textile exports grew by around 12 percent, catching up after a sharp decline in the previous year. Unless the Greek textile industry manages to move to a high-quality niche segment, it is, however, unlikely that the textile industry will regain structural competitiveness on world markets.

**The iron/steel and mineral sectors are facing short-term difficulties despite market opportunities.** Greece's iron and steel sector enjoyed a growing market share and dynamic world demand over the last decade. However, the Greek steel industry is relatively small, contributing only around 1 percent to the EU's annual production. Despite a strong pick-up in global steel markets of 15 percent in 2010, Greece's output contracted by 8 percent. While Turkey's growing steel sector exports mostly to the Middle Eastern and North African region, Greece does not seem to capitalise sufficiently on these neighbouring dynamic markets. Greece's minerals industry, although among the EU's largest in terms of bauxite, magnesium and nickel, has been suffering from a relatively small industrial base, lack of adequate investment and distance from EU markets. Its world market share has increased since the beginning of the decade, but world markets have been growing below average. In the medium-term future, the emerging Balkan markets could offer new opportunities for growth. The privatisation of a state-owned mining company (LARKO) could also help revitalising the sector.

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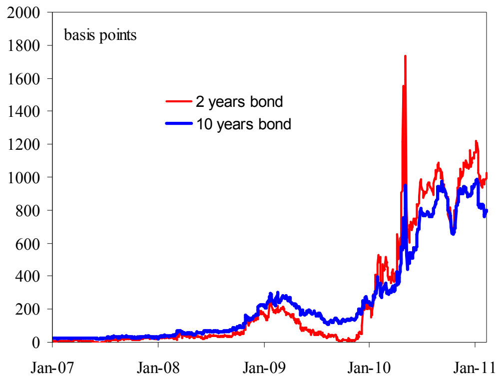
# 3. FINANCIAL MARKETS AND FINANCIAL SECTOR DEVELOPMENTS

9. **Investor sentiment towards Greek sovereign debt remains very negative.** The main risk indicators – like CDS spreads and yield spreads vis-à-vis the German government paper for similar maturities – show that financial markets keep a very sceptic view on Greece tapping financial markets from 2012 on. Given investment restrictions and rules by international banks, insurance companies and pension schemes, the current ratings do not help: all three rating agencies now rate Greek government paper as junk. Fitch has recently downgraded the Greek sovereign rating (from BBB- to BB+) and keeps a negative outlook while Moody's (Ba1) and S&P (BB+) are reviewing ratings.

**Graph 8. Yield spreads**




*Note:* Greek government bond spreads (2-year and 10-year bonds) vis-à-vis German Bundes.

10. **The liquidity situation of banks remains tight.** The deposit outflow since the beginning of 2010 is at 16 percent and the sovereign debt crisis and the concomitant rating downgrade have reduced the collateral available for ECB liquidity provision. Market volatility, the changes to the ECB collateral framework and possible downgrades of the sovereign were grounds for further enhancement of the liquidity cushion in the system.

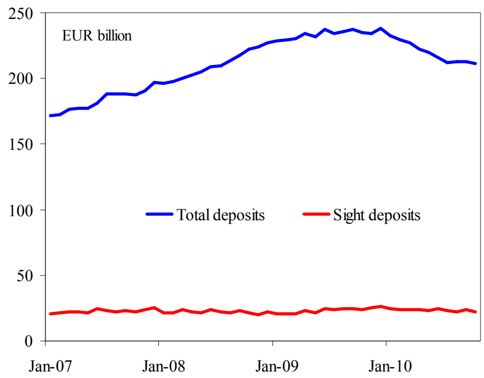
11. **Responding to the need to strengthen balance sheets, some modest deleveraging is ongoing. A** number of banks have expanded their balance sheets in the course of 2010, however**,** despite the contracting economy. The banks increased their exposure to the Government while they modestly deleveraged from the real economy. Total assets of Greek commercial banks increased from EUR 454 billion at the end of 2009 to EUR 465 billion in September, driven by growing holding of government bonds. Total loans and advances of the banking groups decreased from EUR 308 billion to EUR 306 billion at the same time. The average loan-to-deposit ratio in Greece was 120 percent at the end of 2010, up from about 114 percent in 2008-09. The increase was mainly due to the shrinking deposits.

12. **The banking sector remains solvent, though asset quality continued to deteriorate**. Despite better than expected net interest income in the first nine months of 2010, the Greek banks suffered from losses on their loan and trading book. The non-performing loans increased to 10 percent in September 2010, from 7.7 percent at the end of 2009. The corresponding increase in provisioning, especially in the domestic lending portfolio, resulted in a loss for the system on a consolidated basis. Profitability measured by return on assets and equity fell to -0.3 percent and -3.7 percent, respectively, during the first nine months of 2010. The average capital adequacy ration (CAR) at the end of September was 11.4 percent, while the tier I ratio was 10.1 percent.

13. **Some banks carried out successful capital increases on the market.** In October, NBG raised EUR 1.8 billion by issuing shares and convertible bonds. A similar operation was completed by Piraeus Bank (EUR 0.8 billion) in early 2011. Other opportunities for improving capital

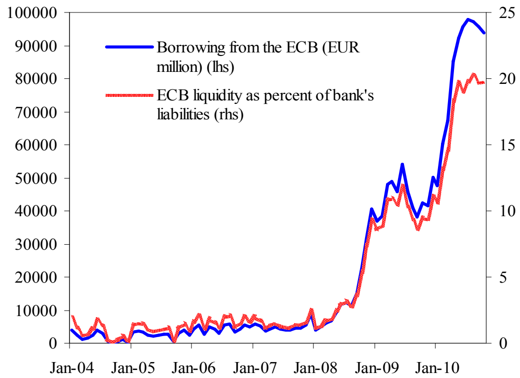
adequacy include reduction of risk-weighted assets, including sales of subsidiaries. The latter refers to the sale by NBG of a minority stake in Finansbank (Turkey) and the Eurobank sale of a majority stake in Polbank (Poland). Moreover, the Hellenic Financial Stability Fund (FSF) remains available as a capital backstop

**Graph 9. Bank deposits**




*Source:* Bank of Greece

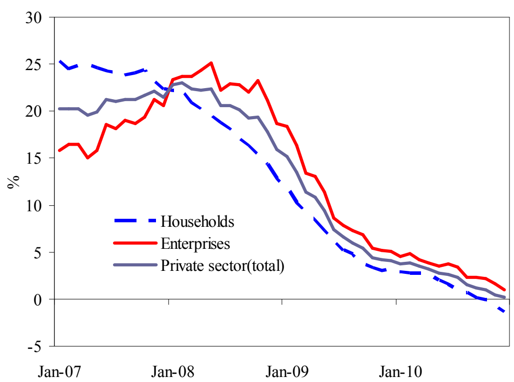
**Graph 10. Greek banks' borrowing from the ECB**




*Source:* IMF, FIS

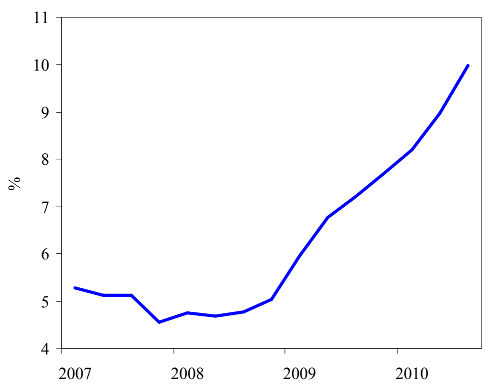
**14. The Greek financial system has benefited from various Eurosystem policies in 2010 and 2011.** The fixed-rate full-allotment tender procedures in the Eurosystem monetary policy operations have eased the funding activity of all banks in the euro area, including Greek banks. Furthermore, the already very flexible collateral framework was further broadened on 3 May 2010 based on the ECB Governing Council's positive assessment of the Greek adjustment programme. The ECB decided to suspend the application of the minimum credit rating threshold in the collateral eligibility requirements for the purpose of the Eurosystem credit operations, in the case of marketable debt instruments issued or guaranteed by the Greek State. This suspension, combined with the pre-existing flexible collateral framework, eased the access to Eurosystem funding for all counterparties, in particular the Greek ones. In a similar vein, the ECB's securities markets programme (SMP) helped contain undue volatility in sovereign bond market prices in Greece and other peripheral euro area economies.

**Graph 11. Credit to private sector (percent change, y-o-y)**




*Source:* Bank of Greece

**Graph 12. Non-performing loans**



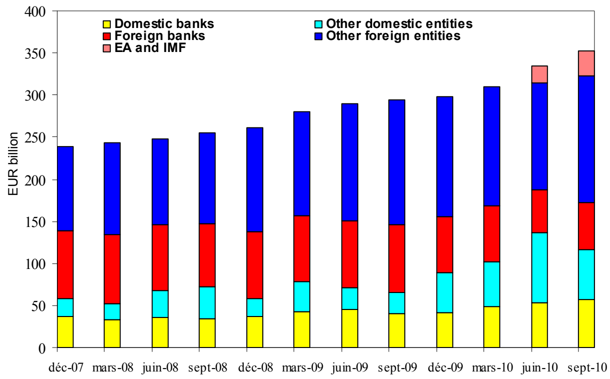

*Source:* Bank of Greece

**Table 4. Banking sector soundness indicators**

| | basis | 2007 | 2008 | 2009 | 2010-Q1 | 2010-Q2 | 2010-Q3 |
|---|---|---|---|---|---|---|---|
| Capital adequacy ratio | consolidated | 11,2 | 9,4 | 11,7 | 11,7 | 11,2 | 11,4 |
| | *solo (1)* | *12,7* | *10,7* | *13,2* | | *12,3* | *12,8* |
| Tier I ratio | consolidated | 9,2 | 7,9 | 10,7 | 10,6 | 10,1 | 10,1 |
| | *solo* | *9,3* | *8,7* | *12,0* | | *11,0* | *11,2* |
| Return on assets (after tax) | consolidated | 1,4 | 0,7 | 0,2 | | -0,3 | -0,3 |
| | *solo* | *1,0* | *0,2* | *-0,1* | *-0,6* | *-0,6* | |
| Return on equity (after tax) | consolidated | 17,7 | 10,0 | 2,4 | | -4,5 | -3,7 |
| | *solo* | *14,8* | *3,2* | *-1,5* | *-8,7* | *-9,7* | |
| Loan to deposit ratio | consolidated | 106,0 | 114,0 | 113,8 | | 122,4 | 120,0 |
| Non performing loan ratio (2) | *solo* | *4,5* | *5,0* | *7,7* | *8,2* | *9,0* | *10,0* |
| Coverage ratio (3) | *solo* | *53,4* | *48,9* | *41,5* | *42,8* | *43,4* | *43,2* |

Notes: (1) at the level of the individual entity; (2) Non performing loans as percentage of total gross loans; (3) Provisions as percentage of non-performing loans.
Source: Bank of Greece.

**Graph 13. Holding of Greek government debt**




*Source :* ECB and Commission services.

*Box 2:* **State aid to financial institutions in the context of the financial crisis**

**State aid control is an integral part of the EU's competition policy.** Since the beginning of the current crisis, the Commission's interventions have contributed to maintaining financial stability while preserving a level playing-field across Member States and financial institutions and safeguarding the real economy and the internal market. From the competition and state aid standpoint, the Commission achieved this objective by giving legal certainty to the support measures given by Member States and by making possible that real economy had access to credit. The absence of state aid rules could have led to a costly and distortive subsidy race between Member States at taxpayers' expense. Uncoordinated national action would have seriously undermined the internal market and financial stability.

**Exceptional circumstances and systemic risk.** From the viewpoint of competition policy, the European Commission approached the resolution of the financial crisis in different steps. During the first phase, before the Banking Communication was published in mid October 2008, the Commission tackled the individual state aid cases according the Community Guidelines on State aid for rescuing and restructuring firms in difficulty (the so-called 'R&R Guidelines'). The general erosion of confidence within the banking sector and the serious difficulties to access liquidity, in October 2008, led to a systemic dimension of the crisis, justifying the application of the legal basis that allows for remedying a serious disturbance to the economy of a Member State.

**The Commission's communications.** The 'Banking Communication' of 13 October 2008 provided an appropriate European framework to allow rescue operations in order to stop or prevent runs on financial institutions. It indicates how the Commission intends to apply state aid rules to state support schemes and individual assistance for financial institutions. Support schemes such as guarantees or recapitalisation schemes must be well-targeted and proportionate to the objective of stabilising financial markets and contain certain safeguards against unnecessary negative effects on competition. In a second step, the 'Recapitalisation Communication' of 5 December 2008 identified a set of standards and safeguards allowing Member States to recapitalise banks in order to ensure adequate levels of lending to the economy. The third step was the clean-up phase of financial institutions' balance sheets by removing toxic assets and underperforming loans. The 'Impaired Assets Communication' of 25 February 2009 provided the framework for this phase. The 'Restructuring Communication' of 14 August 2009 addressed the follow-up to such support measures. It builds on three fundamental principles: (i) aided banks must be made viable in the long term without further state support; (ii) aided banks and their owners must carry a fair burden of the restructuring costs and (iii) measures must be taken to limit distortions of competition in the Single Market.

**The phasing out process.** On 2 December 2009, the ECOFIN Council emphasised the need to phase out from various forms of temporary support for the financial sector, starting from the guarantee schemes. Since 1 July 2010, the Commission has applied tighter conditions for the compatibility of government guarantees, by introducing (i) an increased guarantee-fee based on a bank's creditworthiness and (ii) the new requirement of a viability plan for beneficiaries that have recourse to new guaranteed and exceed a certain threshold of total outstanding guaranteed liabilities. As of 1 January 2011, a restructuring plan is required from every beneficiary of a new recapitalisation or an impaired asset measure, thus creating an incentive to accelerate the necessary restructuring.

**State aid to financial institutions in Greece.** In 2009, before the sovereign debt crisis, Greece had already put together a banking rescue package which provided for liquidity and capital support to banks in Greece. This support package has been used by all major Greek banks. Tzn banks were recapitalised in May and July 2009. As a consequence of the capital support, the recapitalised banks have to present restructuring plans.

In 2010, following the sovereign debt crisis, euro area Member States and IMF provided financial support to the country. In order to strengthen the Greek financial system, two important schemes with relevance in terms of State aid control were put into place: (i) Issuance of additional government guarantees to be used as collateral in order to obtain funding from the ECB. An additional amount of EUR 25 billion was authorised by the Commission under State aid rules in June and December 2010. (ii) The establishment of an independent Financial Stability Fund (FSF) as a safety net to preserve the solvency of the financial sector by providing capital support to banks. The granting of aid was subject to a scheme which was authorized by the Commission under state aid rules in September and December 2010.

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# 4. PROGRAMME IMPLEMENTATION AND POLICY DISCUSSIONS

15. **Implementation of the programme has encountered a number of barriers.** While Greece was a source of financial contagion in the first half of 2010, it is now suffering from contagion from other peripheral economies and the political uncertainty in relation to the EU-wide facility mechanisms. Fiscal consolidation was held back by a less than successful fight against tax evasion and incomplete expenditure control. The implementation of a wide and ambitious agenda of structural reforms stretched the capacity of the Greek administration, all the more as from a technical point of view, reforms have become more complex and therefore more difficult to design. Moreover, many reforms have met fierce resistance by vested interests.

16. **The government remains committed to the programme.** In 2011, this commitment will be tested in the implementation of fiscal policy, including preparing a credible medium-term fiscal strategy and in overcoming interest groups that oppose growth-enhancing reforms. Polls suggest that the Greek society understands the need for, and supports, fiscal austerity and other measures to liberalise the economy and modernise institutions.

**Table 5. Summary of compliance with conditionality for end-December 2010**

| | Overall assessment | Comments |
|---|---|---|
| **Fiscal policy** | Partially observed | The ESA-based fiscal deficit was missed. Cash-based spending and deficit ceilings were respected. |
| **Structural fiscal reforms** | Partially observed | A key healthcare reform has been adopted. A tax policy act has been tabled in Parliament. The government announced its privatisation plan for 2011, and decided to substantially scale it up. |
| **Financial sector policy** | Largelly observed | A EUR 25 billion tranche of government guarantees on bank bonds was made available in November. The FSF is operational, though there are lingering problems in staffing. |
| **Other structural reforms** | Partially observed | A new wave of structural reforms is ongoing, though with some delay compared to previous policy commitments |
| **Data provision** | Largelly observed | There are still issues in the prompt availability of data on expenditure commitments and payment arrears. |

*Source:* European Commission.

## 4.1. FISCAL POLICY

### 4.1.1. Fiscal developments in 2010

17. **The ESA-based government deficit for 2010 is estimated at 9½ percent of GDP** or EUR 22 billion. This is in excess of the target of EUR 18.0 billion (8 percent of GDP). There is still some uncertainty on the 2010 outcome as data on the financial performance of state-owned enterprises, extra-budgetary funds, social security and hospitals, and local government are not yet complete. There are also uncertainties on the differences between cash and accrual accounting. For Greece, as for all other EU Member States, the first complete set of ESA-based annual data will be available by end-March, and validated by Eurostat in April.

18. **The quarterly quantitative performance criteria on a cash basis for the Q4- 2010 were met.** While the criterion on state primary spending (cash) for the fourth quarter of 2010 was met with a large margin reflecting an under execution of payments compared to plans, the criterion on (available) general government primary balance (cash) was respected by a very thin margin. The outcome for both criteria was better than projected in the previous compliance report. However, it may have been

distorted by the accumulation of arrears and other payables. The central government debt criterion has also been respected.

