

**Ministry of Finance**

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**Update of the Hellenic  
Stability and Growth Programme**

**Including an  
Updated Reform Programme**

**Athens, January 2010**

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## **1. OVERALL POLICY FRAMEWORK AND OBJECTIVES**

Greece today faces a double challenge: to consolidate the country's fiscal position through effective fiscal and structural policies aimed at reducing the budget deficit and lowering the public debt to GDP ratio; and to secure the conditions for economic development in the years to come through addressing long-standing structural weaknesses and thereby putting the economy on a new and sustainable growth path. The former constitutes a necessary condition for the latter. Successful fiscal consolidation creates a stable economic environment, which allows for a more efficient deployment of public resources, while also reducing "crowding out" of private sector funds.

To these twin challenges is added a third: to address the credibility deficit which the country's economic policy currently faces. The recent large revisions in deficit figures, coupled with previous failed attempts at fiscal consolidation make it increasingly difficult for Greece to continue funding its public deficits and large stock of debt in international capital markets. Addressing this problem calls for institutional reform which will restore credibility in data, the budgeting process and the operation of the public sector more generally.

The size of the fiscal adjustment requires a series of structural measures that directly reduce public expenditures and improve government revenues, while also addressing long-standing structural weaknesses. It involves initiatives to control public spending and completely overhaul the way the budget is prepared and executed, as well as broaden the tax base and reform the tax system. This task has to be implemented in the context of unfavorable domestic and international economic conditions. The latter are marked by uncertainty and weak growth and financial institutions. On the domestic front, the sources of the prolonged rapid growth that Greece experienced for more than a decade, mostly credit expansion that followed the EMU entry, have run their course.

Sustainable growth and development in the years to come require a fundamental shift in the Greek economy's growth paradigm from the previous reliance on consumption as the driver of growth to a new model driven by the sustainable growth in domestic and foreign investment and exports of goods and services. Future growth has to come from improvements in the competitiveness of the Greek economy, the deterioration of which in recent years is reflected by the widening deficit of the current account balance from 6.3% in 2004 to 14.7% in 2008, the small inflows of foreign direct investment and the declining share of private investment and R&D expenditures in both total investment and GDP. Greek enterprises, mostly small and very small by European standards, are facing increasing difficulties to remain competitive both in domestic and international markets. As a consequence, export growth is slowing down and market shares are being lost. The consistently higher than average Euro-zone inflation rates that Greece experienced this decade have contributed to this problem.

At the same time, Greece possesses multiple untapped comparative advantages for trade and investment. The country's location makes it a natural hub for trade and investment in the wider regional market as well as for energy and transportation networks; it has a leadership position in global shipping; a rich potential in renewable energy resources; a unique natural and cultural environment which makes it one of the most attractive tourist destinations; and highly qualified human capital. These advantages have to be turned into development opportunities for sustainable growth and job creation. Thus, enhancing the country's structural and price competitiveness becomes a co-objective to that of fiscal consolidation.

## **2. ECONOMIC OUTLOOK**

### **2.1 The World Economy – Technical Assumptions**

The severe global financial turmoil, unfolding since the middle of 2007, resulted in one of the most pronounced recessions of the world economy. Escalating uncertainty led to a malfunctioning of the interbank markets, with further adverse repercussions for the credit flows that partly sustained higher growth rates in most developed economies. By the end of 2008, the financial crisis had already turned into a deep recession, affecting both the real economy and investors' confidence for an early recovery. Developed economies experienced negative economic growth rates, while emerging market economies were not immune to the crisis: world demand and output declined sharply during the last quarter of 2008 and the first quarters of 2009, while world trade activity also deteriorated.

Although increased uncertainty still persists, emerging economies have been driving the rebound in world economic growth since the middle of 2009. In addition, monetary and fiscal policy measures adopted in most world economies have strengthened the overall growth prospects, leading to a more favorable external economic environment for the second half of the year. Economic sentiment indicators signal a positive turn in the psychology of the markets, yet the expected world recovery may prove to be fragile. According to the European Commission's autumn forecasts, real world GDP growth will decline by 1.9% in 2009, down from a 3.1% growth in 2008, and will return to positive growth rates in 2010.

On the other hand, the European economy has been more severely affected by the crisis than initially expected. Idiosyncratic factors lie behind the deepening of the crisis in each member state and drive the persistence of the negative economic effects. Structural reforms undertaken in product and labor markets before the economic downturn are set to facilitate the economic upturn, whereas initial budgetary positions define the available room for maneuver. Hence, the economic recovery expected to take hold in the second half of the year might be hampered by increased strains in labor markets, as well as by developments in public finances. Real GDP growth is expected to decline by about 4.0% in 2009 both in the EU and the euro area, and rebound at 0.7% in 2010 and at about 1.5% in 2011. Inflationary pressures and wage developments will moderate in the medium term.

The 2009-2013 Hellenic Stability and Growth Programme is based upon the set of common external assumptions employed in the European Commission's 2009 autumn forecasts. The assumed gradual improvement in economic and financial conditions co-exists with considerable uncertainty with regard to both the strength and timing of the recovery.

### **2.2 Cyclical Developments and Current Economic Prospects**

#### **2.2.1 *Recent economic developments***

##### **The Greek Economy in 2008**

The rapid economic expansion achieved over the previous decade came to an end in 2008. Real GDP growth decelerated to 2.0% in 2008 down from 4.5% in the two previous years, sustaining, however, a 1.4 percentage point positive differential from the euro area average

growth rate. Economic growth remained resilient, mainly driven by private consumption expenditure, which, in turn, was supported by robust credit expansion stemming from a rather stable financial sector.

The Greek banking sector was less affected by the international financial turmoil. Domestic demand contributed by 1.16 percentage points to GDP growth, which is substantially lower than past trends. Budgetary overruns in the previous year and the need for fiscal consolidation led to a moderate growth of public consumption expenditure by 0.6% compared to a 8.4% growth in 2007. The external sector had a positive contribution of 0.85 percentage points to growth, mainly stemming from the substantial deterioration in imports of goods and services.

Gross fixed capital formation declined markedly by 7.4% during this year compared to a positive growth of 4.6% in 2007. This was due to a pronounced decrease by 19.1% in investment in the construction sector, and in particular in the housing sector, and a slower growth of 6.3% in investment in machinery and equipment. Economic and business sentiment indicators also tilted downwards, whereas enhanced uncertainty for the economic prospects, stemming from an unfavourable external environment and a lower growth in private consumption discouraged the implementation of investment projects. Towards the end of 2008, the escalating volatility in the interbank markets intensified banks' credit rationing in their business financing, hampering further investment growth.

Furthermore, the economic downturn experienced by Greece's main trading partners had an impact on the economy's external balance. Exports of services at constant prices grew by only 4.1% compared to a 9.2% growth in 2007, which is attributed to the adverse impact of the economic contraction mostly on the shipping sector towards the end of 2008. Exports of goods increased by 3.7% compared to the previous year, due to the orientation of half of the goods' exports towards higher growth European countries and to the low technological content of the exporting goods. Hence, the growth in the volume of the exports goods and services was sustained at 4.0% in 2008, down from 5.8% in 2007.

On the other hand, in 2008 the volume of imports of goods and services remained stable, compared to a 7.2% increase in 2007. Whereas the imports of services grew by 12.5%, imports of goods decreased by 3.1%, down from a 6.6% increase in 2007. This reflected lower imports of equipment and reduced investment activity, as well as the effect of the drop in consumption demand. Following these developments, the current account deficit on a national accounts basis declined to 13.8% of GDP in 2008 compared to 14.7% in 2007.

Total employment remained broadly unchanged, while real compensation per employee increased by 1.7%, down from a 3.5% growth rate in 2007. The unemployment rate fell to 7.4% in 2008 from 8.0% in 2007, partly as a result of the reduction in the labour force. Inflationary pressures intensified due to soaring oil and commodity prices until the middle of 2008 and the sustained output growth. Hence, both the GDP deflator and the private consumption deflator increased to 3.5% and 4.1% respectively in 2008 from 3.0% in 2007.

### **The Greek Economy in 2009**

The economic contraction was more severe for the Greek economy during the course of 2009. Cyclical and structural factors contributed to the substantial decline in growth in the first three quarters of the year. Additionally, given the limited available fiscal room for manoeuvre, temporary sectoral measures undertaken in early 2009 could not offset the upcoming economic downturn.

The hysteresis in the reaction of the Greek economy could be attributed to the time lag required for the crisis to be transmitted from central European economies to the peripheries of the EU, as well as to the economy's small size and its relatively limited dependence on trade. Nevertheless economic developments in 2009 were driven by the adverse export performance, in particular, the pronounced decline in transport and tourism receipts, the constrained credit expansion towards businesses and households, reduced foreign investment activity, and a drop in confidence, which was also influenced by budgetary developments and the increased gross debt financing needs.

During the first three quarters of the year, output dropped by 1.1% compared to 2008. On a yearly basis, real GDP declined by 1.7% in the third quarter of 2009, and by 0.4% compared to the previous quarter. Gross fixed capital formation at constant prices declined by 18.6% on a year-to-year basis in the third quarter, which comprised a 22.5% contraction in investments in the housing sector, 21.3% in machinery, and 19.1% in transportation equipment. During the first three quarters of 2009, investment growth exhibited a continuous deterioration, declining on average by 10% compared to the previous year.