**Table 6. Quantitative performance criteria and outcomes (EUR billion)**

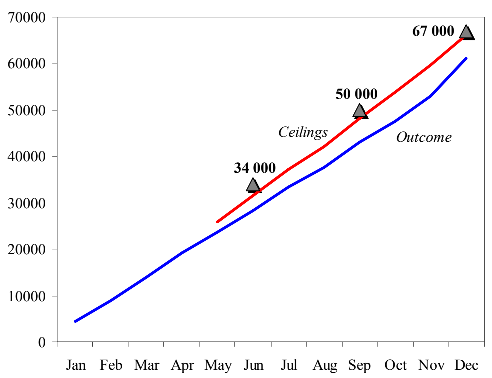
| | end June 2010 | | end September 2010 | | end December 2010 | |
|---|---|---|---|---|---|---|
| | Actual data | QPC | Actual data | QPC | Actual data | QPC |
| General government primary cash balance[1] | -3,9 | -5.0 (floor) | -3,6 | -4.0 (floor) | -5,5 | -5.7 (floor) |
| State budget primary spending | 28,4 | 34 (ceiling) | 43 | 50 (ceiling) | 61.1 | 67 (ceiling) |
| Overall stock of central government debt | 317 | 342 | 328 | 342 | 366* | 342 |
| New guarantees granted by the central government | 0,3 | 2,0 | 1,2 | 2,0 | 1,3 | 2,0 |
| Accumulation of external payment arrears on external debt contracted or guaranteed by general government | 0 | 0 | 0 | 0 | 0 | 0 |
| Accumulation of domestic arrears (indicative) | 1 | 0,0 | 0,8 | 0 | 3,0 (estimate) | 0,0 |

1/ Available general government: it does not include extra-budgetary funds and public enterprises.

* Adjusted for upward revision to end-2009 stock of central government debt (original ceiling EUR 342 billion)

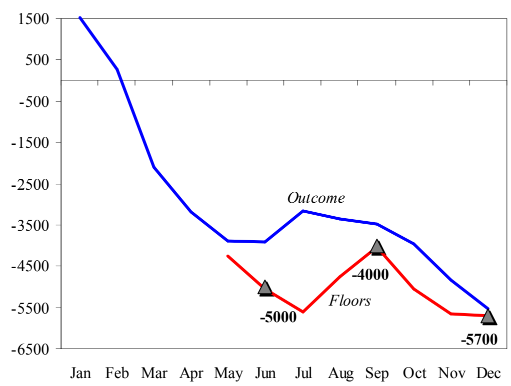
*Source*: Commission services.

**Graph 14. State primary payments - 2010**




*Sources : GAO and Commission services*

**Graph 15. (Available) government primary balance - 2010**




*Sources : GAO and Commission services*

**19. Three main features characterised the fiscal year 2010:**

- **The implementation of several waves of deficit-reducing measures.** The full-year impact of total measures implemented in 2010 reached EUR 22 billion (or 10 percent of GDP), of which EUR 19.5 billion were reflected in the 2010 accounts, and EUR 2.5 billion carryover into 2011. Measures weighing on 2010 accounts were EUR 10.4 billion (or 4.4 percent of GDP) on expenditure and 9.2 billion (or 4 percent of GDP) on the revenue side of the budget. The reduction in the deficit was much less than total measures, given the underlying upward pressure on expenditure (e.g. interest, old-age pensions) and the impact of the unfavourable economic activity on taxes and social spending.

- **Large shortfalls in tax collection.** Revenue collection disappointed and was revised downwards on several occasions. For the year as a whole, state revenue was EUR 4.5 billion (2 percent of GDP) less than projected in May 2010, when the adjustment programme was designed. This result reflected a weaker-than-planned internal demand, and households' and corporates' liquidity constraints. However, there is also evidence that the measures against tax evasion in the course of 2010 were not fully successful and need to be strengthened. A tax settlement organised at the end of the year was only partially successful: it collected EUR 1 billion, much above plans, but this was at the costs of underperformance of regular tax collection.

- **Underexecution of the state's spending plans.** In order to offset revenue shortfalls, and unfavourable local government and social security accounts, the Government under executed ordinary state primary spending and military procurement-related payments by around EUR 4.9 billion (more than 2 percent of GDP) compared to the plans of May 2010. Despite this effort, the incompleteness of the data on arrears and accounts payable do not allow assessing the share of the payment compression reflecting durable expenditure savings or simply delays in payments.

### 4.1.2. Fiscal policy in 2011

20. **The implementation of fiscal policy in 2011 will be challenging.** In the budget for 2011 voted by Parliament in December, the Government confirmed its commitment to meet the ESA-based fiscal deficit target below EUR 17 billion (or 7.5 percent of GDP), fully recouping the slippage of 2010. Therefore, the reduction in the government deficit-to-GDP ratio in 2011 will have to be larger than planned at the inception of the adjustment programme: at around 2¼ percentage points of GDP, instead of 0.4 points. Most of the fiscal measures underpinning the 2011 deficit target have been legislated and are being implemented.

21. **Additional measures may be necessary to secure the 2011 deficit target.** The mission and the government have updated the fiscal projections for 2011. The revised projections, based on current trends, indicate that the 2011 fiscal deficit ceiling may be exceeded by ¾ of a percentage point of GDP, unless corrective action is adopted. This gap comes mainly from the less favourable expectations for the tax bases (weaker internal demand), updated estimates for the yield of fiscal measures in the state budget, as well as a base effect from the worse than expected 2010 outcome for several revenue categories. Higher than the previously projected interest expenditure also contributes to the fiscal gap.

22. **The government committed to offset this fiscal gap.** The additional budgetary savings are expected to come from a compression in ordinary spending – a strategy that was not fully successful in 2010 – and through structural measures to be prepared in the context of the medium-term fiscal strategy. A further effort against tax evasion would also contribute to offset the gap.

23. **Ambitious results from the fight against evasion are indispensable in 2011.** The structural improvement of tax collection remains a crucial element of the programme, not only given its direct impact on the fiscal accounts, but also on equity grounds. The achievement of the 2011 budgetary targets implies an increase in total tax revenue of more than EUR 1.5 billion or some ¾ percent of GDP, compared with 2010. EUR 1.6 billion of receipts have been specifically projected in the budget for 2011 from the fight against tax evasion, increase the efficiency of the tax collection mechanism and other measures to accelerate tax-related court cases. The mission has encouraged the Ministry of Finance to keep its determination against tax evaders, as well as against inertia and specific interests inside the tax administration.

*Box 3:* **From cash accounts to ESA95 accounts**

As in previous reports, this box provides estimates and forecasts on the difference between available cash figures and the ESA95 data.

**Cash and accruals.** The government accounts that are monitored with a monthly frequency, and on the basis of which compliance with quarterly performance criteria are assessed are compiled on a cash basis. The annual ESA accounts are compiled on an accrual basis, i.e. at the time of the underlying transactions. Thus, while a delay in payments to suppliers may temporarily improve the cash-base data, it has no direct impact on the ESA-based accounts. An improvement in the ESA accounts from the saving side of the budget is only possible if there is an effective deceleration in expenditure commitments

**Scope.** The data available with high frequency cover only part of the general government sector. In particular, monthly data for state-owned enterprises that are classified in the government sector and for most extra-budgetary funds are not available, or are not yet of appropriate quality for continuous monitoring. Also the monthly local government and social security monthly data are compiled from banking statistics, which may limit their exhaustiveness. It is expected that data on state-owned enterprises and on extra-budgetary funds will be progressively available on a monthly basis. Thus, the differences in scope between the data series are expect to progressively narrow.

The Table shows estimates for 2010, and forecasts for 2011, of the several variables that establish the link between the cash figures that are monitored monthly under the programme and the ESA accounts.

**Table 1 : Annual adjustment - from cash to accrual accounts ESA 95 for 2010, 2011**

| | 2010 | 2011 |
|---|---|---|
| Extrabudgetary funds | 72 | 0 |
| Military deliveries (difference with cash payments) | -223 | 800 |
| Single Treasury account | 227 | 200 |
| Tax-related time adjustment | 70 | -550 |
| Direct taxes | 50 | -550 |
| Indirect taxes | 20 | 0 |
| Social contributions | 0 | 0 |
| EETT (Post-telecommunication authority) | -36 | 30 |
| EU funds time adjustment | 1271 | 248 |
| Hospitals spending, accrued in 2009 and paid in 2010 | 375 | 0 |
| Guarantees called | -972 | -1468 |
| Interest accrued | -715 | 640 |
| Privatizations account | -324 | 0 |
| Intergenerational fund, Agricultural Fund (ELEGEP) and ATE Bank | 276 | 763 |
| Special fund for unauthorised buildings (ETERPS) | 151 | 230 |
| Tax refunds | 300 | 0 |
| Bond payments | 0 | -420 |
| Accounts payable | -1673 | 450 |
| Health (public hospitals) | -1708 | 450 |
| Health (private clinics and suppliers) | -70 | 0 |
| Other-than-state sectors | 105 | 0 |
| Reclassified Public enterprise balance | -360 | 245 |
| Lump sum payment to public sector retirees | -524 | -240 |
| Other | -7 | -42 |
| **Total** | **-2092** | **886** |
| **General government modified cash balance** | **-19937** | **-19693** |
| **General government balance (ESA 95)** | **-22029** | **-18807** |
| **General government balance (ESA 95): Ceiling** | **-18508** | **-17065** |
| *difference* | 3521 | 1742 |

*Source:* Commission services

**24. Fiscal management on the expenditure side of the budget also needs to be improved.** While cash payments were comfortably below the ceiling in 2010, the accumulation of arrears in other-than-the-state sectors was only marginally restrained, reflecting shortcomings in the expenditure monitoring and control. The commitment registers in each government department are still not fully operational,

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while progress has only been made at the state level. The registry needs to be made operational shortly, and include the commitments taken by local governments, social security funds, hospitals, state-owned enterprises and other extra-budgetary entities.

25. **Reforms of budgetary institutions are progressing slowly**. In line with the provisions of the organic budget law of July 2010, the government has set expenditure ceilings for 2011 for the State and deficit targets for the several government sectors. There has been progress in the timely provision of fiscal data, although there are still some quality issues: monthly data availability for the government entities other than the state remains clearly below par and prevents adequate monitoring of intra-year budgetary developments for the government as a whole. While the situation has somewhat improved in the social security sector and state-owned enterprises, fiscal information on local governments remains very limited.

### 4.1.2. Fiscal policy in 2012 and beyond

26. **The medium-term fiscal strategy is under preparation.** In November 2010, the government committed to announce by March 2011 the medium-term fiscal structural measures to ensure meeting the annual fiscal targets for 2012-14. To ensure wider consultation of a technical complex document, the government has eventually decided to finalise the medium-term fiscal strategy by May 2011. A first draft is expected to be available for public consultation in the second half of March. The subsequent steps in the preparation of the medium-term strategy include approval by the Council of Ministers before mid-April and the vote of Parliamentary resolution by mid-May. The medium-term targets are unchanged: deficits below EUR 14.9 billion (6.4 percent of GDP) in 2012, EUR 11.4 billion in 2013 (4.8 percent) and EUR 6.4 billion (2.6 percent) in 2014. Although there is no official target for the 2015 deficit target, the mission encouraged the government to aim at a 2015 fiscal deficit of below 1 percent of GDP.

**Table 7. Deficit accounting: from the deficit in one year to the next**

| | EUR million | | | % of GDP | | |
|---|---|---|---|---|---|---|
| | | cumulative measures | | | cumulative measures | |
| | | 2010-2014 | 2012-2014 | | 2010-2014 | 2012-2014 |
| **2009 deficit** | **36150** | | | **15,4** | | |
| Nominal deficit drift in 2010 | 3880 | | | 1,7 | | |
| Identified measures | 18000 | 18000 | | 7,8 | 7,8 | |
| Impact on ratio of nominal GDP growth | -- | | | 0,4 | | |
| **2010 deficit** | **22030** | | | **9,6** | | |
| Nominal deficit drift in 2011 | 11575 | | | 5,1 | | |
| Identified measures /1 | 14800 | 32800 | | 6,6 | 14,5 | |
| Unidentified measures | 1741 | 1741 | | 0,7 | 0,7 | |
| Impact on ratio of nominal GDP growth | -- | | | 0,1 | | |
| **2011 deficit** | **18806** | | | **8,3** | | |
| Nominal deficit drift in 2012 | 3715 | | | 1,6 | | |
| Identified measures* | 5575 | 38375 | 5575 | 2,4 | 16,7 | 2,4 |
| Unidentified measures | 2029 | 3770 | 3770 | 0,9 | 1,6 | 1,6 |
| Impact on ratio of nominal GDP growth | -- | | | -0,1 | | |
| **2012 deficit (target)** | **14916** | | | **6,5** | | |
| Nominal deficit drift in 2013 | 2218 | | | 0,9 | | |
| Identified measures* | 575 | 38950 | 6150 | 0,2 | 16,5 | 2,6 |
| Unidentified measures | 5160 | 8930 | 8930 | 2,2 | 3,8 | 3,8 |
| Impact on ratio of nominal GDP growth | -- | | | -0,2 | | |
| **2013 deficit (target)** | **11399** | | | **4,8** | | |
| Nominal deficit drift in 2014 | 491 | | | 0,2 | | |
| Identified measures* | -1050 | 37900 | 5100 | -0,4 | 15,5 | 2,1 |
| Unidentified measures | 5573 | 14503 | 14503 | 2,3 | 5,9 | 5,9 |
| Impact on ratio of nominal GDP growth | -- | | | -0,6 | | |
| **2014 deficit (target)** | **6385** | | | **2,6** | | |

1/ Including carry-over of fiscal measures enacted before May 2010

* Measures for 2012-14 identified and quantified in the original programme of May 2010 are subject to revision.

Deficit in year t equals deficit in year t-1 plus nominal deficit drift in year t minus identified measures minus unidentified measures (and for the ratios: plus impact on ratio of nominal GDP).

Deficit drift includes the increase in the deficit level that would take place without measures. It includes in particular the structural increase in pension expenditure, the increase in interest expenditure and other structural increase in spending. The deficit drift has been calculated assuming wage freeze and the implementation of the 1-to-5 rule between recruitments and exits. It also reflects the increase/decrease in revenue because of developments in tax bases.

27. **The medium-term fiscal strategy is a cornerstone in the programme.** In 2012-14, 8 percent of GDP of measures will be necessary to reach the deficit targets. Of this total, around 2 percent of GDP of measures were previously identified; however, the mission advised the government to revisit the measures planned to feature in the 2012, 2013 and 2014 budget, and in any case to update their yields. Given the scale of the required additional measures, continuous increases in tax rates and across-the-board cuts in expenditure are not sustainable. The budgetary measures to reach the targets will have to come from structural actions in the several fields of government action, for which sectoral plans will be prepared:

- **Tax policy reform.** It will aim at simplifying the tax system, broadening bases and facilitating more effective tax administration to fight tax evaders, while supporting growth and investment. Implementing legislation is expected to be tabled in Parliament by end-September.

- **State-owned enterprises**. The objective should be of bringing the enterprises' efficiency into line with well-run private companies and other EU public companies. Tariff increases, reduction in operational costs, reprioritization of investments, and wages and employment adjustments are expected to reduce deficits and increase dividends.

- **Extrabudgetary funds.** The plan should aim at identifying entities with overlapping mandates that can be merged, restructured, integrated into the state budget, privatised or closed.

- **Public employment and public wages**. The system of wages and benefits in the Greek administration is inordinately complex, unfair and providing remunerations above the private sector for similar tasks, as revealed by a recent governmnet's report. The government expects that through the strict implementation of the rule of not more than 1 recruitment for 5 exits, public employment will be reduced by more than 20 thousand per annum until 2013. The implementation of this rule requires a substantial upgrade in the government mechanisms to monitor staff movements in real time. The mission welcomed the government's recent initiative of aligning working hours in the public sector with those prevailing in the private sector.

- **Public administration.** This restructuring plan for public administration should identify services to be rationalised, eliminating overlapping responsibilities and ensuring efficient lines of command. The plan will benefit from the findings of the ongoing functional reviews of central administration.

- **Social spending reform.** A number of social programmes may be eliminated, as because they overlap with other initiatives or need to be better targeted, while keeping the appropriate safety net. As for public administration, the ongoing functional review of social programmes will contribute to identify priorities and quantify potential savings.

- **Public investment.** The objective is to prioritize projects and identify budgetary savings. Moreover, the financial oversight of the public investment programme by the Ministry of Finance needs to be strengthened. A reassessment of public investment will also contribute to a faster absorption of EU structural and cohesion funds.

- **Military spending.** Greece is one of the EU countries with the highest per capita spending on defence. However, the reduction in military procurement in 2010 gave a notable contribution to the deficit reduction. The medium-term military programming should durably contribute to the fiscal consolidation needs.

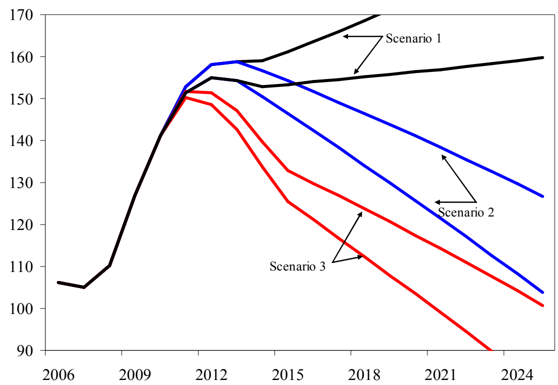
- The medium-term fiscal strategy will also be articulated with the ongoing **heathcare and pension reform**.

28. **The government has substantially scaled up its privatisation programme.** The government aims at collecting EUR 50 billion in privatisation receipts. Such a plan will contribute to reduce the debt-to-GDP ratio by almost 20 percentage points of GDP by 2015, and may help in regaining investors' confidence. Such an ambitious privatisation plan should be able to put the debt ratio into a declining trend faster than it could be achieved via accumulation of primary surpluses. Although privatisation proceeds themselves do not substitute fiscal consolidation efforts, they contribute to fiscal sustainability, as the reduction in debt will lead to a reduction in interest expenditure. Moreover, an ambitious privatisation plan will contribute to increase the overall productivity and competition of the economy and bring in foreign capital. Privatisation should also contribute to reduce corruption potential.

29. **The mission encouraged the government to set up an appropriate governance system to accelerate privatisation.** Experience shows that large privatisation plans are more effective when a single entity is in the lead of the whole process and takes full ownership of the assets to be privatised. The current set-up where each ministry and a myriad of smaller entities manage and control government assets is less effective in extracting value from assets. The mission welcomed the fact that the government has started preparations for the compilation of a comprehensive inventory of state assets – stakes in listed and unlisted companies, buildings and commercially-viable land – on the basis of which the privatisation plan will be made more specific.