Total consumption expenditure at constant prices increased by 1.1% in the third quarter of the year compared to 2008, driven by a 9.4% increase in public consumption, while private consumption expenditure declined by 0.8% on a yearly basis. In the first three quarters of 2009, public consumption increased on average by 10.9% on a yearly basis, whereas private consumption contracted on average by 1.1%, though gradually improving in the third quarter.

The deterioration in the external sector was evident in the exports of goods and services. Income from the exports of services dropped significantly by 22.3% in nominal terms during the January-October period, while exports of goods were also reduced by 17.9% in the January-September period. On the import side, a 31.4% reduction in imports of goods and a 17% contraction in imports of services occurred in the same period. Overall in the first three quarters of the year the downturn in the external sector is significant, thus improving the external balance.

Labour market developments include the rise to 9.3% in the unemployment rate during the third quarter of 2009 from 8.9% in the second quarter of the year. Due to the recession characterising the Greek economy, inflationary pressures were significantly curtailed and hence, the CPI increased by 1.2% in the first eleven months of 2009.

In light of these developments, real GDP growth is estimated at -1.2% in 2009. The drop in output mostly stems from the negative contribution by 6.1 percentage points of the previously robust domestic demand growth. Hence, private consumption expenditure is estimated to decline by 1.5%, while a further significant decrease by 18.8% is anticipated for investment growth. The decline in gross fixed capital formation reflects a substantial decline by 25% in investment growth in equipment and a further contraction in the construction sector by 13%. The latter, in turn, reflects a 22% reduction in housing sector investments.

The drop in investment is mostly apparent in the private sector; nevertheless general government fixed investment growth is also expected to remain negative for a second year. On the other hand, public consumption expenditure is estimated to increase by 11% in 2009 from 0.6% in the previous year.

In the external sector, unfavourable economic conditions and reduced trading volumes among EU member states are expected to take a heavy toll on the shipping and the tourism sectors.

Exports of goods and services in 2009 are expected to decline by 16%, reflecting a 12% reduction in the exports of goods and a 19% drop in services' exports. On the other hand, the marked contraction in the relevant components of domestic output growth is expected to lead to a decrease in the volume of imports of goods and services by 24.7%, stemming from declines by 27% in the imports of goods and by 17.3% in the imports of services. Overall, the external sector is estimated to have a positive contribution to the growth component by 4.95 percentage points.

Inflationary pressures were substantially lower compared to 2008 levels driven by the adverse domestic and external economic developments. The GDP deflator is estimated at 1.6% and the private consumption deflator at 1.2%. Escalating pressures in the labor market are likely to increase the unemployment rate by 1.6 percentage points compared to the previous year, reaching 9% in 2009 (on a national accounts basis). Total employment is expected to decline by 1.1%. Notwithstanding the wage freeze in the public sector, compensation per employee is expected to grow by 5.7%, down from 5.9% in 2008.

### **2.3 The need for a new growth model and the medium-term macroeconomic framework**

As noted in the introductory section, Greece's sustainable growth and development in the years to come require a fundamental shift in the economy's growth paradigm from the previous reliance on consumption as the driver of growth to a new model driven by the sustainable growth in domestic and foreign investment and exports of goods and services.

The economic outlook for the medium term is based upon a set of assumptions concerning the domestic economic policy environment, as well as the expected developments in the external

#### **Box 1: The recent growth record and the need for a new growth paradigm**

For more than ten years the Greek economy experienced high GDP growth rates. The rapid growth achieved was however:

- Largely based on increases in demand, fuelled by the easier availability of credit to enterprises and households at the lower interest rates which accompanied the adoption of the euro; and
- Coexisted with the emergence of twin fiscal and current account deficits reflecting i.) the absence of the will to maintain fiscal discipline and ii.) the impact of the loose fiscal stance on the economy's external balance, coupled with a significant erosion of international competitiveness largely reflecting distortions in markets.

In contrast to the recent past, the future growth of the Greek economy will be driven by investment and exports in areas where the country has a comparative advantage, thus ensuring its successful development in an environmentally sustainable way.

This shift in the economy's growth model will be underpinned by the government's reform efforts to address existing distortions, enhance productivity and entrepreneurship and restore competitiveness. Reforms aiming at the permanent restoration of a balanced fiscal position will directly address issues of fiscal sustainability and also contribute towards an improved external balance.



economic environment. The latter encompass a gradual, yet stable, improvement in the growth prospects in Greece's EU trade partners, a rebound in the Greek export market growth, an increase in oil and commodity prices, and a gradual adjustment of the ECB's reference interest rate.

In 2010, the Greek economy will remain in recession, with real GDP expected to drop by 0.3%. This is identical with the European Commission's estimate for 2010, as contained in its Autumn 2009 forecast, and between the latest OECD and IMF estimates. Table 1 below provides a comparison between the SGP projections and the latest projections by the European Commission, the OECD and the IMF over a selected set of indicators for 2010 and 2011. It is notable here that the EC, OECD and IMF projections are based on a no-policy change assumption and extend to 2011. In contrast the SGP projection incorporates a prudent assessment of the beneficial impact of the Government's policy measures on investment and growth and covers the period to 2013 inclusive.

The improved economic prospects compared to 2009 are partly attributed to the external economic conditions, favouring the Greek external balance, as well as to a number of

**Table 1. A comparison of the 2010 and 2011 projections of key selected indicators**

	Ministry of Finance (SGP/2010)		European Commission (Autumn 2009)		OECD (Nov.2009)		IMF (Oct.2009)	
	2010	2011	2010	2011	2010	2011	2010	2011
<b>1. GDP</b>	<b>-0.3</b>	<b>1.5</b>	<b>-0.3</b>	<b>0.7</b>	<b>-0.7</b>	<b>1.6</b>	<b>-0.1</b>	<b>0.7</b>
2. Private consumption	-1.0	0.3	-1.3	0.8	-0.4	1.4		
3. Public consumption	-4.4	-5.9	-0.1	0.7	-1.4	-1.4		
4. Gross fixed capital formation	-1.6	4.5	-3.9	1.3	-6.3	4.6		
5. Exports of goods and services	2.5	4.0	2.7	2.0	0.3	6.6		
6. Imports of goods and services	-3.0	2.0	-3.1	1.9	-3.7	4.7		
7. Inflation rate (CPI)	1.4	1.9	1.4	2.1	2.0	1.6	1.7	1.6
GDP deflator	2.0	2.0	1.4	2.3	2.4	2.1		
8. Unemployment rate	9.6*	10.5*	10.2	11.0	10.4	10.4	10.5	---
9. Gen. govern. deficit, % of GDP	8.7	5.6	12.2**	12.8**	9.8***	10.0**		
10. Gen. gov. debt, % of GDP	120.4	120.6	124.9**	135.4**	---	---		

(\*): On a national accounts basis

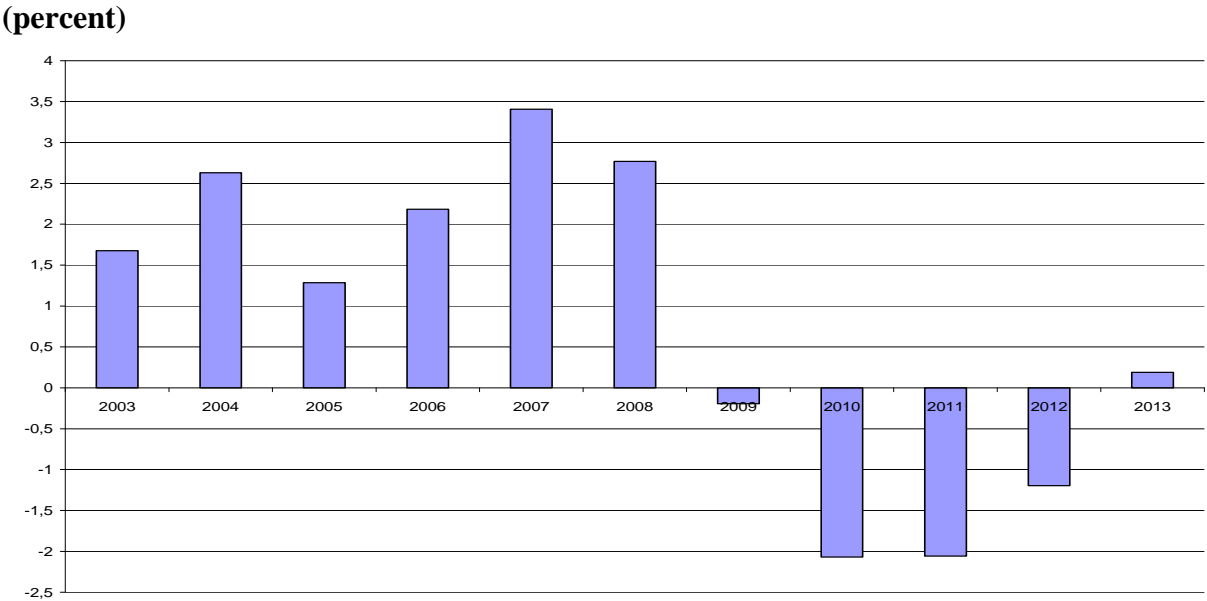
(\*\*): Under a no-policy-change scenario assumption

(\*\*\*): Based on the 2010 draft budget, national accounts basis

legislative measures adopted within the year aiming to reinvigorate the economy’s growth rate. The latter will be supported by the accelerated implementation of the National Strategic Reference Framework’s specific actions and public investment. In addition, further structural and institutional changes are expected to alleviate the strains to credit-constrained businesses and households, as well as support the economy’s competitiveness by promoting an alternative production and growth model, underpinned by “green economic development” actions aiming at a sustained supply side response.

In the medium term, real output is expected to rebound, growing by 1.5% in 2011 and by 1.9% and 2.5% in 2012 and 2013 respectively. In contrast to the Greek economy’s growth record from 2003 to 2008, it is notable that, for the period 2009 to 2012 inclusive, expected GDP remains below the economy’s potential GDP. The latter is determined on the basis of a harmonized production function methodology developed jointly by the European Commission and member states, which links the available quantities of capital and labour with estimates of the trend in the economy’s total factor productivity. In other words the projection period to 2012 inclusive is characterized by successive negative output gaps, with the output gap expected to turn marginally positive only in 2013 (see Graph 1).

**Graph 1. Output gap: historical evolution over 2003-2008 and estimates and projections over 2009-2013**



*Note: The output gap estimates over the period 2009-2013 are based on the evolution of the Greek economy’s potential output as estimated by the European Commission, and the output path in the SGP’s baseline scenario.*

The expected evolution of the economy’s output gap over the projection period provides support for the claim that the baseline scenario is based upon a prudent assessment of the Greek economy’s growth prospects. Furthermore the slight acceleration of the real GDP growth rate over the projection period is based upon a conservative assessment of the beneficial effect of Greece’s reform programme on macro-aggregates, and also reflects the expected recovery in the international economy.

In more detail real economic growth will be supported by structural changes in product markets and the improvement in the economy’s business climate, issues which are analyzed in more detail in section 7 below. It should be noted here that, while the estimation of the impact

of the reform programme is uncertain, the potential positive effect on Greece's growth prospects is likely to be significant. Indicative estimates are contained in the Foundation for Economic and Industrial Research's (IOBE) latest report on the Greek economy, published in December 2009 and available at: <http://www.iobe.gr/media/elloik/IOBEGreek409.pdf>.

In particular among the medium-term reforms are included the reduction of bureaucracy (estimated in the IOBE report between 2% and 3% of GDP), the opening of closed professions (estimated at around 1% of GDP) and the elimination of constraints on competition (estimated at around 2% of GDP). Among longer-term reforms the publication includes: the impact of a 45 units (3.5%) increase in the secondary education's results, as measured by the PISA OECD index (estimated at around 1% of GDP). Furthermore the study refrains from quantifying the beneficial effect of a number of initiatives which are contained in the Government's reform programme, which are analysed in more detail in sections 5 and 7 below. In short our baseline projection is based on a prudent assessment of the effect of the Government's reform programme on growth in order to ensure the attainment of our fiscal targets.

With regard to the components of aggregate demand over the projection period, final domestic demand is expected to decrease by 1.7% in 2010 and to steadily regain momentum in the medium term, increasing by 1.0 % on average in 2011-13. Thus, final domestic demand is expected to negatively contribute to the real GDP change in 2010, compared to an expected positive contribution by 1.0% on average in 2011-13.

The latter developments will be supported by increased private consumption expenditure, increased investment and reduced public consumption, in line with the fiscal consolidation commitment. In particular, private consumption expenditure is expected to decrease by 1.0% in 2010, and grow moderately by 0.7% on average in the medium term. The gradual rebound in private consumption reflects: i.) the restoration of consumer confidence and ii.) the limited effect on aggregate consumption demand of the policy measures undertaken, including with regard to public sector wages (as the reduction in entitlements is concentrated on high-earners, who have a lower marginal propensity to consume).

Investment conditions are expected to improve compared to 2009, in line with economic policy measures undertaken to support entrepreneurial activity and boost investors' confidence. In 2010, gross fixed capital formation is expected to decline further by 1.6%, reflecting a 5% decline in investment in the construction sector, which mostly stems from a further 15.0% drop in investment in housing. Nevertheless, favourable conditions in private expenditure are expected to gradually boost investment in equipment by 1.5% in 2010, and by 6.7% on average in the period 2011-13. The turnaround in investment activity will mostly stem from the public sector, where investments undertaken are expected to grow by 6.9% in 2010, compared to a 3.4% decline in the private sector investment growth in the same period.

In the medium term, public investment will grow moderately, pointing towards a forward implementation of the planned investment activity supported by EU structural funds. Investment in the private sector is expected to grow by 5.7% on average in 2011-13, reflecting favourable external and domestic economic conditions.

The external balance is expected to have a 1.32 percentage point positive contribution to GDP growth in 2010. The improved economic outlook in most EU trade partners will favour Greek exports of goods and services. Exports are expected to rebound from their drop in 2009 and are expected to increase by 2.5% in 2010 and by 5.9% on average in 2011-13. These developments reflect the expected receipts in the tourism and shipping sectors, which are

expected to grow by 2.9% in 2010, and to a lesser extent reflect increased exports of goods. The latter are expected to increase by 2.0% in 2010 and by 5.8% on average in the medium term reflecting also modifications and improvements in production structures.

On the import side, a minor growth is expected in 2010, as domestic demand growth will remain subdued. A declining disposable income expected in this year will be coupled with a slight reduction by 4.4% in the imports of services. On the other hand, imports of goods is expected to decrease by 2.5% in 2010, and increase by 2.4% on average in 2011-13, based upon the gradual improvement in private consumption. Overall, imports of goods and services are expected to decrease by 3.0% in 2010 and increase by 2.7% on average over the medium term. The gradual improvement in the economy's competitiveness will lead to the reduction in the current account deficit from a 13.8% of GDP in 2008 to 6% in GDP in 2013.

### Box 2: National Saving and Investment

In an open economy the following identity holds:

$$CA = S - I = S_p + S_G - I$$

Where: CA stands for the current account, S stands for saving (with the subscripts P and G referring to private and government saving) and I stands for the sum of private and public investment. Thus this identity states that the current account is equal to the difference between national saving and national investment (gross capital formation).

The gap between private saving and total gross capital formation increased from 6.8% of GDP in 2004 to 11.5% of GDP in 2007, mostly due to the decline of private saving from 15.4% of GDP in 2004 to 9.9% of GDP in 2007. This gap in the financing of gross capital formation, given the negative saving of general government, was covered by the increase of the current account balance from 10.3% of GDP in 2004 to 14.7% of GDP in 2007.

The 2010-2013 SGP programme provides a more sustainable saving-investment relationship which shows a restoration of private saving to a 13.5% of GDP average level, a gradual elimination of the negative saving of the general government and, therefore, the lowering of the current account deficit needed to finance gross capital formation, to the sustainable level of 6 % of GDP by 2013.

#### *The finance of gross capital formation (% of GDP)*

	2004	2007	2010	2011	2012	2013
i. Gross fixed capital formation	22.2	21.4	15.4	15.8	16.3	17.2
ii. Change in stocks	0.5	0.8	0.0	1.4	2.3	1.9
<i><u>Total investment</u></i>	<i><u>22.7</u></i>	<i><u>22.2</u></i>	<i><u>15.4</u></i>	<i><u>17.3</u></i>	<i><u>18.6</u></i>	<i><u>19.1</u></i>
iii. Private saving	15.4	9.9	14.2	13.8	12.8	13.1
iv. Saving of general government	-3.0	-2.4	-6.9	-4.1	-1.1	0.0
v. Current balance	10.3	14.7	8.1	7.7	6.9	6.0
<i><u>Total finance</u></i>	<i><u>22.7</u></i>	<i><u>22.2</u></i>	<i><u>15.4</u></i>	<i><u>17.3</u></i>	<i><u>18.6</u></i>	<i><u>19.1</u></i>

The impact of the two-year recession will be heavily reflected on labour market indicators. Total employment is expected to decline by 0.5% in 2010, with a further decline of 0.3% in 2011, while an average increase of 0.5% is expected in the 2012-2013 period, mainly stemming from a reduction in public sector employment. Employment will be supported by economic policy measures providing incentives towards the creation of new jobs in the private sector, the support to entrepreneurship and the exploitation of potential opportunities after the economic downturn.

Nevertheless, the unemployment rate is expected to increase to 9.9% in 2010 and reach 10.5% in 2011 and 2012, with a slight reduction to 10.3% in 2013. These developments are bound to have an impact on wage formation, leaving broadly unchanged the growth in real compensation per employee in the medium term to 0.5% on average. Hence, real unit labour costs are expected to grow moderately by 0.2% in 2010, and decline by 1% in 2011-13.

Regarding price developments, the GDP deflator and private consumption deflator are expected to increase in 2010, following the increase in oil and commodity prices, as well as higher import prices. Yet, in the medium term, prices are expected to gradually decline, supported by product market structural changes and remain in line with the price stability goals in the EMU. This moderation reflects also the developments in the labour market and its effect on wage bargaining, and the impact on price dynamics of the negative output gap which will persist throughout the projection period. In this respect, the GDP deflator is expected to increase by 2.0% in 2010 and moderate at 1.9% in 2013, with the private consumption deflator averaging 1.8% during 2011-13.

To recapitulate the analysed baseline macroeconomic scenario is based on a prudent assessment of current and expected economic conditions in the medium-term. Nevertheless the downside risks to the projections include the uncertainty regarding the timing and robustness of the anticipated recovery of the international economy, and the uncertainty over the overall depth of the recessionary phase that the Greek economy currently experiences. Section 4 below develops an alternative more pessimistic macroeconomic scenario and the fiscal and institutional policy response to safeguard the attainment of the programme's fiscal targets.