30. **High primary surpluses and privatisation ensure sustainability.** The chart below shows three pairs of long-term debt scenarios, until 2025. For each pair there are two assumptions on nominal interest rates 4.5 percent and 5.5 percent, both of which are much below market yields, but are not unrealistic if financial markets stabilise and the determination of Greece to keep fiscal accounts in order beyond the programme horizon is credible. In scenario 1, growth remains anaemic not exceeding 2 percent, and the primary surplus does not exceed 3¼ percent of GDP (level projected for 2013): it is a scenario of insufficient and unfinished consolidation. In this case, debt developments are not sustainable. This scenario suggests that, to ensure sustainability, consolidation needs to continue in coming years and structural reforms should be implemented with ambition to contribute to potential growth. In scenario 2, nominal growth beyond 2014 is 3½ percent, practically the same as the one currently projected for 2014, while the primary surplus from 2014 onwards is 5.5 percent: a high value, but not higher than other EU countries managed to keep for relatively long periods. The primary surplus is the one that is currently projected for 2014. In scenario 2, government debt is sustainable and declines, though it will remain above 100 percent o GDP by 2025. Scenario 3 is the most favourable scenario: it is a derivation of scenario 2, talking into account the government plans of privatising EUR 50 billion in 2011-15. In order to reach the same debt ratio by 2025 without privatisation, the primary surpluses would have to be above 7.5 percent of GDP, from 2014 on, a level that does not seem realistic.

**Graph 16. Public debt sustainability scenarios**




***Common assumptions:***

*The chart shows three pairs of debt scenarios. For each pair, there are two average interest rate assumptions (4.5 and 5.5 percent).*

***Specific assumptions:***

*Scenario 1: nominal growth rate: 2 percent; primary surplus stable at 3.2 percent of GDP from 2013 on; privatisation: nil.*

*Scenario 2: nominal growth rate: 3.5 percent; primary surplus stable at 5.5 percent from 2014 on; privatisation: nil.*

*Scenario 3: nominal growth rate: 3.5 percent; primary surplus stable at 5.5 percent from 2014 on; privatisation: EUR 50 billion in*

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## 4.2. STRUCTURAL FISCAL REFORMS

### 4.2.1. Public administration

31. **Reforms in the institutional framework of public administration are ongoing.** Two functional reviews of the central administration and of the existing social programmes have now been launched, albeit with substantial delay compared to initial planning. The aim is to identify actions that will rationalise the system and to quantify potential savings. Both reviews are being conducted by the OECD secretariat and should lead to the adoption of administrative measures by end-2011, and contribute to the medium-term sectoral plan on public administration and social spending.

32. **There have been delays in the upgrading of public procurement procedures.** However, the Government has prepared a draft law creating a Single Public Procurement Authority (SPPA); the law is to be adopted by March. It should grant the SPPA the power to define public procurement policy, to coordinate the ministries with competences on public procurement and to issue binding guidelines on the application of public procurement rules. Savings that would result from the operation of the SPPA are also expected to be considered in the medium-term fiscal strategy.

*Box 4:* **Reforming the tax collection mechanism**

**The improvement of the tax collection mechanism is a key feature of the programme and it is crucial for the achievement of such a demanding fiscal adjustment.** Reforms in the tax administration area are gaining momentum, with several steps being ongoing. This mainly concerns legislation to improve the efficiency of tax administration and controls, putting in place an effective project management arrangement and implementing an anti-evasion plan to restore tax discipline and improve compliance.

**The government has presented a draft law, to be adopted by Parliament by end-February.** It focuses on administrative issues of the tax, audit and enforcement mechanisms, while also completing the new framework to combat tax evasion and fraud. The bill includes (i) specific measures to combat tax evasion and tax avoidance, (ii) reorganization of the audit and enforcement mechanisms, and (iii) improving the tax legal and administrative framework.

- **Fight against tax evasion.** Within a three-year framework, the bill provides for the creation of an attorney-general for economic crime. The new attorney will have priority jurisdiction to conduct preliminary investigations, and supervise, coordinate and guide the conduct of tax investigations by staff (Financial Crime Unit, tax offices, police, Coast Guard, customs, etc.). Based on the new legal and institutional framework provided, a number of specific measures against tax evasion are planned, such as criminal prosecution for the offense of withholding VAT; criminal prosecution for unpaid and overdue taxes owed to the State; suspension of court sentences upon appeal not allowed for major fraud crimes, non-permission for the conversion of penalties and fines for large evasion; enforcement of penalties prior to appeals; temporary imprisonment for tax-related crimes; priority in audits for high probability sectors and freelancers, and increase in the rate of the payment for cases assessed but appealed, from 25 to 50 percent of the verified amount.

- **Tax and audit services restructuring.** The draft law provides for the reorganization of the directorate general for tax audits and its transformation in an operational service, instead of its current legislative and advisory status. The aim of the reorganization is the adaptation of the audit services in the use of modern audit tools with a view to minimising contact between the supervisory authorities and tax payers, new methodologies and international auditing standards; and also to enable the directorate general to centrally monitor the operation of the decentralized tax audit services. To this end, a process set up, for the assessment of tax arrears and their separation between "recoverable" and non-recoverable". In addition, an internal affairs department is set-up, with a view to collecting, processing, evaluating and using information and investigating cases of corruption.

- **Tax framework simplification.** A number of provisions aimed at improving the taxation framework, correcting distortions and facilitating entrepreneurship are also introduced. This includes the reduction in the corporate income tax rate, from 24 to 20 percent (fiscal impact in 2012); the extension – for 4 more years – of the provision on tax credits for research and technology expenditure and changes in VAT statement submission: instead of requiring the payment of the full amount at the time the VAT forms are submitted, taxpayers in hardship are allowed to pay only 40 percent of their due, with the remainder paid in two instalments.

### 4.2.2. Pension and healthcare reforms

33. **The National Actuarial Authority (NAA) pursues its efforts to quantify the impact of the pension reform.** The NAA has completed the long-term projections (2009-60) on pension expenditure by the largest pension schemes, and continues its work to extend the projections to other schemes. These projections will be subject to a peer review by the EU Economic Policy Committee. The currently available data suggest, as expected, that the pension reform of July 2010 has gone a long way towards moderating pension expenditure. Other than the completion of the projections, the next phase of the reform concerns the supplementary pension schemes, which should become notionally-defined benefit schemes. If after the supplementary pension scheme reform, projections indicate that the projected increase in the total public pension expenditure exceeds 2.5 percentage points of GDP over 2009-60, the government is expected to adjust the main parameter of the pension system, so as to ensure that that benchmark is not exceeded.

34. **There has been a new impetus to a deep reform of the health sector.** Many reform proposals are either under implementation, adoption or development. The overarching objective of the reform is to improve the cost efficiency of the system: keep public health expenditure at or below 6 percent of GDP, while maintaining universal access and improving the quality of care delivery. In the short-term, the focus will be on macro-level discipline and cost control. In a medium-term perspective, deeper structural changes will be needed to contain spending in the context of the medium-term fiscal strategy while improving the governance of the system.

*Box 5.* **Reforming the healthcare system: improving efficiency and quality of health services**

**Important steps have recently been taken to reform the health sector in order to increase the efficiency and quality of health services delivery.** The reform aims to ensure a more rational use of services and medical goods, reduce waste and corruption and increase productivity. Actions planned for 2011 are expected to generate at least about ½ percent of GDP in savings, including savings of more than EUR 2 200 million in pharmaceutical expenditure.

**Several measures have been implemented so far:**

- **Increase in co-payments** for outpatient visits to NHS facilities from EUR 3 to EUR 5 and improvements in the ability to collect payments. This should ensure an additional revenue of about EUR 30 million while increasing patients' awareness and reducing some unnecessary healthcare. A system of exemptions ensures that those most vulnerable are not deterred from seeking necessary healthcare. In the long-term, when a well–functioning primary care system is put in place, the uniform EUR 5 co-payment can be replaced by a system whereby co-payments for specialist care are made higher than those for primary care doctors and co-payments for emergency services are made the highest, so as to encourage the use of primary care and reduce the use of unnecessary emergency care. Additional efforts are being made to ensure the appropriate billing of services provided to non-residents when in Greece.

- **The all-day functioning of hospitals has been extended** to 65 (out of 130 hospitals). This is projected to result in additional hospital revenue of EUR 40 million, without a significant increase in costs.

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**A number of other measures are being implemented in the area of pharmaceuticals.** These measures aim at reducing unnecessary expenditure associated with over-prescription, waste and corruption:

- **An initial price list published in September 2010 led to reduction in the price of medicines of almost 20 percent leading to important savings.** This policy action may have led to savings of more than EUR 750 million. The current price list is to be replaced by an updated and complete list inducing smaller but additional savings.

- **Another measure is the publication of a negative list of medicines not reimbursed by the social security funds and which could result in savings up to EUR 140 million within one year.** This is to be coupled with the definition of prescription guidelines and the development of a reference price system establishing a reference price for reimbursement purposes. The government needs now to put these two measures into practice in the coming months to ensure further savings from the reduction in unnecessary prescription of medicines (up to EUR 300 million) and a reduction in the effective price paid by social security.

- **The government has set the target of increasing the share of generics and off-patented medicines used in NHS hospitals to 50 percent.** Further steps can be taken to ensure a faster and easier entry of generics in the market, ensuring prescription by active substance by doctors and generic substitution by pharmacies.

- **steps have been taken to extend the pilot e-prescription system from OAEE to other social security funds.** The pilot e-prescription system for medicines has led to a reduction in the number of prescriptions and contributed to a reduction in the average value per prescription. The extension of e-prescription has nevertheless faced delays due to the system complexity and the initial costs involved. E-prescription is now due to be extended to all funds by May 2011. E-prescription is expected to induce savings of EUR 1.4 billion.

- **A set of measures have been legislated to induce some liberalisation of the pharmacies sector** (easing population-**based restrictions,** increasing opening hours**,** allowing new pharmacists to form partnerships with incumbents**) and** reduce the effective profit margin for pharmacies (through a system of rebates). The profit margin of wholesalers has been cut from 8 to 5.4 percent.

**The centralised public procurement of medical supplies is also high in the agenda.** In 2010, seven central tenders were launched which are estimated to have resulted in savings of about EUR 300 million.

**Significant efforts have been taken to improve hospital computerisation** including modern accounting and billing systems, bookkeeping of medical supplies in NHS hospitals, monitoring activity of NHS facilities, timely invoicing and hospital spending control.

## 4.3. FISCAL FINANCING AND TREASURY MANAGEMENT

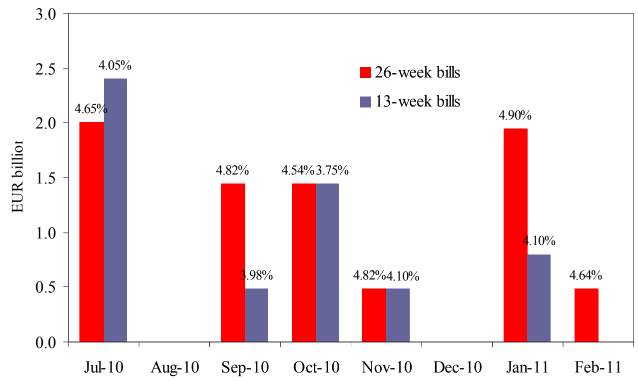
35. **The T-bill market has remained active and issuances were successful.** The Public Debt Management Agency (PDMA) keeps organising regular T-bill auctions. In the second half of 2010, auctions were held every month, except August and December. The short-term issuances were successful despite negative sentiment towards longer maturities. Auctions met strong demand with bid-to-cover ratio ranging between 3.4 to 6.3. Foreign investors regularly bought one third of the total amount.

36. **Yields on short-term securities in the primary market remained stable.** Since May 2010, the three-month T-bills have been sold at around 4 percent yield, while six-month papers were placed at and average yield of 4.7 percent. The fall in yields in the two October 2010 auctions was short-lived. The upward revision in the Greek government debt and contagion from other peripheral EU countries led to downbeat market sentiment again in late autumn. As a result, the shift from shortest maturities

to longer (six-month) paper was slower than expected. PDMA intends to continue shifting to six-month maturities in the course of 2011 and move to one-year bill issuance when market conditions permit.

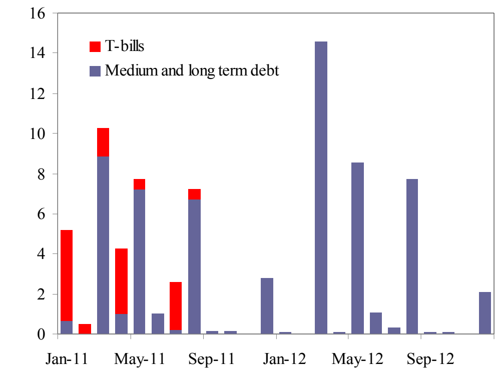
**Graph 17. T-bill auctions since May 2010**

(amounts and yields)




*Source : PDMA*

**Graph 18. Maturing debt, EUR billion**




*Source : GAO*

37. **Refinancing needs are concentrated in the first eight months of 2011.** Largest redemptions fall in March, May and August when medium and long-term debt matures. These amounts will be fully covered by international assistance loans. However, the scheduling of disbursements currently planned for 2011 for mid March, June, September and December requires prefinancing with T-bills and an accumulation of cash buffers.

*Box 6:* **Financing profile in a medium-term perspective**

**The government debt financing profile is driven by maturity of outstanding debt and to a lesser extent by the cash deficits in each quarter.** The euro-area and IMF loans are heavily frontloaded. By end March 2011, euro-area Member States and the IMF are expected to have disbursed EUR 53 billion or 48 percent of the total package of EUR 110 billion. The frontloading minimises the need to borrow from the markets in distressed conditions and gives Greece sufficient time to consolidate public finances, implement the necessary structural reforms and recover the investors' confidence. Greece is expected to regain market access and refinance at least three-quarters of its maturing medium and long-term debt in 2012 and to fully roll-over debts from the summer 2013 onwards.

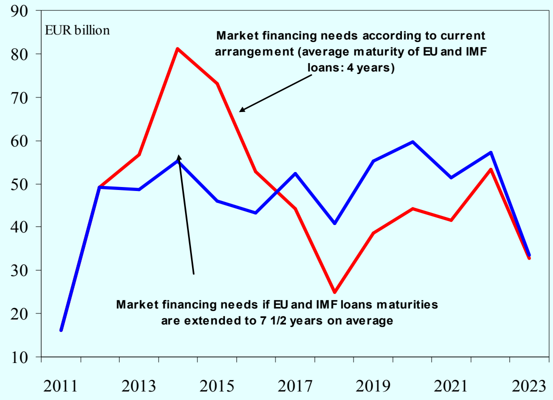
**Both the euro-area and the IMF loans have an average maturity of around 4 years.** The reimbursement of each tranche of the euro-area loans starts three years after the disbursement and is spread in eight quarterly instalments over two years. The repayment of each tranche of the IMF loan starts slightly later: three years and one quarter after disbursement. IMF loans are also repaid in quarterly instalments over two years.

**In 2013-15, Greece will have to raise substantial funds in the market in the immediate post-programme period to repay the euro-area and IMF loans, as well as to roll-over other liabilities.** Combined with the projected budget deficit and short-term debt amortisation, the total refinancing needs according to current projections stand at around EUR 57 billion in 2013, EUR 81 billion in 2014 and EUR 73 billion in 2015, although sales of assets will reduce financing needs. The repayment of euro-area and IMF loans amount to EUR 10 billion in 2013, EUR 32 billion in 2014 and EUR 38 billion in 2015.

**High financing needs in the immediate post-programme period have a negative impact on market confidence.** Therefore, the euro-area Member States ministers agreed, in principle, to align the length of the Greek loan with the maturities of the financing provided to Ireland: an average maturity of 7½ years. However, at the time of writing, such a change has not yet been formally agreed. The charts below illustrates that an extension of the maturity of the Greek loans would avoid the hump in refinancing in the immediate post-programme years: 2014 and 2015. The chart does not reflect yet, the reduction in financing needs that result from the recently announced upscaling of the government's privatisation plans.

**Graph 1. Refinancing profile for the Greek government debt**

(current conditions and extension of loan maturities)




*Source*: Commission services

## 4.4. FINANCIAL SECTOR POLICIES

38. **While providing for sufficient collateral buffer, a strategy was adopted by the Bank of Greece in cooperation with the ECB to reduce banks' reliance on Eurosystem credit.** Borrowing from the ECB now represents nearly 20 percent of banks' liabilities. The last tranche of government guarantee scheme under which banks can issue repo-eligible bonds was allocated to banks in December, increasing their pools of available collateral. However, due to market volatility, changes to the ECB provided collateral framework and any further downgrades of the sovereign debt grounds for further enhancement of the liquidity cushion in the system. To this extent, enhancing the existing guarantee scheme by additional EUR 30 billion appears to be necessary. Banks' access to the new tranche should be made conditional on the adoption of medium-term funding plans. The plans should outline the bank-specific targets and measures to reduce reliance on the Eurosystem liquidity over 2-3 year time span. At the same time, these plans have to be consistent with the Programme macroeconomic and fiscal assumptions and the restructuring plans requested under the EU state aid rules.

39. **With the aggregate balance sheet at 210 percent of GDP, the size of the Greek banking system is not excessive compared to other countries.** Nevertheless, some downscaling seems appropriate given the tense situation at the funding side. In the context of the medium-term funding plans the banks will have to indicate how they to phase out their borrowing from the ECB. Furthermore, to compensate for the state aid received the viability plans that the banks are expected to submit should contain measures that limit the banks' expansion. Deleveraging has, however, some drawbacks as the repercussions on the real economy have to carefully be taken into account.

40. **The Hellenic Financial Stability Fund is functioning and received its first tranche of funding.** The Board has been operating since October but staffing of the HFSF is proceeding slowly due to legal constraints. It should be completed by mid-2011. In the meantime, solutions have been worked out to transfer staff from the Bank of Greece or to outsource. In terms of funding, EUR 1.5 billion has been transferred to the HFSF account at the Bank of Greece. The remainder of the EUR10 billion will be made available on a dedicated government account, beginning two EUR 1 billion instalments during the first two quarters of 2011. To estimate possible future needs for recapitalisation by the

HSFS the Bank of Greece conducts regular solvency forecast exercises for the Greek commercial banks.