**Table 2. Basic macroeconomic aggregates (% annual changes in volumes, unless otherwise stated)**

	2009	2010	2011	2012	2013
Private consumption	-1.5	-1.0	0.3	0.8	1.0
Public consumption	11.0	-4.4	-5.9	-5.9	0.7
Gross fixed capital formation	-18.8	-1.6	4.5	5.5	8.4
Exports of goods and services	-16.0	2.5	4.0	6.5	7.2
Imports of goods and services	-24.7	-3.0	2.0	2.8	3.4
GDP	-1.2	-0.3	1.5	1.9	2.5
Inflation rate (CPI)	1.2	1.4	1.9	1.8	1.8
GDP deflator	1.6	2.0	2.0	1.9	1.9
Compensation of employees per head	5.7	1.6	2.4	2.2	2.7
Nominal unit labor costs	5.8	1.4	0.6	0.7	0.9
Employment	-1.1	-0.5	-0.3	0.4	0.6
Unemployment rate (*)	9.0	9.9	10.5	10.5	10.3

(\*) on national accounts basis

### **3. GENERAL GOVERNMENT BALANCE AND DEBT**

#### **3.1. Policy Strategy**

While the current deterioration in public finances must be seen in the context of a deteriorating international environment and the reduced growth prospects for the Greek economy, fiscal imbalances have in fact been high and persistent for many years, in spite of the Greek economy's robust economic growth. It is characteristic that during the last six years, while output increased in nominal terms by 40 percent, central government primary expenditures increased by 87 percent against an increase of only 31 percent in tax revenues.

Under these adverse economic conditions the overall strategy for fiscal policy for the following years is to pursue fiscal consolidation and implement an appropriate and ambitious structural reform agenda. In fact Greece faces, at this stage, a double credibility problem. Its 12,7% budget deficit in 2009 makes the size of the adjustment required to restore public finances to acceptable Euro area levels a formidable task. At the same time, a serious statistics credibility problem exists because of the successive upward revisions in the fiscal deficit within 2009. These credibility problems create uncertainty, not only with regard to the size of the problem, but also with regard to the implementation of the necessary policies that will bring about fiscal consolidation.

Against this backdrop, the government's fiscal policy strategy is based on five key pillars, which incorporate the lessons learned to date. The strategy is further discussed below under section 5 on the quality of public finances and includes actions to:

- Restore credibility in fiscal statistics by making the National Statistics Service an independent legal entity and phasing in, during the first quarter of 2010, all the necessary checks and balances that will improve the accuracy and reporting of fiscal statistics.
- Improve transparency in fiscal management, by changing the process of budgeting, monitoring and evaluating its implementation, and moving towards a programme-based budget.
- Reform the tax system in order to make it simple, stable, transparent and fair, and to effectively fight tax evasion by improving auditing activities and exchanging of information between auditing agencies.
- Achieve control of primary expenditures by containing personnel and other current outlays and reallocating expenditures more effectively.
- Implement the necessary structural reforms to enhance competitiveness and the efficient functioning of the economy.

#### **3.2. The deficit deterioration in 2009**

Fiscal developments in 2009 were characterized by a continuous deterioration of the general government deficit. The 2009 Budget presented in November 2008 projected a general government deficit of 2 percent of GDP, based on the achievement of the unrealistic target of increasing tax revenues by 20.5% in the year of the crisis, 2009.

This deficit estimate was soon revised upwards to 3.7% of GDP when the Updated Stability and Growth Programme was submitted to the Commission in January 2009. The main cause of this revision was the restoration of the tax-free threshold for income up to € 10,500 for the self-employed in the wake of the economic crisis, which was abolished two months earlier and was included in the 2009 State Budget in order to strengthen tax receipts.

Supplementary to the Stability and Growth Programme, the Greek government transmitted to the Commission services an Addendum to elaborate on fiscal measures that would ensure the realization of the fiscal targets for 2009. The measures and their impact are described in Table 1 in Annex B.

At the same time, a limited social welfare package was introduced, as a response to the effect of the crisis on vulnerable groups, which consisted mainly of allowances to low income pensioners and registered unemployed, supplemented by measures to support farmers and SMEs. The total annual impact of these measures amounted to €1,519 million, which was €236 million less than the initial estimation of €1,755 million.

In April 2009, the Council decided that an excessive deficit existed in Greece and therefore proposed recommendations to restore the fiscal balance. Meanwhile, the economic slowdown was worse than anticipated: the provisional quarterly GDP data were indeed more optimistic than short-term economic activity indices (and were subsequently revised later in the year by the Statistical Service).

A mid-year examination of the fiscal situation undertaken by the Greek government revealed that tax revenues registered significant shortfalls. Tax shortfalls were projected to burden the general government deficit by another 1 percentage point of GDP, stemming mostly from reduced VAT receipts (€ 1.4 billion less than projected) and Income Tax (€ 0.8 billion less than projected).

In addition, expenditure overruns also resulted in another 0.4 percentage point of GDP mostly due to an *ad hoc* benefit to low-income pensioners, measures supporting the tourism sector in the spirit of the European Economic Recovery Plan, a new wage bill for doctors and unsettled obligations to local government authorities.

These developments further increased the deficit, which was estimated at 5.1% of GDP in the Commission services' Spring 2009 forecasts. In response to the Council's recommendations and to the expected significant slippage of the deficit target, the Greek government announced in June 2009 a second wave of corrective measures to contain the deficit. The measures included both permanent and one-off measures mostly on the revenue side, and are described in Table 2 in Annex B.

The initially estimated fiscal impact of the implementation of these measures was € 2.3 billion, or 1.7% of GDP. Because they were impossible to implement as designed, one of these measures was cancelled (namely, the imposition of a capital levy on buildings with land-use violations, with expected revenues of € 1,150 million), while another was postponed (the tax imposed on lottery and betting with expected revenues of € 180 million). The shortfalls of the announced measures are estimated at € 1.5 billion.

After the announcement of the new measures and before they were deployed, general elections took place and a new government was elected.

Nevertheless, the significant deterioration of the deficit figures from initial projections was well-understood much earlier. The Bank of Greece, on the basis of budget implementation cash flow data, indicated in August that a double-digit fiscal deficit should be expected by the end of 2009<sup>1</sup>. This was also the assessment of the European Commission already since the middle of the year in an internal report that was communicated to the government<sup>2</sup>.

The 2010 State Budget which was submitted to Parliament in late November 2009 recorded an estimated general government deficit of 12.7 percent of GDP for 2009. This significant deviation of the general government deficit from the initial (2 percent of GDP in the 2009 budget, and 3.7 percent of GDP in the SGP submission) and mid-term forecasts (5.1 percent of GDP mid-year) can be attributed to the following three effects:

**First**, to an “economic cycle” effect, due to the economic downturn and a bigger than expected fall in real GDP.

**Second**, to an “electoral or political cycle” effect, due to the laxness of the revenue collection mechanisms and the expenditure overruns.

**Third**, to a “deficiency or structural” effect, due to endemic structural deficiencies on collecting taxes, controlling expenditures and recording data.

The deterioration of the general government deficit by 10.7 percentage points of GDP reflects mainly revenue shortfalls of 3.4 percent of GDP and expenditure overruns of 2.6 percent of GDP, due to the above effects. An additional deterioration of the deficit by 2.1 percent of GDP is due to the significant revision of GDP, which was estimated for the year 2009 at €260,248 million in current market prices and was used for projections in the 2009 Budget, but was later revised to €240,150 million. Another 0.9 percent of GDP deterioration in the deficit was due to the inclusion of the general government’s liabilities to the private sector (public hospitals arrears to suppliers).

A summary of the factors that determined the general government deterioration is presented in Table 3 below.

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<sup>1</sup> The Bank of Greece in its *Bulletin of Conjunctural Indicators* published in September 2009 indicated that the central government net borrowing requirement on a cash basis up to August 2009 was already 22 billion Euro. The EDP notification sent to Eurostat on October 2nd, was tabling an annual central government deficit estimate of 17.5 billion.

<sup>2</sup> The European Commission as early as July 2nd, 2009, and based on the available budget data for the first quarter of 2009, warned that “... the budget implementation for the period January to March 2009 seems to deviate significantly from the annual budgetary targets outlined in the latest update of the stability programme. Should these trends continue over the year the central government deficit would exceed 10% of GDP, which contrast with the official annual target for central government deficit of 5% of GDP” (European Commission, “SGP-implementation and follow-up to the Eurogroup in Prague (recent measures taken in Greece)”, note for the Eurogroup, Brussels 02.07.2009).



**Table 3. Summary of factors determining the deficit deterioration in 2009**

<b>%GDP</b>	<b>Budget</b>	<b>Outturn</b>	<b>Difference</b>
<b>General Government Deficit</b>	<b>2.0%</b>	<b>12.7%</b>	<b>10.7%</b>
<i>of which</i>			
<i>Hospital Obligations</i>			0.9%
<i>Defense Programme</i>			0.4%
<i>Other general government</i>			0.6%
<b>Central Government</b>	<b>3.4%</b>	<b>12.2%</b>	<b>8.8%</b>
<i>of which</i>			
<b>Revenues</b>			<b>6.0%</b>
<i>EC Funds</i>			0.6%
<i>GDP effect</i>			2.0%
<i>Shortfalls</i>			3.4%
<b>Expenditures</b>			<b>2.8%</b>
<i>GDP effect</i>			0.1%
<i>Overruns</i>			2.6%

### **3.3. Fiscal prospects for 2010**

The fiscal adjustment path in the SGP is frontloaded, with a 4% reduction in the deficit of the general government in 2010 to 8.7% of GDP. The adjustment will be achieved through a mix of revenue and expenditure measures which are quantified and presented along with implementation information in Table 1 in Annex C. On the expenditure side a reallocation takes place from less productive expenditures, which include reductions in defense expenditures and operating costs, to productive expenditures contributing to the economy's sustainable growth and development in line with the Lisbon strategy's priorities, such as increases in the public investment programme and health and education expenditures.

#### **3.3.1. Revenue**

The total revenues of general government in 2010 correspond to 41.9% of GDP, higher by 2.6 percentage points compared to the previous year. The breakdown of the sources of the additional resources is the following: 1.1% additional revenues from changes in the tax system; 0.5% one-off taxation measures; 0.5% revenues from reducing tax evasion; 0.5% additional EU funds for the public investment programme.

The significant deterioration in the deficit of the general government in 2009, which can only partly be attributed to the unprecedented global crisis, uncovered the weaknesses of tax policy and the tax collection mechanisms, issues that must be effectively tackled in order to establish a sustainable fiscal environment. The budgetary process and inefficiencies in the tax collection mechanism are of significant importance.

The task to improve revenue receipts includes actions to:

1. Reform the tax system and broaden the tax base.
2. Strengthen tax administration by improving the auditing and collection mechanisms.
3. Reduce tax evasion and strengthen tax compliance.

4. Implement well-planned permanent measures and ensure their effectiveness.

In this context the government has already launched a public consultation process on the overhaul of the tax system. This involves citizens' participation via the government's public deliberation portal ([www.opengov.gr/minfin](http://www.opengov.gr/minfin)), as well as the operation of a number of working groups with social partners on different aspects of tax reform (personal and company taxation, property tax, tax administration, e-government tools, etc.) The timetable for completion of the consultation process is February 2010, with the new tax bill to be voted by Parliament in March and operate retroactively from the beginning of 2010.

The tax reform agenda for 2010 will include permanent measures, including those already announced, and which are quantified in Table 4.

**Table 4. Estimated Impact of 2010 permanent Revenue Measures**

Item	Million €
<i>Permanent revenue increases in 2010</i>	<b>2,610</b>
• <i>Unique taxation scale and elimination of tax exemptions</i>	1,100
• <i>Property taxes</i>	400
• <i>Higher excise tax on cigarettes</i>	650
• <i>Higher excise tax on alcohol</i>	60
• <i>Higher tax in mobile telephones and petrol (carry over from 2009)</i>	400

The total estimated additional increase of the above permanent measures is € 2,610 million, or 1.1 percent of GDP.

Due to the consequences of the economic crisis, the 2010 budget includes also one-off measures, such as:

- an extraordinary increase of the tax rate of the unique property holding tax for the fiscal year 2009, only for higher valued property; and
- an extraordinary social contribution levy to large profitable corporations (based on 2008 profits).

The total amount of one-off measures in the 2010 Budget is estimated to be €1,330 million, or 0.5 percent of GDP (Table 5 below).

**Table 5. Estimated Impact of 2010 one-off Measures**

Item	Million €
<b>REVENUES (<i>one-off effect</i>)</b>	<b>1,330</b>
• C2. Special levy on profitable firms	870
• C3. Special levy on high value real estates	180
• Revenue from the Banks liquidity scheme	280

A new comprehensive system to reduce tax evasion and tax avoidance is currently being introduced, the main components of which are presented in Box 3. The impact of fighting evasion in 2010 is estimated here at € 1,200 million. This is likely to be a significant underestimation as it is simply calculated as a rebound to the recent historical revenue raising

### **Box 3: Reducing tax evasion and tax avoidance**

#### **INCREASING COLLECTION EFFECTIVENESS**

- Unify the tax and social security collection mechanism.
- Focus on a risk-based approach in the audit process.
- Make it obligatory for enterprises to maintain professional accounts.
- Review existing cross-matching checks to concentrate on those that yield results.
- Shift focus from formal checks on books and documents into in-depth audits.
- Collect data from utility companies (power, phone, water) and use these for performing cross-matching.
- Collect details and electronic records of all receipts issued.

#### **COMBATING CORRUPTION**

- Elimination of bargaining in penalty assessment process and shift to a point system.
- Establishment of IT-based audit case management system.
- Introduce tax amnesty for individuals or companies that assist in bringing corrupt officials to justice.
- Move to central level the dispute resolution process
- Adopt processes that minimize the contact of individuals with tax officials.
- Change the existing paper-based system that civil servants use each year for declaring their assets into an IT-based one.

#### **MANAGEMENT OF EXISTING ARREARS TO THE BUDGET**

- Use drastic methods of debt collection, such as asset seizure, for debtors who have a capacity to pay.
- Review existing debt, and subsequently write-off debt that cannot realistically be collected.

#### **IMPROVING SELF-COMPLIANCE**

- Set an example by auditing high-profile individuals, publishing the results of non-compliance including the instigation of criminal proceedings.
- Audit and tax dividends from offshore companies
- Allow registered taxpayers to report tax-evading individuals and companies.
- Oblige professionals and self-employed individuals with a high-risk of tax evasion to conduct their business through IT facilities.
- Track fuel delivery tank-trucks with a GPS system.
- Require pharmacies to accept only medical prescription forms bar-coded with the issuing doctor's tax id.

record, without taking into account the extra revenues likely to accrue as a result of the introduction of the detailed reforms outlined in box 3. The 2009 crisis seriously affected also the collection of the social security contributions. The improvement in economic conditions and the upgrading of the collection mechanism are expected to increase this component of general government resources also.

Finally, additional resources are expected from the acceleration of the public investment programme and the increase in revenues from the committed 26 billion of EU funds, the absorption rate of which at the moment remains at the very low level of 3.5%.

### 3.3.2. Expenditures

Total state expenditures may be subdivided into three main categories, namely:

1. **Expenditures for wages and pensions:** following an 11.5% growth in 2009 the increase for this category in 2010 is budgeted at only 0.8%, mainly due to the reduction in public sector employment, the policy of wage restraint in the public sector for salaries over € 2,000, a 10% reduction in salary entitlements and a reduction of up to one-third in short-term contracts.
2. **Social insurance expenditures:** following a 28% growth in 2009 the expenditures under this category are budgeted to decline by 9.7 % through the significant reduction in health procurement expenditures.
3. **Operating expenditures:** following a 21.5% growth in 2009 operating expenditures are budgeted to decline by 10.8% due to savings in public procurement expenditures and reductions in transfers to public sector entities and travel expenses.

The general government's expenditures in 2010 account for 50.6% of GDP. In 2010 the budget will not be burdened by the impact of one-off expenditures that took place in 2009. Such expenditures were caused by the need to mitigate the impact of the financial crisis to specific sectors of the economy, or by extraordinary events, such as national elections (which were called twice in 2009).

The total amount of these one-off expenditures is estimated at €3,228 million, or 1.3% of GDP. More specifically, the amounts were €244 million for election expenditures, €541 million for public consumption, €203 million mainly for allowances to vulnerable groups, €975 million for subsidies to social security organizations and €394 million for grants to other public entities.

The expected general government deficit reduction in 2010 is also based on a significant reduction of primary expenditures that appear in Table 6.

**Table 6. Estimated Expenditure Reductions of 2010**

Item	<i>In million €</i>
<b>Permanent expenditure cuts in 2010</b>	<b>1825</b>
• 10% reduction in general government expenditure on salary allowances	650
• Recruitment freeze in 2010	150
• Reduction in short term contracts	50
• Reduction in operating costs	360
• Reduction in pension funds subsidy	540
• Reduction in overtime etc.	75

The expenditure reduction is €1,825 million, or 0.74 percent of GDP (see Table 6). It should be noted that the largest item in the Table is represented by the 10% reduction in the special benefits received by public sector employees, to be applied progressively depending on total salary (basic pay plus allowances).

To ensure a permanent contribution towards the required fiscal consolidation the above expenditure reductions will be part of a medium term programme of permanent expenditure retrenchment, underpinned by the reform of the social security system and the control of wage payments and hiring in the public sector. The programme for the control of wage payments and other remunerations is already underway with the establishment of a Single Payment Authority for wage payments.

#### **Box 4: Controlling the size of the wage bill**

- No wage increase for salaries above 2000 euro in 2010
- 10% reduction in the total expenditure on salary allowances in the public sector
- Abolition of the autonomous taxation, according to which a number of public sector salary allowances are taxed below statutory rates
- Introduction of the 5:1 rule of retirements/recruitments in the public sector from 2011
- Reduction by one-third in the short term contracts in the public sector
- All recruitments through the Independent Public Sector Hiring Authority (ASEP)
- Improved wage bill accountability through the Single Payment Authority.
- Publication online of all the government decisions involving expenditure. This becomes a necessary condition for the validity of any such decision.
- Abolition of all recruitment exceptions
- Reduction in the local authority levels (see section 7)
- Significant reduction in the public sector special committees
- Amalgamation and drastic reduction in the number of the public bodies/entities linked to local authorities.

Other ongoing efforts encompass the inclusion of extra budgetary accounts for special allowances in the budget, and a rule determining the hiring of new civil servants in the medium term, where for every five retirees only one new civil servant will be hired. Finally the consultation process for the reform of the social security reform has already started and is expected to be finalized in April 2010 (see also section 6 below).