41. **The efforts have intensified to strengthen the financial sector supervision.** Shortage of appropriately qualified staff remains an issue, but recruitment is expected to be completed by June 2011. At the same time, the Bank of Greece is committed to reduce remunerations of its employees as part of the overall fiscal consolidation effort. The supervision of the insurance sector is being enhanced since the Bank of Greece took it over in December 2010. In parallel to increasing human resources, it is undertaking a diagnostic assessment of insurance companies' solvency and reviewing the adequacy of existing policyholder guarantee schemes.

## 4.4. GROWTH-ENHANCING STRUCTURAL REFORMS

42. **The adjustment programme for Greece contains a very wide agenda of structural reforms.** The aim of structural reforms is to improve the supply-side conditions of the economy, increase internal competition and increase external competitiveness. Their implementation will facilitate the return of the economy to potential growth, while strengthening this potential. Structural actions increase efficiency, reduce prices with benefits for consumers and help shifting resources from the domestic market to exports. Reforms need to take place in parallel as theoretical and empirical evidence shows that a comprehensive reform programme leads to significantly better outcomes than a sequential implementation of partial reforms. In particular, a simultaneous implementation of reforms helps to overcome opposition from interest groups that benefit from specific restrictions and impose a burden on the whole Greek society. Moreover, the faster reforms are implemented, the sooner they will have an effective impact and contribute to jobs and growth.

43. **Following a slowdown in momentum in autumn, a new wave of structural reforms is underway**. After a landmark pension reform before the summer, the reform momentum lost traction in autumn 2010 for reasons that appear related to the November local elections, changes in government and limits in the administrative and operational capacity of the Greek state. The policy commitments agreed in May and then revised in August and November planned for the implementation of several reforms by end-2010. Although some of these reforms are delayed compared to plans, a new wave of reforms is being implemented, under preparation or on the point of being legislated in areas such as labour market, competition policy, access to and exercise of professions, reduction in red-tape, investment and export promotion and restructuring of state-owned companies.

### 4.4.1. Labour market reforms

44. **The new labour law adopted in December has been a major step forward.** The reform undertaken aims at enhancing the dynamism of the labour market and improving firms' adaptability to market conditions with a view to enhance competitiveness and attract foreign investment. After a number of reforms adopted in July, the new labour law of December goes in the direction of moving the wage bargaining system towards the firm level, where the firm growth strategies are decided. The government is of the view that the new law will be effective in supporting growth and promoting employment. While the mission shared the government's intention in this respect, it put forward that the law missed ambition in a number of respects and encouraged the government to adopt the necessary legislative adjustment in case of need (see Box).

45. **The government view the new special firm-level collective agreement (SFLCA) as an instrument conducive to wage decentralization, targeted to firms in difficulties.** They are committed to communicate to market players their rights as regards their access to SFLCA, to follow up on implementation and to build the change in mindset favourable to the use of SFLCA, including by

reiterating the non-binding nature of the labour inspectorate report. Conversely, the authorities are of the view that the general elimination of the legal provisions allowing for the mandatory extension of collective agreements to non-signatory parties is both politically unfeasible and unnecessary to improve competitiveness.

*Box 7:* **Labour market reforms**

**In the course of 2010, Greece adopted two batches of labour market reforms.** Already in July, Parliament voted legislative changes related to overtime pay rates, severance costs, and sub-minima wages for groups at risk, such as young and long-term unemployed. The Government and the social partners also agreed that the minimum wage would be frozen until summer 2012, which is then expected to increase in line with euro-area inflation (a 1.5 percent increase in July 2012 and 1.7 percent in July 2012). Although a longer period of wage freeze would have been desirable, the agreement marked a clear change compared to the recent years' practice. A second wave of labour market reforms was adopted in December.

**The special firm-level collective agreements (SFLCA) is a promising step towards making the wage setting system more adequate to reflect firm economic conditions.** Until now, firm-level agreements could only improve wages on top of what agreed at sector level, but could in no case establish less favourable wage conditions. Moreover, the sector agreement use to be generally extended by the Government to all firms in the sector, even if to those that are not members of the employers' associations signing the sector agreement. According to the law on SFLCA, employers and employees at firm level may now agree on remuneration conditions that are less favourable than those stipulated in sector agreements with the view to preserve jobs. This way, the law allows each firm to adjust remuneration conditions to their productivity, competitiveness and strategic decisions. The SFLCA may be signed by any firm, irrespective of their size and whether they are or not members of the employers' organisations that signed the sectoral agreements.

**Some facets of the labour law may significantly reduce the effectiveness of the SFLCA**. First, SFLCAs can only be concluded between employers and unions. Considering the strong incidence of negotiation and transaction costs for small firms and the possibility that small firms lack a firm-level unions as a counterpart to sign the agreement, SFLCAs may not de facto be easily available to a substantial number of firms even when both employers and a majority workers would be in favour. Second, the signature of an SFLCA requires a notification procedure to, and an opinion by, the Council of Social Oversight of the Labour Inspectorate (CSOLI). Although the CSOLI's opinion is not binding, it generates unnecessary red tape, and a negative opinion may create social and political stigma. The first (and only, so far) SFLCA agreement signed in Greece after the new law was passed received a negative opinion. Therefore, while the new law has a great potential to ensuring wages are in line with productivity and the specific conditions of each firm, these facets may need to be revisited in the short term to ensure the SFLCA are effective.

Other features included in this law refer to:

- **Collective dispute regulation procedures.** Practice revealed that the mediation and arbitration procedures in Greece were often a source of upward wage drift, as unions had privileged acess to arbitration. After the reforms adopted by the government, both employers and employee may request arbitration and mediation services. To ensure impartiality, the board of the Mediation and Arbitration Organisation (OMED) has been reformed, freed from government influence – the government has one observer in the OMED board with no voting right –, ensuring paritary representation of employers and employees and with the chairman chosen by unanimity. Moreover, to promote social dialogue, mediation and arbitration is limited to basic pay disputes.

- **Remuneration of part-time workers.** Previous rules established the non-standard practice of a premium of 7.5 percent to the hourly remuneration of part-time workers (of less than four hours per day). This premium has been abolished. The premium of 10 percent for part-time workers working overtime has also been abolished.

- **Part-time shift work** has been extended from six to nine months.

- **The probationary period** for staff joining firms was comparatively short (two months) and is now extended to one year. This allows a longer period in the establishment of a longer-term trustful relationship between employers and employees, and effectively reduces hiring costs.

- **The maximum work period under temporary working agencies** was short (12 months) and has bee raised to 3 years.

A third wave of labour reforms is now under preparation. This concerns fixed-term contracts, rules on working-time arrangements and the restructuring of the Labour Inspectorate.

- Although the conditions for **fixed-term contracts** in Greece do not appear particularly strict, the costs for terminating these contracts before their term are substantially higher than elsewhere in the EU. Moreover, there is also the need to avoid firms from abusing the use of probationary periods (now longer than they used to be) as short-term fixed-contracts to cope with temporary needs.

- Changes in **working-time regulations** should enhance the adjustment of pay and working time at the firm level .

- The procedure to create **firm-level trade unions** is particularly long, extending in some case over more that 8 months. The government intends to accelerate the procedure to set up these unions, which would, inter-alia, facilitate the signing of SFLCA.

- The **Labour Inspectorate** should be strengthened and resourced with qualified staff, so as to ensure better controls and higher efficiency levels in tackling undeclared work.

### 4.4.2 Closed professions

46. **The opening of closed professions is a flagship reform of the whole programme and will test the government's determination vis-à-vis incumbents.** The reform is expected to increase competition in a long list of professions (more than 150) which were subject to rules on *numerus clausus*, fixed or recommended prices, geographic restrictions or other rules which protect incumbents and hinder competition.

    - **Procedure.** Given the myriad of restriction on closed professions, the government decided to adopt a two-pronged approach. For lawyers, notaries, engineers, architects, auditors and (in a specific act) pharmacists, the new legislation explicitly removes unwarranted restrictions. For other professions, the new act establishes the principle of professional freedom rather than explicitly abrogating each of the unwarranted restrictions in force. Moreover, the law to be adopted establishes a 4-month period during which restrictions that are justified may be reinstated by decree. The government is confident that this approach is the most effective in accelerating liberalisation. However, the mission expressed that this legislative technique may create legal uncertainty. Moreover, the mission was of the view that it was crucial that the professional restrictions to be reinstated should be limited to the strict minimum and only when public interest is overwhelming.

    - **Contents.** The draft law is heading in the right direction in areas such as the new way of calculating notaries' fees, abolishing fixed or minimum prices for the other professions. However, legal fees which will remain for tax and social contribution reasons or in cases where there is no explicit agreement between client and provider of service may constitute coordination tools for providers and hinder price competition. The fact that the law keeps existing territorial restrictions to the practice of lawyers is a disappointment and reveals the strength of interest groups. In relation to the professions not explicitly addressed in the new law and in relation to which some restrictions may be reinstated, the missions encouraged the government to consult

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widely and take into account the wider economic interest rather than to yield to specific interest groups.

*Box 8:* **The reform of professional services**

**There are valid reasons as to why regulation of professional services is needed**. Regulations address market failures such as asymmetry of information between customers and service providers, which requires practitioners to possess the necessary skills. They also address externalities, as some professional services might have an impact on third parties. In addition, some professional services produce public goods that are of value for the society in general, hence the need for regulation.

**Finding the amount of regulation that is commensurate with the protection of the general interest objectives at stake is challenging.** Restrictions on price setting, advertising, entry requirements, limits on multi-disciplinary activities, geographical or territorial limits to the exercise of a profession, have in many instances adverse side effects. Fixed minimum or maximum prices deprive service providers of the possibility of competing on price or their price/quality ratio and render the establishment of new competitors less attractive. Recommended prices also facilitate co-ordination between service providers and mislead consumers about reasonable price levels. Restrictions based on quality concerns – such as a minimum amount of hours needed to provide a service – often fail to acknowledge that there are more effective ways to ensure good performance. Quantitative and geographical restrictions hinder the freedom of establishment, thereby limiting the overall number of service providers and curbing competition. Given the need to trade off public interest with competition, a proportionality test is necessary. However, in many countries, the proportionality is often assessed by professional chambers that are biased and protect interest groups.

**Greece stands out in the group of developed countries for imposing higher requirements on regulated professions**. Indicator based evidence–e.g. the International Regulation Database–shows that the degree of regulation of professional services in Greece is one of the highest in the OECD. To illustrate, Greek **lawyers** are subject to a much higher degree of regulation relative to the OECD average: Greece has been one of the very few advanced economies with fixed minimum prices and with a complete ban on advertising. There are also geographical restrictions: Greek lawyers are allowed to practice within a specific area only, not in the whole national territory. The most important restrictions on **engineers and architects** concern minimum fees and the method of payment of fees. As in lawyers, current regulations provide for minimum fees not subject to contractual agreement. Current regulations also prescribe a specific procedure whereby the Technical Chamber collects the fee owed by the client: clients are not entitled to pay fees directly to professionals. Greek **auditors** are subject to minimum hours to conduct a statutory audit and to maximum annual working hours. Lastly, **notaries** are by far the most regulated profession. The profession is heavily regulated in terms of the access to and exercise of the profession. On access, there are strict requirements including nationality, exams, and minimum and maximum age requirements to enter the profession. In terms of market conduct, the profession has all possible forms of restrictions: on the number of notaries; ban on multidisciplinary activities; geographical restrictions; ban on commercial communications; mandatory membership in a regional notaries association and heavily regulated prices: currently among the highest in the EU countries with a Latin notary system.

**There is a wide scope of opportunity to lift restrictions in the Greek regulated professions without compromising quality and consumer protection**. Evidence shows that in countries with low degrees of regulation, there are proportionally higher numbers of practitioners generating a relatively higher overall turnover. Liberalisation also comes along with substantial moderating effects on prices and higher quality for consumers.

### 4.4.2 Energy and transport

47. **Reforms to liberalise the wholesale electricity market are underway.** After sluggish progress in recent years, the government is now taking several steps, although further progress is needed:

- **Measures to open up the lignite-fired electricity sector are in progress.** The government proposed new instruments to open up the lignite-fired electricity market by means of sales of drawing rights arrangements in existing and future plants of the Public Power Corporation (PPC). The Commission's in-depth assessment of these measures, including market testing, is foreseen to be finalised by mid-February. A swift action by the government would allow the implementation of these measures to commence as foreseen by end-March 2011.

- **The awarding of hydro reserves management needs to be further specified.** Access to hydro reserves for competitors is essential to achieve fair market conditions with regard to flexibility and competitive back-up capacity. The government intends to award the management of hydro reserves to an Independent Commission for Hydro Reserves Management under the envisaged independent transmission operator (ITO). However, the motivation for combining the management of hydro reserves with network operation functions still requires further discussion. Regarding the scenario of splitting the current Hellenic Transmission System Operator (HTSO) into a network operator and a market operator, it needs to be specified whether the hydro reserves management could be entrusted to the market operator. In relation to hydro reserves management, Greece also needs to take the necessary measures to comply with the Water Management Directive.

- **The government started to implement a new system of regulated tariffs.** The energy component of regulated tariffs is expected to be transformed gradually to reflect wholesale market prices, except for vulnerable customers. The government has adopted a revised definition of vulnerable customers and introduced a new social tariff for this category of consumers. As a next step, it is foreseen to abolish tariff regulation for non-residential customers by end-2011.

- **The unbundling of network activities is experiencing delays.** The government has submitted information on the related assets and personnel to prepare the unbundling of network from supply activities in the electricity sector; this is now being assessed by the European Commission. The government's proposal of the organisational design of the ITO remains open and requires further consultation.

48. **Transport liberalisation has a great growth-enhancing potential.** Moreover, reforms in the state-owned transport sector are also an important element of the fiscal consolidation strategy. Since the summer 2010, a number of laws have been approved in relation to road freight, railways and urban transport. However, in some of these areas, there have been delays or transition periods that reduce the effectiveness of the measures. With regards to the long-due railway restructuring, state aid issues are still pending, while the respective business plan lacks a solid and credible mechanism to promptly correct deviations from the plan. Tourism passenger transport services (buses, coaches and limousines) have been a closed sector with no new entrants for several years. The government has committed to remove restrictions in the concession of new licenses.

### 4.4.3 Investment, export and R&D promotion

49. **The new investment law has been passed but its implementation and fiscal implications need to be monitored.** The law consists of an incentive framework for general entrepreneurship, technological development, regional cohesion and large-scale investments. The main instruments are tax credits, favourable loans, leasing of capital investment and limited investment grants, differentiating between various classes of investment according to regions and company size. The law aims at supporting private investments and the adoption of new technologies by companies while defining a new framework for regional catching-up and development. The effectiveness of the law in particular regarding the additionality of investment and the type of investments/sectors which will get financial support will depend on implementing decrees not yet adopted. The mission has

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insisted that, while the investment law may contribute to growth and investment in coming years, its implementation will have to avoid distorting investment incentives and creating sector privileges. The fiscal incentives also need to comply with the medium-term fiscal consolidation strategy.

50. **The new law on fast-track licensing procedures is underway.** The aim of the law is to speed up and facilitate licensing procedures for technical professions, manufacturing activities and business parks. This may be achieved through tight mandatory deadlines for the completion of the approval procedure and tacit approval in case of deadlines not being adhered to. Although the law is complex, it is innovative and addresses the right issues. However, the effectiveness of the measures will hinge on well-specified implementing acts to be adopted in the next months.

51. **The promotion of exports comprises new marketing strategies and should be complemented by anti-red tape measure.** The government presented a national export strategy to improve the external marketing of Greek products, including the development of a national brand and an improved information network for exporters. A strategy to accelerate the bureaucratic burden for exporters is not yet visible, though this should be tackled in legislation that the government committed to adopt in Q2 2011, with the aim of simplifying the process of clear exports and imports.

52. **The government needs to give priority to a comprehensive strategy of promoting R&D and innovation.** Action in this area, which ought to be an important pillar in any growth-oriented policy framework, has been slow over recent months. It is therefore important that the government gives renewed impetus to R&D policies by finalising an evaluation of all R&D and innovation related actions and presenting an action plan aiming at enhancing the quality of, and better utilising the synergies between, public and private R&D and innovation activities.

### 4.4.4 Other reforms to improve business environment and strengthen competition

53. **Progress to comply with the competition-enhancing Services Directive has been mixed.** The required legislative changes have been adopted only partially and important acts are still pending, such as the legislation on retail stores or cross-border services in tourism. Work is particularly delayed in the wholesale sector which seems to still require screening for restrictions covered by the Directive. The government has presented a list of priority sectors where legislation is expected to be adopted by the end of the second quarter 2011. In respect of the point of single of contact (PSC) – a tool to simplify licensing procedures – a significant amount of information has been made available to new service providers. However, the adoption of the necessary acts that allow the completion of all the required procedures online is lagging behind. The mission expressed concern in respect of the use of online procedures related to the recognition of professional qualifications, the distinction between established providers and those providing services cross-border as well as the required simplification of procedures.

54. **Progress in the land and commercial registries has been slow**. The absence of a proper functioning land registry has often been an obstacle to investment and the uniform collection of property taxes. In the case of state-owned properties, legal disputes of land and real estate property also constitute a barrier to privatisation. So far, only an estimated 18 percent (6.5 million) of land rights have been registered in Greece. The government is, however, increasing resources into the land registry, so that until 2015, another 8 million rights will be digitised and the entire project is finalised by 2020. The General Commercial Registry (GEMI) is foreseen to become operational in April 2011, as soon as outstanding technical arrangements within the government and with the Hellenic Union of Chambers will be put in place.

55. **Studies on sectoral growth drivers and an action plan to remove restrictions to business need to be made operational.** The government presented preliminary results of studies on the contribution of

the tourism and retail sectors to growth and jobs. The results need to be further specified as to propose concrete policy measures to overcome the identified legislative, administrative and other obstacles for competition and market entry in these sectors. The government is working on an action plan to remove 30 of the most important remaining barriers to business activity, investment and innovation. This plan, which includes several measures in addition to those already addressed in the adjustment programme and covers both short-term and longer-term action, is planned to be fianlised and made public by end-February.

56. **The Government has tabled a law to reform and strengthen the Greek Competition Commission.** The new law establishes a new method of appointment of the President and Vice-President by Parliament, and mandates that are decoupled from the electoral cycle. The draft law provides for the staggering of the HCC board’s mandates as a way of reconciling continuity and the need to rotate and replace the board members. It also sets more realistic deadlines for the investigation and issuance of decisions, as complex and important cases require detailed investigation. It empowers the HCC to reject complaints and set priorities to increase its efficiency. While the mission supported the intentions of the new law, it expressed concerns that the premature termination of the current mandate of the President and other full-time board members is in contradiction with HCC as an independent agency and may effectively defeat the stated objective of strengthening HCC's level of independence.

### 4.4.5 Education

*57.* **An independent taskforce of education policy experts is being set up.** So far, education has not been tackled by the adjustment programme. Nonetheless, the system has been costly without providing a good quality service to the Greek society. The education sector has a critical role to play in terms of increasing the medium- to long-term growth. While the Ministry of Education has often stated its intention to recruit several thousands of teachers (primary and secondary) and professors (tertiary), such an intention should fit in the overall recruitment restrictions (1-to-5), without undermining the importance of quality, efficiency and effectiveness of the system. Available indicators show that Greek teachers and professors have a much lighter workload and teach substantially less hours than in other EU countries.

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## Annex 1: Assessment of compliance with required action for the third review

### Table A-1: Fiscal consolidation

| Actions in the Memorandum of understanding on specific policy conditionality (MoU) (actions by end-December 2010) | Comments |
|---|---|
| Government achieves the quantitative performance criteria for 2010 and endeavours to reach the government deficit target on an ESA95 basis. | **Partially observed.** |

| *Criterion* | *Reference value* | *Outcome* | *Comments* |
|---|---|---|---|
| ESA-based government deficit | EUR 18.0 billion (Council Decision) | EUR 22 billion (estimate - complete data will be reported by ELSTAT by end March and validated and published by Eurostat on 22 April.) | **Failed.** |
| Government primary balance (cash basis) | EUR -5.7 billion | EUR -5.5 | **Met**. |
| State primary payments | EUR 67 billion | EUR 61.1 billion | **Met**. |
| Central government debt | EUR 342 billion. | EUR 340 billion | **Met**. |
| Annual increase in the general government consolidated gross debt | EUR 34.1 billion (Council Decision) | EUR 29 billion | **Met.** |
| Guarantees | EUR 2 billion (indicative) | EUR 1.3 billion | **Met.** |
| Payment arrears | EUR 0 (indicative) | EUR 3 billion. | **Failed.** |

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| Parliament adopts the final budget for 2011 targeting a further reduction in the general government deficit, which in ESA95-based terms will not exceed EUR 17 065 million.<br><br>The final 2011 budget provides information and projections on the entire general government sector.<br><br>The final budget includes the following measures: | **Observed.** |
| *Carryovers into 2011 of measures adopted in May 2010:*<br><br>*Expenditure cuts:*<br><br>wage bill (seasonal bonuses and allowances): at least EUR 400 million;<br><br>pensions (seasonal bonuses): EUR 500 million;<br><br>specific reduction in highest pensions: EUR 150 million;<br><br>*Revenue increases:*<br><br>VAT: at least EUR 750 million;<br><br>excises on fuel: at least EUR 250 million;<br><br>excises on tobacco: at least EUR 250 million;<br><br>excises on alcohol: at least EUR 50 million;<br><br>luxury good tax: at least EUR 50 million<br><br>incentives to regularise land-use violations (Ημι-υπαίθριοι), yielding at least EUR 150 million and increased amounts in 2012 and 2013. | **Observed.**<br><br>All these measures were legislated and implemented in the course of 2010.<br>New estimates for:<br>- cuts in wage bill (seasonal bonuses and allowances): EUR 460 million;<br>- specific reduction in highest pensions: EUR 310 million<br>- luxury goods tax: EUR 20 million;<br>- incentives to regularise land-use violations: EUR 250 million. |

*Measures previously agreed and legislated:*

*Expenditure cuts:*

reduction in intermediate consumption by at least EUR 300 million compared to the actual 2010 level, on top of savings envisaged in the context of reforming public administration and the reorganisation of local government;

implement legislation reforming public administration and reorganising local government with the aim of reducing costs in comparison to current levels by at least EUR 1 500 million in 2013, of which at least EUR 500 million in 2011;

reduction in domestically-financed spending in investment by at least EUR 500 million compared to the actual 2010 level, while increasing revenue by giving priority to investment projects financed by EU structural and cohesion funds;

freeze in the indexation of pensions, with the aim of saving at least EUR 100 million;

reduction in the wage bill through fraud-reducing measures and the establishment of the single payment authority by at least EUR 100 million;

reduction in pharmaceutical expenditure by social security funds by EUR 500 million owing to a reduction in pre-tax drug prices; and by hospitals by at least EUR 350 million.

**Observed.**
All these measures were legislated and implemented in the course of 2010.
New estimates for:
- reduction in intermediate consumption: EUR 350 million
- reduction in the wage bill through fraud reducing measures: EUR 0.

*Revenue increases:*

temporary crisis levies on highly profitable firms, yielding at least EUR 1 000 million per year in 2011, 2012 and 2013;

enforce the presumptive taxation of professionals, with a yield of at least EUR 700 million in 2011 and increasing returns in 2012 and 2013;

start phasing in a green tax, with a yield of at least EUR 150 million in 2011;

expand the base of the real estate tax by updating asset values to yield at least EUR 270 million additional revenue;

collect revenue from the licensing of gaming: at least EUR 500 million in sales of licences and EUR 200 in annual royalties;

increase taxation of wages in kind, including by taxing car lease payments: at least EUR 150 million;

introduce book specification of income for tax purposes yielding at least EUR 50 million;

initiate the collection of a special tax on unauthorised establishments (Αυθαίρετα) (at least EUR 300 million per year).

**Observed.**
All these measures were legislated and implemented in the course of 2010.
New estimates for the expansion of the base of the real estate tax by updating assets values: EUR 135 million.

*New measures:*

*Expenditure cuts:*

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| further reduction in operational expenditure by at least 5 percent yielding savings of at least EUR 100 million; | **Observed.** |
| further reduction in transfers yielding savings for the government as a whole of at least EUR 100 million. The beneficiary public entities will ensure the concomitant reduction in expenditure so that there is no accumulation of arrears; | |
| means-testing of family allowances from January 2011 on yielding savings of at least EUR 150 million (after deduction of the respective administrative costs) ; | **Observed.** |
| reduction in deliveries of military equipment by at least EUR 500 million compared to the actual 2010 level; | **Planned.**<br>To be assessed by end-year. |
| further reduction in pharmaceutical expenditure by social security funds by EUR 900 million owing to a further reduction in drug prices and new procurement procedures and by hospitals (also including expenditure in equipment) by at least EUR 350 million; | **Observed.** |
| changes in the management, pricing and wages of public enterprises yielding savings of at least EUR 800 million; | **Observed.**<br>New estimate: EUR 500 million. |

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| *Revenue increases:* | |
| equalisation of taxation on heating oil and diesel oil from 15 October 2011 on, with the aim of fighting fraud and yielding at least EUR 400 million in 2011 net of specific measures to protect the less prosperous population strata; | **Not yet applicable.**<br>The act to equalise the taxation of heating oil and diesel oil have not yet been legislated. The specific tax benefit to heating oil to be revoked applies only in autumn and winter (from 15 October to April); a delay in the adoption the act until now has no material impact on tax revenue and tax expenditure. |
| increase in the reduced rates of VAT from 5.5 to 6.5 percent and 11 to 13 percent, yielding at least EUR 880 million; and reduction in the VAT rate applicable to medicines and hotel accommodation from 11 to 6.5 percent with a cost not exceeding EUR 250 million;<br>intensification of the fight against smuggling on fuel (at least EUR 190 million);<br>increase in court trial fees (at least EUR 100 million);<br>the implementation of an action plan to accelerate the collection of tax arrears (at least EUR 200 million);<br>speeding up tax penalty collection (at least EUR 400 million);<br>collection of revenue that results from the new framework of tax disputes and trials (at least EUR 300 million);<br>revenue from the renewal of telecommunication licences that are about to expire (at least EUR 350 million);<br>revenue from concession licences (at least EUR 250 million). | **Observed.**<br>New estimates for:<br>- increase in the reduced rates of VAT: EUR 480 million<br>The measures against tax evasion and reforming the tax administration are included in the tax bill, which is expected to be adopted by Parliament by end-February. The one-off measures, namely the telecommunication licences and the concessions licences, are expected to yield according to the estimates in November. |

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| The final budget contains:<br><br>detailed expenditure ceilings for each line ministry, local governments, and social security funds consistent with the general government deficit target. For the medium-term fiscal framework for 2012-14, this will be specified in the March 2011 strategy paper;<br><br>information on monthly revenue per category, and expenditure per Ministry. Updated figures will be regularly made available online. | **Observed.** |

## Table A-2: Structural fiscal reforms

| Actions in the Memorandum of understanding on specific policy conditionality (MoU) (actions by end-December 2010) | Comments |
|---|---|
| *Fighting waste in public enterprises:* | |
| Government adopts a restructuring plan for the Athens transport network (OASA). The objective of the plan is to reduce operational losses of the company and make it economically viable. State subsidies shall not exceed 40 percent of operational cost in conformity with EU practices. The plan includes cuts in operational expenditure of the company and tariffs increases. The required actions are implemented by end March 2011. | **Ongoing, delayed**.<br>A plan has been circulated for comments to the EC/IMF/ECB. There are still shortcomings in terms of fiscal impact and enforcement mechanisms. The law on OASA's restructuring has been submitted to Parliament in mid-February. |
| Government adopts an act that limits recruitment in the whole general government to a rule of not more than 1 recruitment for 5 exits, without sectoral exceptions. Government prepares a human resource plan in line with this rule. The rule also applies to staff transferred from public enterprises under restructuring to government entities. | **Observed**<br>Law 3899/2010 establishes that government recruitments in the course of 2011-13 need to fit in the rule of not more than 1 recruitment for 5 exits.<br>However, there is no comprehensive human resource plan yet. Also the absence of regular and timely compilation of staff movements (entries, exits and transfers) means that the enforcement of the rule cannot be monitored. |
| Government prepares a detailed privatization plan for the divestment of state assets and enterprises with the aim of raising at least EUR 7 billion during the period 2011-2013, of which at least EUR 1 billion in 2011. The restructuring and privatization programme will span the state's holdings in rail, road transport, airports, ports, utilities, the gaming industry and real estate. Proceeds from privatisation are to be used to redeem debt and do not substitute fiscal consolidation efforts. | **Observed**<br>The government has announced the assets it intends to privatise in the course of 2011-13. This list is to be revised given the more ambitious privatisation plans. |
| *Accounting and control:* | |
| Government ensures that the central registry for public enterprises is operational, and that public enterprises' financial statements are available on the website of the Ministry of Finance. | **Partially observed.**<br>The central registry has been created by a circular of 10 November 2010 sent to all public enterprises and entities, but is not yet fully operational.<br>Public enterprises' financial statements have been made published, since September 2010. |

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| Government centralises the financial supervision of public enterprises at the Ministry of Finance – Special Secretariat for Public Enterprises. Operational supervision of public enterprises is ensured by the relevant ministries. | **Observed.** |
| *Military spending:*<br><br>The new EMPAE (National Medium-Term Military Procurement Programme), to be adopted by Government, plans for a reduction in expenditure in the medium term that durably contributes to fiscal consolidation, without prejudice to national defence capability. | **Not yet applicable** as the National Medium-Term Military Procurement Programme has not yet been adopted**.** |
| *To improve the fiscal framework:*<br><br>Government implements legislation to strengthen the fiscal framework. The following elements should be part of the reform: introduce a medium-term fiscal framework based on rolling three-year expenditure ceilings for central government, social security and local governments; strengthen the position of the Finance minister vis-à-vis line ministries in both budget preparation and execution phases (giving him/her veto power on spending decisions and execution); introduce a compulsory contingency reserve in the budget, corresponding to 5 percent of total appropriations of government departments other than wages, pensions and interest; the use of the contingency reserve will be decided by the Finance Minister; Parliament does not modify the overall size of the budget at the approval stage, and focuses on the composition of public expenditure and revenue, and reliability of projections for expenditure and revenue; introduce stronger expenditure monitoring mechanisms, particularly by implementing an appropriate control of spending commitments, through which spending entities (line ministries, local authorities, social security funds, hospitals and other legal entities,) will report on a monthly basis to the Treasury on their outstanding expenditure commitments against their authorised appropriations in the budget law. To this end, the General Secretariat of Information Systems starts developing a special information system, to be complete by June 2011, interconnecting all public entities with the General Accounting Office (GAO), to provide real-time data; introduce a revenue rule for the general government, according to which the allocation of higher-than-expected revenues should be specified *ex ante* in the budget; creation of a budget office attached to Parliament providing independent advice and expert scrutiny on fiscal issues, and reporting publicly on the budgetary plans and execution of the spending entities of the general government, and on macroeconomic assumptions used in the budget. | **Partially observed.** |

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| ***To complete the pension reform:*** | |
| The National Actuarial Authority provides by 15 December 2010 interim long-term projections of pension expenditure up to 2060 under the July 2010 legislation covering the main pension schemes (IKA, OGA, OAEE and OPAD). | **Observed.**<br>Long-term projections have been provided by the NAA for IKA, OGA and OAEE (in December 2010) and OPAD (in January 2011).<br>These projections will now be scrutinised by the Commission services and peer-reviewed by the EU Economic Policy Committee (EPC) |
| ***To modernise the healthcare system:*** | **Ongoing**. |
| Government adopts a comprehensive reform of the healthcare system and modifies the allocation of health-related tasks among ministries.<br>The overarching objective is to keep public health expenditure at or below 6 percent of GDP, while maintaining universal access and improving the quality of care delivery.<br>In the short-term, the main focus should be on macro-level discipline and cost-control. | Parliament has adopted a first package of reforms proposed by the government in February 2011. Policies cover a number of areas including: pharmaceuticals reimbursement, reduction of profit margin of wholesalers and pharmacies, new population criteria for the establishment of pharmacies and working hours of pharmacies, public procurement of medical supplies and medicines merging of most of the existing health fund (under the new Health Agency EOPYY), allocation of healthcare tasks to the Ministry of Health. |
| Regarding pharmaceuticals, the government implements measures yielding savings of at least EUR 2 billion relative to the 2010 level, at least EUR 1 billion of which would materialise already in 2011. This would bring average public spending on outpatient pharmaceuticals to about 1 percent of GDP (in line with the EU average) by the end of 2012.<br>More specifically, the following measures are implemented by end of 2010: | **Ongoing.**<br>See below. |
| ensure full implementation of a uniform e-prescribing system, by extending the system currently used by OAEE to all the social security funds providing health insurance; | **Ongoing**.<br>There is progress but not yet a full implementation of a uniform and fully integrated e-prescribing system for medicines by the social security funds and health facilities. IKA is monitoring e-prescribing through scanning prescriptions. In the NHS, 60 hospitals have electronic patient prescription. |
| define (through EOF) and publish prescription guidelines for physicians on the basis of international prescription guidelines; | **Ongoing**.<br>EOF has proposed 30 guidelines to the relevant Ministry and until end March EOF will have produced about 100. |

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| social security funds establish a process to regularly assess the information obtained through the e-prescribing system and vis-à-vis prescription guidelines. Assessment will be done through a common dedicated unit under the authority of Health Benefit Coordination Council (SYSPY) with support of IDIKA. Relevant sanctions and penalties will be enforced as a follow up to the assessment and as foreseen by existing rules and legislation; | **Ongoing**.<br><br>OPAD, IKA and OAEE have each their own unit to assess information and elaborate reports. |
| a yearly report on medicine prescription is published and feedback is provided to each physician on a regular basis (at least annually). The report and feedback analysis look at prescription behaviour with reference to the most costly and mostly used medicines. | **Ongoing**.<br><br>OPAD, OAEE and IKA are providing individual reports to physicians. The medical prescription is monitored only in 60 out of 130 NHS hospitals. |
| publish the complete price list for the medicines in the market, using the new pricing mechanism. This list will be published by December 2010 and replace the partial list introduced in September. It will be updated quarterly. | **Delayed.**<br><br>The December update of the new price list for medicines is still due. Postponed to March 2011. |
| announce that caps to the price reductions used when the price list was first introduced in September 2010 will be lifted by March 2011. | **Not yet applicable.**<br><br>Still planned for March 2011. |
| apply the negative list of non-reimbursed medicines and the list of over-the-counter medicines prepared by the EOF. | **Observed**.<br><br>The negative price list of non-reimbursed medicines is to be published shortly. |
| finalise the new positive list of reimbursed medicines using the new reference price system. | **Ongoing, delayed**.<br><br>Technical work on the positive list of reimbursed medicines and the full reference price system has finished. However, until the price list is published (in March –see above), the reference price system can not be applied. |
| using the information made available through e-prescribing and scanning, Government collect the agreed rebate from pharmaceutical companies; | **Ongoing**.<br><br>Pharmaceutical companies have only paid a small amount of the total rebate due to social security funds. They brought a legal case against the government to deem illegal the request of the government to collect unpaid rebates over the last five years. |
| introduces a monitoring mechanism allowing for developments in pharmaceutical expenditure to be assessed on a monthly basis. | **Observed**.<br><br>The system to compile monthly data on NHS revenues, expenditure (including on pharmaceuticals) and activity has been finalised. Information is provided by 106 (out of 130) hospitals. |