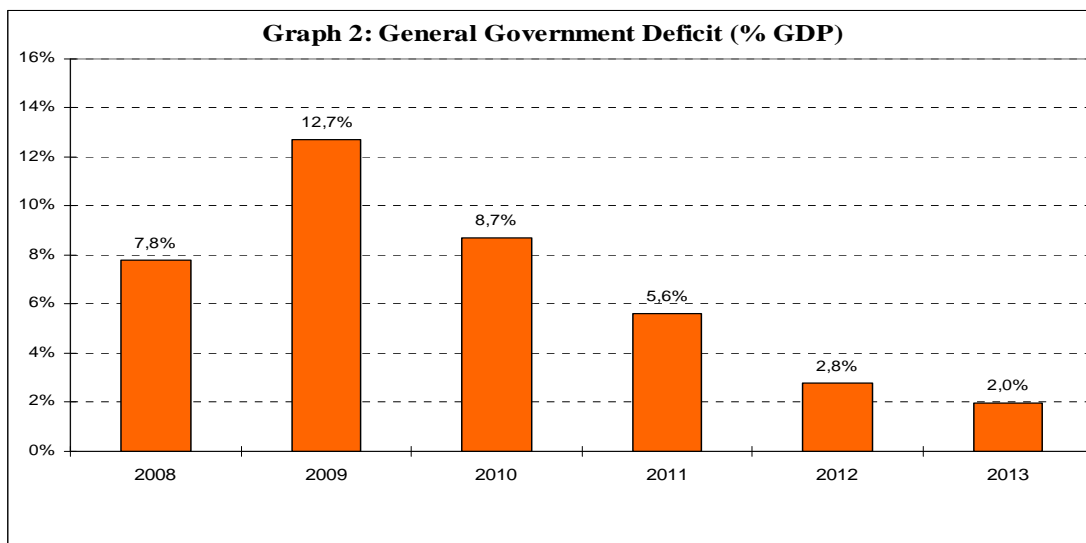
### **3.4. Current general government developments and the medium term fiscal adjustment**

#### ***3.4.1. The General Government Deficit***

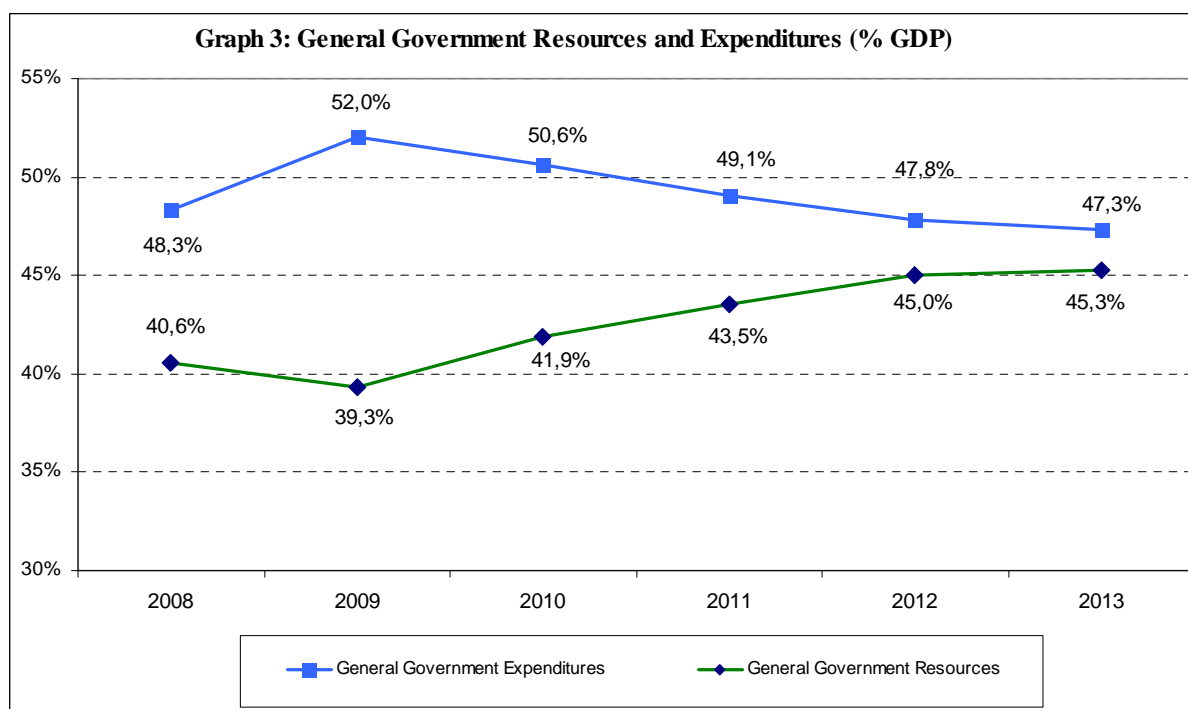
According to the 2010 Budget, the general government deficit is planned to be reduced by 3.6% of GDP from 12.7% in 2009 to 9.1% in 2010. However, the SGP adopts the more ambitious target of reducing the general government deficit by 4 percentage points to 8.7% of GDP at the end of 2010. After the wide deviation of the general government deficit recorded in 2009, which was explained in detail in section 3.3, the reduction in 2010 can be achieved only through a committed and strict implementation of the Budget.

The baseline SGP scenario is frontloaded, with the 4% adjustment in the deficit to be followed by further adjustments over the period 2011 – 2013. In particular, the fiscal adjustment path in the baseline scenario amounts to 3.1%, 2.8% and 0.8% of GDP in 2011, 2012 and 2013 respectively, bringing the projected deficit of the general government to around 2% of GDP by 2013.

The expected evolution of the deficit is depicted in graph 2.



The above-mentioned fiscal adjustment will come about through the impact of the programme to rationalise expenditures and strengthen fiscal management as well as through higher growth rates.



On the expenditure side the expected evolution of total resources as a share of GDP follows a downward trend from the estimated 52% of GDP in 2009 to 47.3% in 2013. The evolution reflects the impact of the reforms analysed in detail under section 5. A component concerns the sustained effort to identify areas of wasteful expenditure for further expenditure cuts. Following the Prime Minister's instruction, by end-January 2010, line Ministries will have submitted 3-year budget proposals incorporating overall expenditure reduction. Bilateral

inter-ministerial working groups composed of officials between the Ministry of Finance and all other Ministries will be formed in January 2010 in order to provide the means for assessing the 2011 budget from a zero-base, support the effective introduction of a 3-year budget horizon and the introduction of programme budgeting in the budget process and the overall capacity building effort.

On the revenue side the expected evolution of total revenues as a share of GDP follows an upward trend from the estimated 39.3% of GDP in 2009 to 45.3% in 2013. The projected revenue path incorporates the impact of reforms to reduce tax evasion and tax avoidance noted in box 4 and analysed in section 5 as well as the improvement in the tax system and policy to be brought about by the reform of the tax system. As noted already the consultation process for the new tax system will be completed by end-February 2010 and the law will be submitted to the parliament in March 2010. The impact of these mutually-reinforcing reforms will significantly increase revenues, including social security contributions. The increase in resources reflects also the increased absorption of the earmarked EU structural funds and the privatisation programme.

Table 7 includes the evolution of the deficit, resources and expenditures and the fiscal adjustment expressed in both € million and as a share of GDP.

**Table 7. Medium Term fiscal consolidation plan. 2010-2013**

<b>DESCRIPTION</b>	<b>Unit</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>
<b>General Government Deficit</b>	Million	21180	14224	7244	5561
	% of GDP	<b>8.7%</b>	<b>5.6%</b>	<b>2.8%</b>	<b>2.0%</b>
<b>Total Revenues</b>	Million	102376	109991	118149	124117
	% of GDP	41.9%	43.5%	45.0%	45.3%
<b>Total Expenditures</b>	Million	123556	124216	125393	129678
	% of GDP	50.6%	49.1%	47.8%	47.3%
<b>Fiscal Adjustment</b>	Million	9377	6956	6980	1683
<b>Due to:</b>	% of GDP	4.0%	3.1%	2.8%	0.8%
• <b>Revenues</b>	% of GDP	2.6%	1.6%	1.5%	0.3%
• <b>Expenditures</b>	% of GDP	1.4%	1.5%	1.3%	0.5%

### **3.4.2. The Public Debt**

The large fiscal deficit in 2009 led to a commensurate increase in the general government debt to 113.4 % of GDP compared to a figure of 99.2 % in 2008. The budget forecast for 2010 is 120.4 %. Although the absolute size of the outstanding debt is high, certain relevant statistics compare favorably to other European countries reflecting a prudent debt management strategy, based on qualitative and quantitative risk parameters. In particular:

- The weighted average maturity of debt is 7.8 years, the second best in the Eurozone.
- Duration of the debt is 4.2 years.



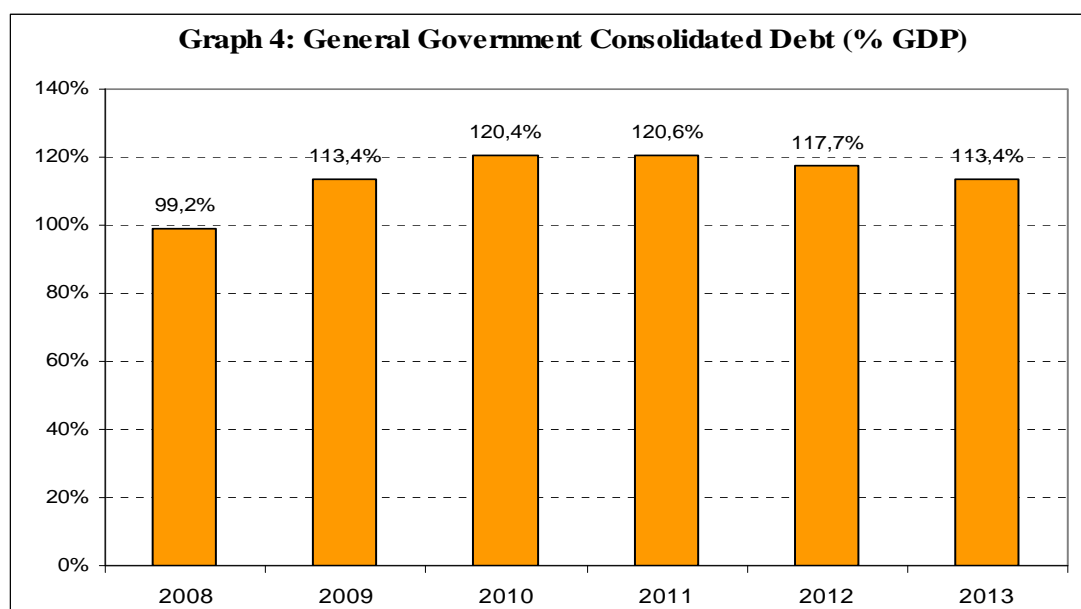
- The roll over risk (defined as debt redemption in 2010 to total debt) is less than 10%
- Debt maturing in the next 5 years is less than 55% of outstanding debt.

The gross borrowing needs for 2010 amount to € 53,200 million, about € 13,000 million less than 2009. This amount includes: Redemptions € 30,230 million, interest payments € 12,950 million, and estimated primary deficit € 10,000 million. The borrowing policy for 2010 takes into account:

- The continuing capital market difficulties (risk aversion, significant volatility and substantial supply from sovereign European issuers, amounting to about € 1 trillion).
- The continuous unfavorable publication and news reports regarding the Greek economy, the recent downgrades from the rating agencies and the credibility deficit due to the substantial revision of the 2009 fiscal figures.

Because of the above, the borrowing programme will be very flexible, as it was in 2009. Specific dates, amounts and maturities will be determined by market conditions.

The public debt as a percentage of GDP is expected to stabilize in 2011. From 120.6% in 2011, declines are projected to 117.7% and 113.4% in 2012 and 2013. A number of factors are contributing to this evolution: 1) The fiscal adjustment process is fast and frontloaded, starting to produce general government primary surpluses already in 2011; 2) A return to positive growth rates is forecast from 2012 onwards; 3) A vigorous privatization programme is expected to generate revenues equal to about 2.3% of GDP over the next three years, with all receipts used to reduce the public debt; 4) An amount equal to € 3.8 billion used under the financial assistance package for bank capital injections will be returned and reduce the debt by an equal amount.



### 3.5. Structural Budget balance

The structural budget balance provides a characterization of the budget balance net of the effects of the economic cycle. The cyclical position of the economy is characterised by the output gap, with the economy's potential GDP estimated according to the production function methodology which was developed jointly by the European Commission and member states.



The estimated potential output growth, influenced by the economic recession, follows a downward trend over the medium term from 1.8% in 2009 down to 1.3% on average in 2010-3. The output gap is expected remain negative in 2009-2012. In more detail from -0.2% in 2009 the gap is expected to grow to -2.1% in 2010, -2.1% in 2011 and -1.2% in 2012 before turning marginally positive in 2013 (0.2%).

The cyclically adjusted budget deficit net of one-offs will amount to 11.6% of GDP in 2009 from 9.0% in 2008. In the medium term, fiscal consolidation efforts will lead to the reduction of the structural budget deficit to 7.8% in 2010, 4.7% in 2011, 2.2% in 2012 and to 2.1% in 2013. Compared to the general government deficit, it is evident that a most of the fiscal deficit is of a structural in nature. The fiscal measures undertaken are expected to further substantially improve the Greek fiscal position in the longer term.

**Table 8. Cyclical developments (% of GDP)**

	<b>2009</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>
Net lending of general government	-12.7	-8.7	-5.6	-2.8	-2.0
Cyclical adjusted balance	-12.6	-7.7	-4.7	-2.2	-2.1
Structural balance	-11.6	-7.8	-4.7	-2.2	-2.1

## **4. SENSITIVITY ANALYSIS AND COMPARISON WITH PREVIOUS UPDATE**

### **ALTERNATIVE SCENARIO: RISKS AND POLICY RESPONSE**

As noted already the baseline scenario is based upon a prudent assessment of the risks on the international and domestic economy, as well as upon a conservative incorporation of the growth-enhancing impact of the reform programme, which is analysed in section 7 below. Nevertheless downside risks remain and may stem from a combination of adverse external and domestic developments.

External risk factors include:

- A slower recovery in economic activity in the international economy, leading to lower demand for Greece's exports of goods and services; as well as
- Continuing turbulence on international capital markets, leading to increased costs in servicing Greece's external debt.

Domestic risk factors include the possibility of a more severe recession in the Greek economy, and a slower economic recovery in the medium-term.

These risks will be addressed by a sustained effort to introduce and implement the Government's reform programme, which is analysed in section 7 below. The programme aims at enhancing the Greek economy's growth and development potential by accelerating the shift to an investment and export-led growth paradigm in areas reflecting the country's comparative advantage, thus dealing effectively with the economy's productivity and competitiveness challenges. The aim is to attract and retain foreign and domestic investment by effectively mobilizing domestic and external resources, including those under the EU Structural Funds, by effectively addressing existing market distortions, and by dealing with issues of governance, transparency and accountability in a sustainable way.

Furthermore the above-mentioned risks will be mitigated by fundamental improvements in the quality of public finance management. These improvements are absolutely necessary in order to restore fiscal sustainability and provide the preconditions for the economy's sustainable growth and development. They thus represent an important component of the government's overall reform agenda and are analysed in detail in section 5 below. It suffices to note here that these reforms will:

- Address effectively the credibility issues with regard to the quality, coverage, and timeliness of economic data in general, and fiscal accounts in particular.
- Strengthen significantly the efficiency of monitoring the implementation of the budget on a monthly basis through reliable and publicly-available information.
- Provide the means for corrective action in case the budget implementation diverges from the baseline path. They thus:
  - Serve as an early warning system to alert policy makers on adverse developments; and, furthermore,
  - Provide an institutional structure to facilitate the design and implementation of appropriate supplementary policy measures to achieve the targeted fiscal adjustment.

In more detail section 5 below analyses a number of mutually-reinforcing reforms in public finance management, which includes, but are not limited to: a binding monthly reporting requirement regarding the execution of the budget, the introduction of a 3-year budget horizon, and the introduction of programme budgeting supported by enhanced control by the Ministry of Finance.

As part of this fiscal management reform effort, and in order to facilitate a zero—base assessment of each item of expenditures for the 2011 budget, bilateral inter-ministerial working groups composed of officials between the Ministry of Finance and all other Ministries will be formed in January 2010. These working groups, will furthermore, be empowered to initiate corrective action in all cases of excess spending, while if budget revenues are less than projected, they may reduce expenditures in order to safeguard the attainment of the deficit target. As noted already, following the Prime Minister's instruction, by end-January 2010, line Ministries will have submitted proposals for a reduction of expenditures in 3-year budgets. This submission will also serve as the basis for supplemental cost cutting measures in the case of a significant deterioration of the fiscal balance due to unforeseen circumstances. In addition, the government has already announced that it stands ready to introduce a supplementary budget or adopt additional measures in order to ensure that the adjustment path is followed.

The above exercise will therefore ensure that:

1. The further reductions envisaged for 2011 will minimize the possible adverse effect of reductions in areas critical for growth (and maximize the possibility that these reductions will be concentrated on areas of waste); and
2. Provide a tentative list of further adjustments within 2010, especially under the conditions of a significant fiscal deterioration requiring the adoption of further policy measures.

In the alternative macroeconomic scenario which we develop below both a deeper recession for 2010 and slower recovery of GDP in the medium-term is assumed compared with the baseline scenario. In particular the rate of change of real GDP in 2010 is projected at -0.8%, while the recovery over the period 2011-2013 averages a 1.5% annual growth rate. The inflation rate is projected to be slightly lower than in the baseline scenario reflecting a lower level of aggregate demand. Finally, the unemployment rate is projected to reach 10.2% of the labor force in 2010 and peak at 11.5% in 2012.

With regard to the general government, a no-policy-change scenario is developed to estimate:

1. The evolution of key indicators; and
2. The fiscal adjustment required to attain the deficit target attained in the baseline scenario.

The alternative scenario retains the revenue elasticities of the baseline scenario, while the government expenditure components grow at the same rates of change of the baseline scenario. Under this unchanged policy assumption, the deficit of the general government is expected to increase to 9% of GDP in 2010 and follows a downward path throughout the projection period to an estimated value slightly above 3% of GDP in 2013. However, given the commitment of the government to attain the target deficit included in the baseline scenario (i.e. reaching a fiscal deficit of 2.8% in 2012), our alternative scenario projections imply the need for additional permanent measures of 0.3 percentage points of GDP for each of the years between 2010 and 2013. In other words the attainment of the fiscal adjustment by 2012 will require an additional package of measures, which:

- Will be based upon the further reductions in expenditures identified through the enhanced fiscal management reform efforts and the consultations already discussed briefly above,

possibly supplemented by:

- Additional measures on the revenue side, including through the increase in selected indirect taxes.