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| If the implementation of the above measures is insufficient to achieve the targeted savings, both in 2011 and for the medium term, the government will implement additional measures, following discussions with the European Commission, the ECB and the IMF staff.<br><br>An assessment of the impact of measures will be made in the context of programme reviews | **Not yet applicable.** |
| Government enforces the payment of existing co-payments for regular outpatient services in all public hospitals and health centres and extends the 'all day' functioning of hospitals (afternoon shift) in order to develop and improve healthcare services and increase revenue. Government increases and enforces the co-payment of outpatient services from EUR 3 to EUR 5 and extends co-payments to unwarranted visits to emergency departments. | **Observed.** |
| Government ensures greater budgetary and operational oversight of healthcare spending by the Finance Minister, and the publication of audited accounts for hospitals and health centres | **Ongoing.**<br><br>The Ministry of Health has launched a web-based platform (esy.net) for gathering and assessing monthly data from NHS's hospitals. By mid-February, more than 80 out of 130 NHS hospitals are publishing detailed financial accounts, including the payment obligations generated in 2011. |
| Government creates an independent task force of health policy experts whose task is to produce, by end May 2011, a detailed report (*blue print*) for an overall reform of the health system to improve efficiency and effectiveness in the health system (both public and private). This task force has access to all available information and receives adequate administrative support. It will produce an interim report by March 2011. | **Observed.**<br><br>The Government has created an 11-member task force. It is chaired by Prof. Elias Mossialos. It has started working. |

## Table A-3: Financial sector regulation and supervision

| **Actions in the Memorandum of understanding on specific policy conditionality (MoU) (actions by end-December 2010)** | **Comments** |
|---|---|
| The Hellenic Financial Stability Fund is fully operational and adequately staffed (by end January 2011). Staff is recruited under the fastest and most flexible existing recruitment procedure. | **Partially observed.**<br>There are still delays in staff recruitment. |
| Government ensures that the EUR 25-billion extension of the government-guarantees on bank bonds is available by the end of November 2010. | **Observed.** |
| ATE announces a rights issue before end-November 2010. | **Observed.** |
| The Bank of Greece commits to reduce remuneration of its staff in light of the overall effort of fiscal consolidation. | **No information available.**<br>This item was initially included under actions until end September 2010. |

## Table A-4: Other structural reforms

| Actions in the Memorandum of understanding on specific policy conditionality (MoU) (actions by end-December 2010) | Comments |
|---|---|
| *To strengthen labour market institutions:* | |
| Government reforms the mechanism for collective bargaining at the firm level in close cooperation with social partners. The new law establishes that firm-level agreements prevail over those under sector and occupational agreements without undue restrictions (for this purpose, Law 1876/1990, Article 10 is amended). The conclusion of firm-level collective agreements should not be restricted by law, notably by requirements regarding the minimum size of firms entitled to engage in collective bargaining (for this purpose Law 1876/1990, Article 6.1.b is amended). | **Observed**.<br>Law 3899/2010 establishes that firms and their employees may sign special firm-level collective agreements (SFLCA) that deviate *in peius* from from sector agreements.<br>SFLCAs may be signed by any firm irrespective of their size.<br>SFLCAs are notified to the Council of Social Oversight of the Labour Inspectorate, (CSOLI) which provides a non-binding opinion. The CSOLI opinion on the first SFLCA was negative. |
| Government amends Law 1876/1990 (Articles 11.2 and 11.3) to eliminate the extension of sector and occupational agreements to parties not represented in negotiations. | **Not observed**.<br>If the sector and occupational agreements are systematically extended to all firms in the sector, the incentives to bargaining parties are distorted and defeat the purpose of SFLCA. |
| Government adopts an act, in line with Article 73 of Law 3863/2010, revising the mediation and arbitration system and introducing symmetric access to arbitration if parties disagree with the proposal of the mediator without exceptions. The Mediation and Arbitration Organisation (OMED) shall be free from government influence; this shall be reflected in the composition of the board of directors. Its Chairman is elected by unanimity by the employers and employees representatives. The new act indicates that mediators and arbitrators pay due attention to cost competitiveness. | **Observed**.<br>The new OMED board is in the process of being constituted. |
| Government amends legislation to extend the probationary period for new jobs to one year (Law 3863/2010, Article 74.2). | **Observed**. |
| Government eliminates temporal limits in the use of temporary working agencies. For this purpose, relevant laws are amended. | |
| Government adopts legislation to remove impediments for greater use of fixed-term contracts. | **Not observed**. |

| | |
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| Government eliminates the provision that establishes higher hourly remuneration to part-time workers. For this purpose Law 1892/1990, Article 38 is further amended. | **Observed.** |
| Government amends current legislation (Law 3846/2010, Article 7) to allow for a more flexible working-time management, … | **Not observed**. |
| … including part-time shift work (Article 2.3). | **Observed.** |
| ***To reform and modernise public administration:*** | **Ongoing, delayed**.<br><br>Agreement on the terms of reference between Greece and the OECD (contractor) has been delayed, due to legal fine-tuning. The separate contracts for the two functional reviews are expected to be signed in late February. Meanwhile, the government has launched the process with the creation of the appropriate mapping teams and steering/coordination committees for the review of the central administration. |
| *Functional reviews* | |
| Government proceeds with two independent functional reviews of the public administration at central level and of all existing social programmes, which will be conducted by the OECD. The first review on public administration will be coordinated by the Ministry of Interior. The second review on social programmes will be coordinated by the Ministry of Labour. The review of the central administration involves all ministries (first phase) and key subordinated public entities (second phase). The review of all existing social programmes will be comprehensive and will affect all relevant ministries. The terms of reference of both reviews, and a precise time schedule for the second phase of the central administration review, will be agreed between both ministries and the OECD after consultation with the European Commission, IMF and ECB staff. | |
| The review on central administration will be merged with the Ministry of Interior's own reorganisation programme. The review will: take stock of the resource use (human resources and procurement) to carry out government functions; identify actions to rationalise the several departments, ensure efficiency and generate productivity gains, and quantify savings.<br><br>The review of existing social programmes will: assess the effectiveness and appropriateness of existing social and welfare programmes; identify the least effective programmes, and quantify savings. | |

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| *Local administration* | |
| Government adopts the required decrees for the entry into force of the local administration reform (*Kallikrates* reform). The reform yields savings of EUR 500 million in 2011 and additional EUR 500 million per year in 2012 and 2013 for the general government as a whole. | **Observed.** |
| Government adopts a decree disallowing local governments to run deficits at least until 2014. To ensure that savings contribute to the reduction in the government deficit. Government reduces transfers to local government in line with planned savings and transfers of competences to local government. | |
| *Public sector wages and human resource management* | |
| The Ministry of Finance together with the Ministry of Interior complete the establishment of a Single Payment Authority for the payment of wages in the public sector. The Ministry of Finance prepares a report (to be published by end January 2011), in collaboration with the Single Payment Authority, on the structure and levels of remuneration and the volume and dynamics of employment in the general government. The report presents plans for the allocation of human resources in the public sector for the period up to 2013. It specifies plans to reallocate qualified staff to the tax administration, GAO, the labour inspectorate, regulators and Hellenic Competition Commission. | **Partially observed.**<br>The draft report includes a diagnosis on wages and employment data in the public sector.<br>It does not contain plans for the allocation of human resources in the public sector for the period up to 2013. |
| Government establishes a process to simplify the remuneration system in the public sector. It shall apply to all public sector employees. This should lead to a system where remuneration reflects productivity and tasks. Government ensures that there is no increase in the wage bill in the public sector as a result of the reform. | **Not observed**. |
| ASEP accelerates staff selection-related procedures for the areas which are a priority in the implementation of this memorandum. | **Observed.** |
| *Public procurement* | **Not observed.** |
| Government provides timetable and details for the development of *e-procurement* and signs the respective contract for the provision of IT platform. | The contract for the provision of the IT platform has not been signed; the timetable for the development of e-procurement will only be defined after the signature of the contract. |

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| ***To strengthen competition in open markets*** | |
| *Services directive* | |
| Government ensures that the point of single contact (PSC): provides relevant information on all sector-specific and cross-cutting formalities and procedures (such as company/trade registration and permits relating to the providers' premises); distinguishes between procedures applicable to service providers established in Greece and those applicable to cross-border providers (in particular for the regulated professions). | **Ongoing.**<br>Acts for the completion of all the required procedures online are pending. Concerns persist in respect of the use of online procedures related to the recognition of professional qualifications, the distinction between established providers and those providing services cross-border as well as the simplification of procedures. |
| Government: ensures adequate links between the PSC and other relevant authorities (including professional associations); allows the online completion of procedures covering at least, the procedures in the distribution services, tourism, education and construction sectors; allows for payment of administrative fees at a distance | |
| Government carries out a risk assessment of procedures focusing on priority service sectors with a view to adopting solutions for electronic identification, electronic signature and electronic documents in conformity with Commission Decision 2009/767/EC. | **Observed.** |
| Government presents a progress report outlining available online procedures, steps to be taken over the next two quarters to finalise the electronic completion of procedures, setting clear deadlines by service sector and procedure. | |
| Government adopts changes to existing (sectoral) legislation in key services sectors such as tourism, retail and private education services. New legislation should: facilitate establishment by abolishing or amending requirements which are prohibited by the Services Directive and significantly reducing requirements, including those relating to quantitative and territorial restrictions, legal form requirements, shareholding requirements, fixed minimum and/or maximum tariffs and restrictions to multidisciplinary activities; facilitate the provision of cross-border services, so that providers of cross-border services are required to comply with specific requirements of the Greek legislation only in exceptional cases (when admitted by Articles 16 or 17 of the Services Directive); provide legal certainty for providers of cross-border services by setting out in the respective (sectoral) legislation which requirements can and which requirements cannot be applied to cross-border services. | **Ongoing with delay**.<br>The legislative changes have been partially adopted. As of 1 February 2011, the Joint Ministerial Decision on outdoor trade, open markets and retail stores was about to be published in the official gazette. However, other acts were still pending, such as the legislation on cross border services in tourism. Work is particularly delayed in the wholesale sector which requires screening for restrictions covered by the Services Directive. |

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| Government specifies, for priority service sectors that are key for growth, a timetable for adopting sectoral legislation by end Q2 2011 that ensures compliance with the requirements of the Services Directive. | **Observed.**<br>The Government has selected the following priority areas: i) agriculture; ii) transport services not excluded by the directive; iii) employment; iv) technical services; v) sanitary facilities; vi) welfare and vii) other services. |
| *Restricted professions* | |
| Government proposes legislation to remove restrictions to competition, business and trade in restricted professions including: the legal profession, to remove unnecessary restrictions on fixed minimum tariffs, the effective ban on advertising, territorial restrictions on where lawyers can practice; the pharmacy profession, to promote more flexible opening hours and reduce minimum profit margins (see also measures to modernise the healthcare system); the notary profession, to reduce fixed tariffs and increase the number of notaries; architects, covering fixed minimum tariffs; engineers, covering fixed minimum tariffs; auditing services, covering fixed tariffs. | **Partially observed.**<br>On 31 December 2010, the government submitted draft legislation on closed professions. The draft was broadly in compliance with the requirement; restrictions to multidisciplinary activities and to commercial communications are expected to be regulated by Presidential Decree in the first quarter of 2011.<br>The law as voted by Parliament on 17 February still requires assessment, as it deviates in some respects from, and is less ambitious than, the draft tabled by government.<br>On pharmacies the Parliament adopted on 9 February 2011, legislation that: i) reduces the minimum number of inhabitants for the establishment of a pharmacy; ii) increases the number of pharmacies open on Saturday morning, Monday and Wednesday afternoon in urban areas and<br>iii) indirectly reduces the profit margin of pharmacies by an average of 3.5 percent down to 20 percent from the current 23.5 percent. |
| Government requests the Hellenic Competition Commission to issue an opinion on the proposed legislation. | **Observed.** |
| Government ensures the effective implementation of EU rules on recognition of professional qualifications and compliance with ECJ rulings (including those related to franchised diplomas). It presents to the European Commission a list of pending applications and a timetable for dealing with these applications. In particular, pending applications for recognition of professional qualifications (in particular those related to franchised diplomas) should be immediately processed, with the first decisions on those applications to be submitted to the European Commission by the end of 2010. | **Ongoing.**<br>On 30 December 2010 the government informed the Commission that there were a total of 825 pending applications for recognition, of which, 314 had been examined by the Council for the Recognition of Qualifications. Of those, 222 applications concerned franchised diplomas.<br>Detailed information on pending applications (e.g., professions covered, time needed to issue a decision, etc.) is needed to fully comply with the requirement. |

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| *Transport* | |
| Building on the recently adopted railway reform law (Law 3891/2010), Government adopts a business plan on the restructuring of the railways sector in a viable manner. By implementing the business plan, the train operator (TRAINOSE) and infrastructure manager (OSE) break even.<br><br>The restructuring measures envisaged in the business plan imply state aid in favour of OSE Group and TRAINOSE, which will be notified to the Commission by the end of 2010. The business plan will be adapted to ensure compliance with State aid rules. The next review will report on adaptations brought to the business plan to ensure its compatibility with State aid rules.<br><br>The business plan provides an overall fiscal impact analysis, including investment and debt and establishes monitoring and enforcement mechanisms that ensure prompt correction of deviations vis-à-vis the plan. | **Ongoing**.<br><br>State aid issues not yet cleared. |
| *Sectoral growth drivers* | |
| Government presents a report analysing the potential contribution of the tourism sector to growth and jobs. It should identify legislative, administrative and other obstacles hindering competition and market entry to the realisation of sector potential. | **Ongoing.**<br><br>Preliminary results of these studies were presented to the EC/IMF/ECB staff on 9 February. The studies are expected to be made public in April. |
| Government presents a report analysing the potential contribution of the retail sector to price flexibility, growth and jobs. It should identify legislative, administrative and other obstacles hindering competition and market entry to the realisation of sector potential. | |

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| *Business environment* | |
| Government adopts legislation to simplify and accelerate the process of licensing enterprises, industrial activities and professions. For this purpose, it revises *inter alia* Law 3325/2005, and makes the spatial plan and Law 3333/05 for business areas operational, with the subsequent issuance of the required ministerial decisions and presidential decrees in Q1-2011. | **Ongoing.**<br>The draft licensing law is in inter-ministerial consultation. Its effectiveness will depend on the implementing regulations.<br>Requirements to make the spatial plan and Law 3333/05 operational have been met.. |
| Government adopts an action plan for a business-friendly Greece with a timetable for the removal of 30 of the most important remaining restrictions to business activity, investment and innovation. | **Ongoing.**<br>The government is finalising an action plan to remove 30 of the most important barriers to business activity, investment and innovation. The plan, which includes several actions in addition to those in the MoU, is divided in two sections depending on their timeline: short-term and longer-term actions. |
| Government adopts a law modifying the existing institutional framework of the Hellenic Competition Commission (HCC) with the aim of abolishing the notification system for all agreements falling within the scope of Article 1 of Law 703/1977, to give the HCC the power to reject complaints, to increase the independence of HCC members, and to establish reasonable deadlines for the investigation and issuance of decisions. | **Ongoing.** A draft acts has been assessed by the Commission services and is expected to be passed by Parliament before end March.. |
| Government makes the General Commercial Registry (GEMI) operational. (*).<br>(*) By end December 2010: the data migration from the chambers' registries to the GEMI database is finalised; the joint ministerial decisions on procedures, conditions and technical modalities are adopted; the one-stop-shop services are provided by KEP's chambers of commerce and notaries. Any other required steps, including the automatisation of one-stop-shop services, are finalised by March 2011. | **Delayed.**<br>The GEMI is foreseen to become operational in April 2011. |
| Government accelerates the land registry and prepares a progress report and an action plan. | **Observed.** |

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| *Energy* | |
| Government presents its detailed plans for the liberalisation of the energy market, including opening up lignite-fired electricity generation to third parties in line with EU law. | **Observed.**<br>The government has been discussing alternative measures with the European Commission (DG Competition) to address the lignite case as Greece requested a review of the 2009 Commission Decision. Public Power Corporation (PPC) would grant the requested access of 40 percent of lignite-fired capacity to competitors by drawing rights. These measures would include transitory mechanisms and subject to a market test/consultation until end February 2011. |
| Government adopts a plan for phased transitory cost-based access to lignite-fired generation, taking into account the decommissioning of the power plants scheduled under the Government's Energy Plan to meet the 20-20-20 target. This access will remain in place until effective implementation of the liberalisation has taken place. | |
| Government adopts a plan to either award the hydro reserves management to an independent body or to assign this role to the independent system operator. | **Ongoing.**<br>The government intends to award the hydro reserves to the independent transmission operator. |
| Government adopts a mechanism to ensure that the energy component of regulated tariffs reflects, gradually and at the latest by June 2013, wholesale market prices, except for vulnerable consumers. Government adopts a revised definition of vulnerable consumers and a tariff for this category of consumers. | **Observed.** |
| To ensure that network activities are unbundled from supply activities, as foreseen in the second and third energy liberalisation packages, Government identifies the assets and personnel associated with the electricity transmission system and the electricity distribution system. | **Ongoing.**<br>The government has submitted information to the Commission on 2 February 2011 which now requires an in-depth assessment. |
| ***To promote investments and exports:*** | |
| Government carries out an in-depth evaluation of all R&D and innovation actions, including in various operational programmes, in order to adjust the national strategy and limit the use of government subsidies and guarantees. | **Not observed.** |
| Government creates an external advisory council, to consider how to foster innovation, strengthen links between public research and Greek industries and the development of regional industrial clusters. | **Observed.**<br>The government has created a National Council for Research and Technology, with 10 members from academia. |

| | |
|---|---|
| Government takes measures to facilitate FDI and investment in innovation in strategic sectors (green industries, ICT, etc.) as well as measures to promote exports. These actions focus on removing rigidities and administrative constraints and must be in line with the fiscal consolidation requirements. | **Observed**<br>The Investment law was adopted by Parliament on 21 January 2011.<br>Export promotion measures were presented on 28/01/2011 but no clear strategy to alleviate the administrative burden for exporters is visible so far. |
| ***To raise the absorption rates of structural and cohesion funds*** | |
| Government meets targets for payment claims in the absorption of structural and cohesion funds set down in the table below. Compliance with the targets shall be measured by certified data. | **Observed**. |
| In addition, Government achieves an annual target of submitting 10 major projects applications to the Commission. In meeting absorption rate targets, recourse to non-targeted *de minimis* state aid measures should be gradually reduced. | **Observed.**<br>12 applications for major projects have been submitted in 2010.<br>Non-targeted *de minimis* state aid measures are progressively reduced. |
| Government presents a report on the activities of the task force assessing progress in ensuring the rapid implementation and absorption of structural funds, and proposing improvements when necessary. | **Observed.** |

Payment claims in the absorption of structural funds in 2010
*(EUR million)*

| *Fund* | *Reference value* | *Outcome* | *Comment* |
|---|---|---|---|
| European Regional and Cohesion Funds | 2330 | 2372.4 | **Met.** |
| European Social Fund | 420 | 447.6 | **Met.** |
| Total | 2720 | 2820.0 | **Met.** |

| | |
|---|---|
| Without prejudice to the Greek Constitution, Government adopts legislation to tackle delays in the implementation of public works and investment projects in general. Legislation should: shorten and simplify judicial procedures challenging contract awards or land expropriation decisions; shorten deadlines to get permits by the Central Archaeological Council in Athens; simplify and shorten procedures to complete studies on environmental impact and to get the approval of environmental terms for infrastructure projects. | **Partially observed, delayed.**<br><br>A draft bill to tackle delays in judicial procedures challenging contract awards or land expropriation decisions is under consultation and expected to be adopted in the course of February 2011.<br><br>Law 3905/2010 of 23 December 2010 includes provisions on the signature of a protocol between the ministries of Culture and Infrastructure for each co-funded major project.<br><br>A draft bill on studies for environmental impact and approval of environmental terms is under preparation and expected to be adopted before end March.. |

## Annex 2: Provision of data

This table assesses the provision of data that are specifically required in the MoU. It does not cover data that are regularly transmitted and published by Greece under the European statistical system transmission programme, like annual and quarterly GDP accounts, inflation data, or other macroeconomic statistics.

| To be provided by the Ministry of Finance | | |
|---|---|---|
| | | **Comment** |
| Preliminary monthly data on the state budget execution (including breakdown by main categories of revenue and expenditure and by line ministry).<br><br>*(Data compiled by the Ministry of Finance)* | Monthly, 15 days after the end of each month; these data should also be included in subsequent transmissions in case of revision. | **Observed**. |
| Updated monthly plans for the state budget execution for the remainder of the year, including breakdown by main categories of revenue and expenditure and by line ministry.<br><br>*(Data compiled by the Ministry of Finance)* | Monthly, 30 days after the end of each month. | **Not observed.** |

| | | |
|---|---|---|
| Preliminary monthly cash data on general government entities other than the state.<br><br>*(Data compiled by the Ministry of Finance)* | Monthly, 30 days after the end of each month, these data should also be included in subsequent transmissions in case of revision. | **Partially observed.** |
| Monthly data on the public wage bill (of general government, including a breakdown in nominal wage and allowances paid to government employees per line ministry and public entity), number of employees (including a breakdown per ministry and public entities outside the central government) and average wage (including the relative shares of the base wage, allowances and bonuses).<br><br>*(Data compiled by the Ministries of Interior and Finance)* | Monthly, 30 days after the end of each month (starting in June 2010). | **Not observed** |
| Weekly information on the Government's cash position with indication of sources and uses as well of number of days covered.<br><br>*(Data compiled by the Ministry of Finance)* | Weekly on Friday, reporting on the previous Thursday. | **Observed.** |

| | | |
|---|---|---|
| Data on below-the-line financing for the general government.<br><br>*(Data compiled by the Ministry of Finance)* | Monthly, no later than 15 days after the end of each month; these data should also be included in subsequent transmissions in case of revision. | **Observed.** |
| Data on expenditure pending payment (including arrears) of the general government, including the State, local government, social security, hospitals and legal entities.<br><br>*(Data compiled by the Ministry of Finance on the basis of basic data from the several line ministries )* | Quarterly, within 55 days after the end of each quarter. | **Observed**, but quality issues remain. |
| Data on public debt and new guarantees issued by the general government to public enterprises and the private sector.<br><br>*(Data compiled by the Ministry of Finance)* | Monthly, within one month. | **Observed**. |
| Data on public enterprises: revenue, costs, payroll, number of employees<br><br>*(Data compiled by the Ministry of Finance)* | Monthly, within three weeks of the end of each month for the ten largest enterprises. Quarterly within three weeks of the end of each quarter for the other enterprises. | **Partially observed**.<br><br>Number of employees, not available. |

| | | |
|---|---|---|
| Monthly statement of the transactions through off-budget accounts.<br><br>*(Data compiled by the Ministries of Finance and Education)* | Monthly, at the end of each month. | **Not observed**. |
| Monthly statements of the operations on the special accounts.<br><br>*(Data compiled by the Ministry of Finance)* | Monthly, at the end of each month. | **Observed.** |
| Report on progress with fulfilment of policy conditionality.<br><br>*(Report prepared by the Ministry of Finance)* | Quarterly before the respective review starts. | **Observed**.<br>Report transmitted after the review. |
| Monthly data on healthcare expenditure by the social security funds with a lag of three weeks after the end of the respective quarter.<br><br>*(Data compiled by the Ministries of Labour and Health)* | Monthly, within three weeks of the end of each month. Staring with data for January 2011 for IKA, OAEE, OGA and OPAD, and from April 2011 on for the other funds | **Not yet applicable.** |

| To be provided by the Bank of Greece | | |
|---|---|---|
| Assets and liabilities of the Bank of Greece. | Weekly, next working day. | **Observed.** |
| Assets and liabilities of the Greek banking system - aggregate monetary balance sheet of credit institutions. | Monthly, 30 days after the end of each month. | |
| Evolution of the external funding provided by Greek banks to their subsidiaries abroad. | Monthly, 15 days after the end of each month. | **Partially observed.**<br><br>Frequency not respected |
| External funding flows for the banking, corporate and government sector, including also expected developments in the 12 months ahead. | Monthly, 30 days after the end of each month. | **Partially observed.**<br><br>Forward looking element missing. |
| Report on banking sector liquidity situation. | Weekly, next working day. | **Observed.** |
| Report on the evolution of financial stability indicators. | Quarterly, 15 days after the end of each quarter depending on data availability. | |
| Report on results from the regular quarterly solvency stress tests. | Quarterly, 15 days after the end of each quarter depending on data availability. | |
| Detailed report on the balance sheet of the Financial Stability Fund with indication and explanation of changes in the accounts. | Weekly, next working day. | **Not observed.** |

# Annex 3: Macroeconomic forecast

**Table A1: USE AND SUPPLY OF GOODS AND SERVICES (volume)**

| *Annual % change* | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 |
|---|---|---|---|---|---|---|
| 1. Private consumption expenditure | -1.8 | -4.1 | -4.6 | 0.5 | 1.1 | 1.2 |
| 2. Government consumption expenditure | 7.6 | -9.0 | -8.5 | -6.0 | -1.0 | -0.3 |
| 3. Gross fixed capital formation | -10.4 | -17.4 | -7.5 | -2.6 | 1.1 | 1.2 |
| **4. Final domestic demand** | **-2.0** | **-7.1** | **-5.7** | **-1.0** | **0.8** | **1.0** |
| 5. Change in inventories + net acquisitions of valuables | -0.5 | -0.5 | -0.5 | -0.2 | -0.2 | -0.2 |
| **6. Domestic demand** | **-4.1** | **-7.2** | **-5.6** | **-0.7** | **0.7** | **1.0** |
| 7. Exports of goods and services | -20.1 | 0.6 | 6.3 | 5.9 | 7.3 | 6.7 |
| *7a. - of which goods* | *-18.0* | *2.0* | *6.5* | *6.4* | *6.5* | *6.1* |
| *7b. - of which services* | *-21.6* | *-0.5* | *6.1* | *5.6* | *8.0* | *7.2* |
| **8. Final demand** | **-6.9** | **-6.1** | **-3.7** | **0.5** | **2.0** | **2.1** |
| 9. Imports of goods and services | -18.6 | -12.0 | -6.0 | -1.5 | 1.5 | 2.1 |
| *9a. - of which goods* | *-18.5* | *-15.8* | *-7.4* | *-1.5* | *1.5* | *2.1* |
| *9b. - of which services* | *-18.9* | *4.3* | *-1.2* | *-1.5* | *1.3* | *2.0* |
| **10. Gross domestic product at market prices** | **-2.4** | **-4.2** | **-3.0** | **1.1** | **2.1** | **2.1** |
| *Contribution to change in GDP* | | | | | | |
| 11. Final domestic demand | -2.3 | -8.0 | -6.2 | -1.0 | 0.8 | 1.0 |
| 12. Change in inventories + net acq. of valuables | -2.4 | -0.1 | 0.1 | 0.3 | 0.0 | 0.0 |
| 13. External balance of goods and services | 2.2 | 3.9 | 3.1 | 1.8 | 1.4 | 1.1 |

**Table A2: USE AND SUPPLY OF GOODS AND SERVICES (value)**

| *Annual % change* | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 |
|---|---|---|---|---|---|---|
| 1. Private consumption expenditure | -0.7 | 0.4 | -2.4 | 0.9 | 1.7 | 2.3 |
| 2. Government consumption expenditure | 9.8 | -12.9 | -8.9 | -5.7 | 0.0 | 0.9 |
| 3. Gross fixed capital formation | -11.4 | -15.2 | -6.6 | -1.1 | 0.2 | 2.9 |
| **4. Final domestic demand** | **-0.9** | **-4.3** | **-4.0** | **-0.4** | **0.0** | **2.2** |
| 5. Change in inventories + net acquisition of valuables | | | | | | |
| **6. Domestic demand** | **-2.9** | **-4.5** | **-4.1** | **0.0** | **1.6** | **2.3** |
| 7. Exports of goods and services | -20.2 | 5.7 | 7.5 | 7.0 | 9.2 | 8.6 |
| *7a. - of which, goods* | *-18.9* | *7.6* | *7.7* | *7.7* | *8.2* | *7.8* |
| *7a. - of which, services* | *-21.2* | *4.3* | *7.4* | *6.6* | *10.0* | *9.2* |
| **8. Final demand** | **-5.9** | **-3.0** | **-2.3** | **1.3** | **3.1** | **3.5** |
| 9. Imports of goods and services | -19.1 | -8.4 | -5.0 | 0.3 | 3.5 | 4.2 |
| *9a. - of which goods* | *-20.2* | *-12.1* | *-6.5* | *0.3* | *3.6* | *4.2* |
| *9a. - of which, services* | *-13.9* | *7.7* | *0.2* | *0.2* | *3.2* | *4.0* |
| **10. Gross domestic product at market prices** | **-1.1** | **-1.3** | **-1.5** | **1.5** | **2.9** | **3.3** |
| *11. - of wich, external balance of goods and services* | | | | | | |
| 12. Balance of primary income with rest of the world | 0.5 | -0.1 | -0.1 | 0.0 | 0.0 | 0.0 |
| **13. Gross national income** | **-0.6** | **-1.4** | **-1.6** | **1.5** | **2.9** | **3.3** |
| 14. Compensation of employees | 1.3 | -4.7 | -2.9 | 0.2 | 0.4 | 1.1 |
| 15. Gross operating surplus and mixed income | -0.9 | -3.3 | -3.4 | 1.4 | 5.3 | 5.5 |
| **16. Gross value added at basic prices** | **0.0** | **-3.9** | **-3.2** | **0.9** | **3.3** | **3.7** |
| *16a. - of which, labour costs, including self-employed* | *1.6* | *-4.7* | *-2.7* | *0.2* | *1.0* | *1.5* |
| 17. Taxes net of subsidies (18-19) | -9.3 | 19.4 | 9.5 | 4.7 | 0.6 | 0.6 |
| *18. - taxes on products* | *-9.0* | *19.0* | *9.4* | *4.7* | *0.7* | *0.6* |
| *19. - subsidies on products* | *14.0* | *-15.7* | *2.6* | *2.6* | *2.6* | *2.6* |
| **20. Gross domestic product at market prices** | **-1.1** | **-1.3** | **-1.5** | **1.5** | **2.9** | **3.3** |

**Table A3: COSTS AND PRICES**

| *% change in implicit price deflator* | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 |
|---|---|---|---|---|---|---|
| 1. Private consumption expenditure | 1.1 | 4.6 | 2.4 | 0.3 | 0.6 | 1.1 |
| 2. Government consumption expenditure | 2.1 | -4.3 | -0.4 | 0.4 | 1.2 | 1.2 |
| 3. Gross fixed capital formation | -1.1 | 2.7 | 1.0 | 1.6 | 1.7 | 1.6 |
| *3a. - of which, construction* | *0.5* | *3.3* | *1.0* | *1.8* | *1.6* | *1.8* |
| *3b. - of which, equipment* | *-0.4* | *3.1* | *0.9* | *1.4* | *2.0* | *1.7* |
| **4. Final domestic demand** | **1.1** | **3.0** | **1.8** | **0.6** | **0.9** | **1.2** |
| | - | - | - | - | - | - |
| **6. Domestic demand** | **1.2** | **3.0** | **1.6** | **0.7** | **0.9** | **1.3** |
| 7. Exports of goods and services | -0.2 | 5.0 | 1.2 | 1.1 | 1.8 | 1.8 |
| *7a. - of which, goods* | *-1.1* | *5.5* | *1.1* | *1.2* | *1.6* | *1.6* |
| *7b. - of which, services* | *0.5* | *4.8* | *1.3* | *1.0* | *1.8* | *1.9* |
| **8. Final demand** | **1.0** | **3.3** | **1.5** | **0.7** | **1.1** | **1.4** |
| 9. Imports of goods and services | -0.6 | 4.0 | 1.0 | 1.8 | 2.0 | 2.1 |
| *9a. - of which, goods* | *-2.1* | *4.5* | *1.0* | *1.8* | *2.1* | *2.1* |
| *9a. - of which, services* | *6.2* | *3.3* | *1.4* | *1.7* | *1.8* | *1.9* |
| **10. Gross domestic product at market prices** | **1.3** | **3.0** | **1.6** | **0.4** | **0.8** | **1.2** |
| 11. Terms of trade of goods and services | 0.4 | 1.0 | 0.2 | -0.7 | -0.3 | -0.2 |
| *11a. - of which, terms of trade of goods* | *1.0* | *1.0* | *0.1* | *-0.6* | *-0.5* | *-0.5* |
| *11b. - of which, terms of trade of services* | *-5.3* | *1.4* | *-0.1* | *-0.8* | *0.0* | *0.0* |
| | | | | | | |
| **12. HICP** | **1.3** | **4.7** | **2.2** | **0.5** | **0.7** | **1.0** |

**Table A4: LABOUR MARKET AND LABOUR COST**

| *Annual % change* | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 |
|---|---|---|---|---|---|---|
| 1. Gross value added at 1995 basic prices | -1.8 | -3.7 | -2.2 | 0.0 | 1.3 | 1.5 |
| 2. Employment ('000) | -0.7 | -2.8 | -2.7 | 0.1 | 0.9 | 1.2 |
| 3. GVA per occupied person | -1.1 | -0.7 | 0.3 | -0.1 | 0.4 | 0.3 |
| 4. Compensation of employees (per employee) | 2.3 | -1.8 | -0.2 | 0.1 | 0.1 | 0.3 |
| 5. Unit labour costs (1995=100) | 3.4 | -1.1 | -0.5 | 0.2 | -0.3 | 0.0 |
| | | | | | | |
| 6. Total population | 0.2 | 0.2 | 0.2 | 0.2 | 0.2 | 0.2 |
| 7. Population of working age (15-64 years) | -0.1 | -0.1 | 0.4 | 0.4 | 0.4 | 0.4 |
| 8. Total labour force | 1.2 | 0.6 | 0.2 | 0.2 | 0.2 | 0.2 |
| | | | | | | |
| | -0.7 | -2.8 | -2.7 | 0.1 | 0.9 | 1.2 |
| **11. Total employment** | **-0.7** | **-2.8** | **-2.7** | **0.1** | **0.9** | **1.2** |
| *11a. - of which, employees* | -0.9 | -3.0 | -2.7 | 0.1 | 0.3 | 0.8 |
| *11b. - of which, self-employed* | -0.2 | -2.4 | -2.6 | 0.0 | 2.0 | 1.8 |
| | | | | | | |
| **13. Unemployment** | **24.7** | **34.8** | **21.3** | **1.3** | **-3.5** | **-5.2** |

**Table B1: USE AND SUPPLY OF GOODS AND SERVICES (value, in EUR billion)**

| *levels* | **2009** | **2010** | **2011** | **2012** | **2013** | **2014** |
|---|---|---|---|---|---|---|
| 1. Private consumption expenditure | 174.4 | 175.1 | 170.9 | 172.4 | 175.3 | 179.3 |
| 2. Government consumption expenditure | 45.4 | 39.6 | 36.1 | 34.0 | 34.1 | 34.4 |
| 3. Gross fixed capital formation | 40.1 | 34.0 | 31.7 | 31.4 | 32.3 | 33.2 |
| **4. Final domestic demand (1+2+3)** | **259.9** | **248.7** | **238.7** | **237.8** | **241.7** | **246.9** |
| 5. Change in inventories + net acquisition of valuables as % of GDP | | | | | | |
| **6. Domestic demand (4+5)** | **258.3** | **246.8** | **236.6** | **236.7** | **240.6** | **246.0** |
| 7. Exports of goods and services | 44.3 | 46.8 | 50.3 | 53.9 | 58.8 | 63.9 |
| *7a. - of which, goods* | *18.5* | *19.9* | *21.5* | *23.1* | *25.0* | *27.0* |
| *7a. - of which, services* | *25.8* | *26.9* | *28.9* | *30.8* | *33.8* | *37.0* |
| **8. Final demand (6+7)** | **302.6** | **293.6** | **287.0** | **290.5** | **299.4** | **309.9** |
| 9. Imports of goods and services | 69.5 | 63.6 | 60.4 | 60.6 | 62.7 | 65.3 |
| *9a. - of which goods* | *56.8* | *50.0* | *46.7* | *46.9* | *48.6* | *50.6* |
| *9a. - of which, services* | *12.7* | *13.7* | *13.7* | *13.7* | *14.1* | *14.7* |
| **10. Gross domestic product at market prices ( 8-9 )** | **233.1** | **230.0** | **226.5** | **230.0** | **236.7** | **244.6** |
| *11. - of wich, external balance of goods and services* | | | | | | |
| 12. Balance of primary income with rest of the world | -6.4 | -6.5 | -6.7 | -6.9 | -7.1 | -7.3 |
| **13. Gross national income at market prices (10+12)** | **226.7** | **223.4** | **219.8** | **223.0** | **229.6** | **237.2** |
| 14. Compensation of employees | 87.3 | 83.1 | 80.7 | 80.9 | 81.2 | 82.1 |
| 15. Gross operating surplus and mixed income | 122.6 | 118.6 | 114.6 | 116.2 | 122.3 | 129.0 |
| **16. Gross value added at basic prices ( 14 + 15 )** | **209.9** | **201.7** | **195.3** | **197.1** | **203.5** | **211.1** |
| *16a. - of which, labour costs, including self-employed* | *134.1* | *127.7* | *124.4* | *124.6* | *125.8* | *127.6* |
| 17. Taxes net of subsidies (18-19) | 25.7 | 30.7 | 33.6 | 35.2 | 35.4 | 35.7 |
| *18. - taxes on products* | *26.1* | *31.0* | *33.9* | *35.5* | *35.8* | *36.0* |
| *19. - subsidies on products* | *0.3* | *0.3* | *0.3* | *0.3* | *0.3* | *0.3* |
| **20. Gross domestic product at market prices ( 16 + 17 )** | **233.1** | **230.0** | **226.5** | **230.0** | **236.7** | **244.6** |

**Table B2: LABOUR MARKET AND LABOUR COST (in EUR billion unless otherwise stated)**

| *levels* | **2009** | **2010** | **2011** | **2012** | **2013** | **2014** |
|---|---|---|---|---|---|---|
| 1. Gross value added at 1995 basic prices | 159.1 | 153.2 | 149.9 | 149.9 | 151.8 | 154.1 |
| 2. Employment ('000) | 4757.7 | 4625.0 | 4501.6 | 4504.5 | 4544.9 | 4597.4 |
| 3. GVA per occupied person (1:2) | 33.4 | 33.2 | 33.3 | 33.3 | 33.4 | 33.5 |
| 4. Compensation of employees (per employee) | 28.2 | 27.7 | 27.6 | 27.7 | 27.7 | 27.8 |
| 5. Unit labour costs (4:3) (1995=100) | 84.3 | 83.4 | 83.0 | 83.1 | 82.9 | 82.8 |
| 6. Total population | 11260.4 | 11282.9 | 11305.5 | 11328.1 | 11350.7 | 11373.4 |
| 7. Population of working age (15-64 years) | 7222.1 | 7214.9 | 7243.8 | 7272.7 | 7301.8 | 7331.0 |
| 8. Total labour force | 5228.8 | 5260.2 | 5272.3 | 5285.5 | 5298.7 | 5311.9 |
| *9. Calculated activity rate (%) (3:2)* | *72.4* | *72.9* | *72.8* | *72.7* | *72.6* | *72.5* |
| 10. Total employment | 4757.7 | 4625.0 | 4501.6 | 4504.5 | 4544.9 | 4597.4 |
| **11. Total employment** | **4757.7** | **4625.0** | **4501.6** | **4504.5** | **4544.9** | **4597.4** |
| *11a. - of which, employees* | *3096.0* | *3003.1* | *2922.0* | *2925.0* | *2933.7* | *2957.2* |
| *11b. - of which, self-employed* | *1661.7* | *1621.9* | *1579.6* | *1579.6* | *1611.1* | *1640.2* |
| *12. Calculated employment rate (6:2)* | *65.9* | *64.1* | *62.1* | *61.9* | *62.2* | *62.7* |
| **13. Unemployment (8 - 11)** | **471.1** | **635.2** | **770.7** | **781.0** | **753.8** | **714.6** |
| *13a. Calculated unemployment rate (%) (8:5)* | *9.0* | *12.1* | *14.6* | *14.8* | *14.2* | *13.5* |

**C1: FISCAL ACCOUNTS AND FORECAST**

| | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 |
|---|---|---|---|---|---|---|
| | | | *% GDP* | | | |
| **Total revenue** | **37.79** | **40.18** | **41.92** | **41.45** | **40.87** | **39.85** |
| Indirect taxes | 11.10 | 12.95 | 13.63 | 14.19 | 13.99 | 13.81 |
| Direct taxes | 8.17 | 7.79 | 8.36 | 8.16 | 8.29 | 7.54 |
| Social contributions | 13.10 | 12.81 | 12.54 | 12.16 | 11.89 | 11.67 |
| Sales | 1.72 | 1.87 | 1.88 | 1.85 | 1.80 | 1.74 |
| Other current resources | 2.37 | 2.66 | 3.59 | 3.24 | 3.08 | 3.28 |
| Capital transfers received | 1.33 | 2.10 | 1.92 | 1.86 | 1.83 | 1.81 |
| **Total expenditure** | **53.16** | **49.68** | **50.15** | **49.51** | **49.39** | **48.32** |
| Intermediate consumption | 7.11 | 5.24 | 4.62 | 4.69 | 4.86 | 4.94 |
| Compensation of employees | 13.51 | 12.37 | 12.36 | 12.00 | 11.45 | 10.89 |
| Social transfers other than in kind | 20.85 | 20.39 | 21.22 | 20.92 | 20.73 | 19.32 |
| Interest | 5.28 | 6.42 | 6.48 | 7.36 | 7.93 | 8.09 |
| Subsidies | 0.15 | 0.10 | 0.13 | 0.13 | 0.13 | 0.12 |
| Other current expenditure | 1.73 | 1.59 | 1.56 | 1.82 | 1.47 | 1.63 |
| Gross fixed capital formation | 3.38 | 2.69 | 2.63 | 2.34 | 2.46 | 2.44 |
| Other capital expenditure | 1.14 | 0.90 | 1.14 | 0.25 | 0.38 | 0.89 |
| **General Government balance (ESA 95)** | **-15.4** | **-9.5** | **-8.2** | **-8.1** | **-8.5** | **-8.5** |
| Measures identified in May 2010, to be revised | | | - | 1.5 | 0.1 | -0.4 |
| **Unidentified fiscal cosnolidation measures** | | | **0.8** | **1.6** | **3.7** | **5.9** |
| **General Government balance (Targets)** | | | **-7.5** | **-6.4** | **-4.8** | **-2.6** |
| | | | *Levels (in EUR billion)* | | | |
| **Total revenue** | **88.82** | **93.17** | **95.75** | **96.11** | **97.53** | **98.24** |
| Indirect taxes | 26.09 | 30.03 | 31.13 | 32.90 | 33.38 | 34.05 |
| Direct taxes | 19.20 | 18.07 | 19.09 | 18.93 | 19.79 | 18.59 |
| Social contributions | 30.79 | 29.71 | 28.64 | 28.18 | 28.37 | 28.76 |
| Sales | 4.03 | 4.33 | 4.28 | 4.29 | 4.29 | 4.29 |
| Other current resources | 5.58 | 6.17 | 8.20 | 7.50 | 7.35 | 8.08 |
| Capital transfers received | 3.13 | 4.86 | 4.39 | 4.31 | 4.36 | 4.47 |
| **Total expenditure** | **124.94** | **115.20** | **114.55** | **114.80** | **117.86** | **119.13** |
| Intermediate consumption | 16.71 | 12.14 | 10.54 | 10.88 | 11.61 | 12.19 |
| Compensation of employees | 31.76 | 28.68 | 28.23 | 27.83 | 27.31 | 26.84 |
| Social transfers other than in kind | 49.01 | 47.27 | 48.47 | 48.50 | 49.46 | 47.63 |
| Interest | 12.42 | 14.89 | 14.81 | 17.07 | 18.92 | 19.94 |
| Subsidies | 0.34 | 0.23 | 0.30 | 0.30 | 0.30 | 0.30 |
| Other current expenditure | 4.07 | 3.69 | 3.57 | 4.22 | 3.50 | 4.01 |
| Gross fixed capital formation | 7.94 | 6.23 | 6.01 | 5.43 | 5.86 | 6.02 |
| Other capital expenditure | 2.69 | 2.08 | 2.61 | 0.57 | 0.90 | 2.20 |
| **General Government balance (EDP)** | **-36.15** | **-22.03** | **-18.81** | **-18.69** | **-20.33** | **-20.89** |
| Measures identified in May 2010, to be revised | | | - | 3.38 | 0.34 | -1.00 |
| **Unidentified fiscal cosnolidation measures** | | | **1.741** | **3.770** | **8.930** | **14.503** |
| **General Government balance (Targets)** | | | **-17.07** | **-14.92** | **-11.40** | **-6.39** |

**C2: GROSS DEBT**

| | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 |
|---|---|---|---|---|---|---|
| | | *levels (EUR billion)* | | | | |
| **Government deficit (level)** | **-36.2** | **-22.0** | **-18.8** | **-14.9** | **-11.4** | **-6.4** |
| **Gross debt (level)** | **298.0** | **327.1** | **350.1** | **365.4** | **377.0** | **383.6** |
| Change in gross debt | 36.6 | 29.0 | 23.0 | 15.3 | 11.6 | 6.6 |
| **Stock-flow adjustment** | **0.5** | **7.0** | **4.2** | **0.4** | **0.2** | **0.2** |
| | | *% GDP* | | | | |
| **Gross debt ratio** | **126.8** | **141.0** | **153.3** | **157.6** | **158.0** | **155.6** |
| Change in the ratio | 16.5 | 14.2 | 12.2 | 4.3 | 0.4 | -2.4 |
| *Contributions:* | | | | | | |
| **Primary balance (+ is a deficit)** | **10.1** | **3.1** | **1.7** | **-0.9** | **-3.2** | **-5.5** |
| **"Snow-ball" effect** | **6.2** | **8.1** | **8.6** | **5.1** | **3.5** | **3.0** |
| Of which: | | | | | | |
| Interest expenditure | 5.3 | 6.4 | 6.5 | 7.4 | 7.9 | 8.1 |
| Real growth effect | 2.7 | 5.4 | 4.4 | -1.6 | -3.2 | -3.3 |
| Inflation effect | -1.7 | -3.6 | -2.2 | -0.7 | -1.2 | -1.8 |
| **Stock-flow adjustment** | **0.2** | **3.0** | **1.8** | **0.2** | **0.1** | **0.1** |

## Annex 4: Financing needs and sources [1]

| | SUM | 2010 | | | 2011 | | | | 2012 | | | | 2013 | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 10Q2-13Q2 | May-Jun | Q3 | Q4 | Q1 | Q2 | Q3 | Q4 | Q1 | Q2 | Q3 | Q4 | Q1 | Q2 |
| Government deficit (cash basis) and net SOE's borrowing | 58,1 | 3,7 | 7,1 | 3,9 | 5,4 | 6,8 | 7,2 | 2,9 | 3,7 | 3,9 | 5,1 | 2,1 | 3,1 | 3,1 |
| Debt amortization (bonds & T-bills) | 171,1 | 11,4 | 4,1 | 5,4 | 16,1 | 13,9 | 16,0 | 13,3 | 22,2 | 14,7 | 16,3 | 12,3 | 9,8 | 15,6 |
| of which short-term debt | 84,3 | 2,1 | 3,3 | 5,0 | 6,4 | 4,8 | 8,9 | 10,2 | 7,5 | 5,0 | 8,0 | 10,0 | 8,0 | 5,0 |
| of which long-term debt [2] | 91,8 | 9,3 | 0,8 | 0,4 | 9,7 | 9,1 | 7,1 | 3,1 | 14,7 | 9,7 | 8,3 | 2,3 | 5,8 | 11,6 |
| **Public sector financing need** | **229,2** | **15,2** | **11,2** | **9,4** | **21,5** | **20,7** | **23,2** | **16,2** | **25,9** | **18,6** | **21,4** | **14,4** | **12,9** | **18,7** |
| Rollover of short-term debt | 107% | 0% | 198% | 78% | 106% | 167% | 109% | 78% | 67% | 200% | 113% | 80% | 100% | 100% |
| Rollover of long-term debt | 48% | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 74% | 76% | 76% | 89% | 100% | 100% |
| **Gross government debt issuance** | **129,0** | **2,0** | **6,5** | **4,0** | **6,8** | **8,0** | **9,7** | **8,0** | **15,9** | **17,4** | **15,3** | **10,1** | **9,8** | **15,6** |
| of which short-term borrowing [3] | 90,0 | 2,0 | 6,5 | 4,0 | 6,8 | 8,0 | 9,7 | 8,0 | 5,0 | 10,0 | 9,0 | 8,0 | 8,0 | 5,0 |
| of which long-term borrowing | 44,1 | 0,0 | 0,0 | 0,0 | 0,0 | 0,0 | 0,0 | 0,0 | 10,9 | 7,4 | 6,3 | 2,1 | 5,8 | 11,6 |
| Privatisation receipts [4] | 1,0 | - | - | - | - | - | 1,0 | - | - | - | - | - | - | - |
| Bank support scheme [5] | 10,0 | 0,0 | 0,0 | 1,5 | 1,0 | 1,0 | 1,0 | 1,0 | 1,0 | 1,0 | 1,0 | 1,0 | 0,5 | 0,0 |
| Financial Stability Fund | 1,5 | 0,0 | 0,0 | 1,5 | 0,0 | 0,0 | 0,0 | 0,0 | 0,0 | 0,0 | 0,0 | 0,0 | 0,0 | 0,0 |
| Dedicated account | 8,5 | 0,0 | 0,0 | 0,0 | 1,0 | 1,0 | 1,0 | 1,0 | 1,0 | 1,0 | 1,0 | 1,0 | 0,5 | 0,0 |
| **Financing gap** | **109,2** | **13,1** | **4,7** | **7,0** | **15,7** | **13,7** | **13,5** | **9,2** | **11,0** | **2,2** | **7,1** | **5,3** | **3,6** | **3,1** |
| **Loan disbursements** | **110,0** | **20,0** | **9,0** | **9,0** | **15,0** | **12,0** | **8,0** | **5,0** | **10,0** | **6,0** | **6,0** | **2,0** | **6,0** | **2,0** |
| of which IMF | 30,0 | 5,5 | 2,5 | 2,5 | 4,1 | 3,3 | 2,2 | 1,4 | 2,7 | 1,6 | 1,6 | 0,5 | 1,6 | 0,5 |
| of which EU | 80,0 | 14,5 | 6,5 | 0,0 | 17,5 | 8,7 | 5,8 | 3,6 | 7,3 | 4,4 | 4,4 | 1,5 | 4,4 | 1,5 |

*Source:* GAO, Commission services.

1. Data in this table are subject to revision.
2. Adjusted for buy-backs conducted by the Public Debt Management Agency and settlement of arrears via bond issuance.
3. Tentative schedule is based under conservative assumptions that only 3 and 6 months securities will be issued, which increases the roll-over needs.
4. Financing plan conservatively includes EUR 1 bn of privatisation proceeds. Plan will be revised to reflect the new commitment by the Greek authorities to upscale privatisation proceeds.
5. Disbursements to bank support scheme are subject to developments in financial sector.

# Annex 5: Statement by the European Commission, the ECB and IMF on the Third Review Mission to Greece

Staff teams from the European Commission (EC), European Central Bank (ECB), and International Monetary Fund (IMF) visited Athens during January 27 to February 11 for the third review of the government's economic program, which is being supported by a EUR 80 billion loan from Euro area countries and a EUR 30 billion Stand-By Arrangement with the Fund.

The objectives underpinning the program are to restore fiscal sustainability, safeguard financial sector stability, and boost competitiveness—to create the conditions for sustained growth and employment. Maintaining social fairness in shouldering the burden of adjustment in the program also remains of paramount concern and this will continue to guide the direction of policies in the period ahead.

Our **overall assessment** is that the program has made further progress toward its objectives. While there have been delays in some areas, the underlying fiscal and broader reforms necessary to deliver the program's medium-term objectives are being put in place. However, major reforms still need to be designed and implemented to build a critical mass necessary to secure fiscal sustainability and economic recovery.

Regarding the **outlook**, the recession has to date been close to what was anticipated. Underlying inflation has remained low in the face of rising commodity prices. Downward movement of unit labor costs should support gains in competitiveness. Encouragingly, exports have performed well recently. We continue to expect the economy to stabilize late in 2011.

In the **fiscal area**, against the sharp macro headwinds, the authorities delivered a 6 percent of GDP fiscal adjustment in 2010, reducing the deficit to about 9½ percent of GDP. This is an impressive achievement, but some tensions were evident in budget implementation, in particular shortfalls in revenue collections, and problems with spending control. The program has been designed to address these problems, and the work is progressing.

The government has begun to specify a medium term budget strategy, which will define time-bound actions to realize the full fiscal adjustment through 2014. The reforms are complex and cover among other issues taxation, health, public employment, and state enterprise reforms. The government is appropriately allowing time for consultation with social partners before moving beyond the design phase to begin implementation. The government's full commitment to this complicated process of institutional change, not least determination to resist vested interests, will be critical to success.

Concerning **financing**, the government continues to work toward securing a gradual return to bond markets at affordable interest rates. Strong program implementation, with financial support from the international community, remains key to achieving this. It is equally important that the government notably scales up its privatization program, and more generally realizes better returns from its extensive portfolio of assets. Work is proceeding to establish a comprehensive inventory of the government's real estate assets, and to define a phased action plan.

As to the **financial sector**, tight liquidity and rising non-performing loans are putting strains on the banking system and credit is contracting. Encouragingly, private banks have recently enjoyed some success in raising capital. It is essential that the government makes progress in addressing the stability and efficiency of the banks under its control. The Eurosystem has been a key source of liquidity support for the system, and this is allowing banks to gradually move towards a sustainable medium-term funding model. The Financial Stability Fund is available to provide support to banks in the system, if needed.

**Structural reforms** are making progress. Legislation covering aspects of the labor market, the liberalization of closed professions, healthcare reform, licensing, and the competition authority has either been passed, or soon will be. The authorities' focus must now be on implementing these laws, to make sure the new frameworks are effective as soon as possible. To secure economic recovery, early progress on structural reforms remains critical. The government must ensure that reforms are sufficiently ambitious and comprehensive to tackle the deep seated structural challenges facing Greece. The next steps will focus on, among other things, reviving the tourist industry, removing administrative barriers to exports, and strengthening public procurement.

**Next Steps**. Approval of the conclusion of the third review will allow the disbursement of EUR 15 billion (EUR 10.9 billion by the euro area Member States, and EUR 4.1 billion by the IMF). The mission for the next program review is scheduled for May, 2011.