Table 8 below provide a comparison of key indicators between the baseline and pessimistic scenario.

**Table 8: Comparison between the baseline and the alternative scenarios**

	Alternative scenario				Baseline scenario			
	2010	2011	2012	2013	2010	2011	2012	2013
GDP growth rate	-0.8	1.0	1.5	2.0	-0.3	1.5	1.9	2.5
Nominal GDP growth rate	1.1	2.8	3.3	3.6	1.7	3.5	3.8	4.4
Unemployment rate	10.2	11.2	11.5	11.5	9.9	10.5	10.5	10.3
General government deficit, % of GDP	8.7	5.6	2.8	2.0	8.7	5.6	2.8	2.0
Current account deficit, % of GDP	8.1	7.6	7.1	6.4	8.1	7.7	6.9	6.0

*Comparison with previous updates*

Table 9 below provides a comparison between the baseline scenario in the current and the baseline scenario in the previous update of the Stability and Growth Programme.

**Table 9: Divergence from Previous Update**

	ESA Code	2008	2009	2010	2011	2012	2013
<b><u>Real GDP growth (%)</u></b>							
Previous update		3.0	1.1	1.6	2.3	-	-
Current update		2.0	-1.2	-0.3	1.5	1.9	2.5
Difference		-1.0	-2.3	-1.9	-0.8		
<b><u>General government net lending (% of GDP)</u></b>	EDP B.9						
Previous update		-3.7	-3.7	-3.2	-2.6	-	-
Current update		-7.7	-12.7	-8.7	-5.6	-2.8	-2.0
Difference		-4.0	-9.0	-5.5	-3.0		
<b><u>General government gross debt (% of GDP)</u></b>							
Previous update		94.6	96.3	96.1	94.7	-	-
Current update		99.2	113.4	120.4	120.6	117.7	113.4
Difference		4.6	17.1	24.3	25.9		

## 5. QUALITY OF PUBLIC FINANCES

Improving the quality of Greek public finance management is of paramount importance in order to address fiscal imbalances as well as ensure the efficient design, implementation and monitoring and evaluation of policies. To this end, the government has embarked on a medium-term review of the budget process, the main elements of which are outlined below.

### 5.1. Policy Strategy

A comprehensive and sustained effort is underway in order to improve fiscal management in a number of key and mutually-reinforcing areas. The aim is to restore and maintain credibility in the government's assessment of the economic environment and its policy pronouncements, as well as to improve the design and conduct of fiscal policy and its efficient link with the implementation of the government's overall economic and social policy framework.

This effort concerns the improvement in the quality, coverage and reliability of the data used for the assessment of current economic developments and the monitoring of the implementation of government policies and programmes, including the budget and the Stability and Growth Programme. It includes the following:

- **Legislation to render the Statistical Service independent** of the policy process, coupled with a commitment to raise the quality of its services and the wide dissemination of statistical data. Consultations on the basis of the existing draft law have been completed and the law will be submitted to the Parliament in January 2010. Strengthening the Statistical Service will contribute to the efficient assessment of ongoing economic developments and will be supplemented by actions to improve the coverage, timeliness, reliability and dissemination of fiscal accounts. Emphasis will be placed upon ensuring that historical data reflect accurately all the operations of the general Government, and facilitating the timely and wide dissemination of fiscal data.
- **Creation of a Budget Office under the auspices of Parliament.** This independent office will have as a mandate i.) to audit on a monthly basis the fiscal accounts, thus acting as a “checks and balances” tool to the operation of the General Accounting Office at the Ministry of Finance and thereby contributing to the monthly monitoring of the budget implementation; as well as, ii.) to help Parliament and citizens assess, examine and monitor the annual and multi-annual budgets. It will be set up in 2010 and its operation will enhance the transparency and accountability of fiscal operations.
- **Adoption of “fiscal rules”** for the effective medium-term execution of the budget aimed at anchoring expectations for sustainable public finances, with legislation to be submitted to Parliament during 2010.

These efforts are complemented by additional measures relating to the process by which the budget is put together and monitored through time, as well as to expenditures and revenues. They are discussed in more detail under the relevant sub-headings below. The combined effect of these mutually-reinforcing efforts will be to restore credibility, increase efficiency, and ensure the long-term sustainability of finances and the attainment of the deficit and debt targets set in the Stability and Growth programme. They will, furthermore, allow the identification of government waste and contribute to cost-saving efforts.

## **5.2. Budget process and monitoring**

At the heart of the government's efforts to improve the quality of public finances are the changes underway in the way the budget is put together and its implementation monitored through time. The 2011 budget will be based on the scrutiny and justification of individual items of expenditures for each Ministry to help in the identification of waste and improve the link between expenditures and programmes. At the technical level this will be underpinned by the acceleration of the ongoing work towards introducing elements of programme budgeting even in the short term to significantly improve the efficiency of fiscal management processes.

More specifically, in order to strengthen transparency, accountability and the monitoring of budget execution, the following actions are undertaken:

- There will be regular reporting of budget implementation through the introduction of reporting of expenditures from each line Ministry on a monthly basis.
- Bilateral inter-ministerial working groups composed of high ranking officials between the Ministry of Finance and all other Ministries will be formed in the first quarter of 2010 and will be empowered to take immediate corrective action in all cases of excess spending.
- If for any reason budget revenues are less than projected, expenditures will be correspondingly reduced so as not to undermine the attainment of the overall deficit target.
- In the first half of 2010 an MIS system will be in operation for the monitoring of expenditures of each ministry. This will be extended later in the year to cover all agencies belonging to the public sector.
- The evolution of the budget execution will be available online in order to increase transparency and public accountability. Legislation in 2010 will set specific monthly reporting requirements.
- In the second quarter of 2010 financial control over public agencies responsible for a sizeable part of budgetary spending will be enhanced, by mobilizing external auditors to complement the tasks so far performed by an understaffed division of the General Accounting Office.

With regard to the budget process and content:

- The 2011 and subsequent budgets will include an increasing section of programme (or activity-based) budgeting which by 2012 will fully substitute the current system.
- Linked to this major reform is the introduction of a rolling three-year budget horizon; the drafting of strategic programmes in the policy priority areas of each Ministry taking into account each Ministry's expenditure ceilings; and the enhancement of ex-post financial control by the Ministry of Finance.
- In 2011 a double-entry accounting system will be introduced, on a pilot basis, with the aim to harmonize state budget's contents with general accounting principles. The new system will be fully operational in 2012.
- The 2011 budget drafting procedure will utilize a "zero basis" methodology to re-evaluate all applications or funding.

All the above will be included in new legislation on budget preparation, monitoring and execution which will be submitted to the Parliament by mid-2010.

### 5.3. Developments on the expenditure side

On the expenditure side the reforms in the budget process and monitoring will strengthen the transparency and timely control of expenditures on a monthly basis. Moving the time horizon of Greece's finances to a rolling three-year period will strengthen the design of government programmes by explicitly taking into account the financial consequences of action plans in the medium-term, provide continuity and credibility to policy design and implementation, and strengthen the link between the availability of resources and policy interventions and their justification. The introduction and update of a Medium Term Expenditure Framework will facilitate the efficient allocation of resources through time and set binding expenditure ceilings for line Ministries to further improve efficiency and the costing and prioritisation of programmes under consideration or implementation.

Of particular importance to the commitment to increase the transparency and accountability of the public sector's operations and reduce waste will be the following interventions in 2010:

- **Contingency reserve.** An upper 90% limit on all budgetary appropriations (other than wages, pensions and interest payments) will be imposed by a Ministerial Decision to be issued by the Minister of Finance in early 2010. Depending on the expenditure outturn of the first six months, the budgetary appropriations blocked in this way may not be reallocated among the spending ministries securing a further reduction in related expenditures by year-end.
- **Three-year spending plans by Ministries.** In accordance with the Prime Minister's recent announcements, all line Ministries will propose by end-January 2010 three-year budgets incorporating overall expenditure cuts that will lead to significant economies in public consumption expenditures.
- **Consolidation in the public sector.** In addition to three-year spending plans, and in accordance with the Prime Minister's announcements, all line Ministries will propose by end-January 2010 a list of public sector organizations and entities to be merged or abolished. The closing down of one-third of all National Tourism Organization offices abroad, as well as of the merging of press offices in embassies have already been announced.
- **A Single Payment Authority.** The operation of a Single Payment Authority, through which all public servants will be paid, will provide, for the first time ever, a detailed account of the breakdown and justification for each item in the Government's wage bill, thus permanently increasing accountability and minimising waste.
- **A reduction in civil service employment.** Following the freeze in public sector hiring in 2010, a reduction in civil service employment will be brought about with a rule specifying that only one new civil servant will be hired for every five that retire from 2011 onwards. This rule will be legislated in 2010.
- **Improved public procurement practices.** Efforts are under way to increase effective control of government procurement from 2010 onwards, including in the area of hospital procurement (recent Ministerial decision on the procurement of drugs). This also involves actions to utilise information technology to assist in monitoring, enhance accountability and better reflect transactions and costs.



- **More accountability in Ministerial decisions.** Following draft legislation currently in Parliament, all Ministerial Decisions involving the disbursement of public funds will be posted online.

#### **5.4. Developments on the revenue side**

On the revenue side permanent improvements in the design and conduct of policy will accrue through actions to strengthen the capacity of the Ministry of Finance to generate and disseminate reliable revenue estimates. This will bring to an end the systematic over-estimation of revenues, which has been a feature of the budget process and inhibits the credibility and efficiency of policy design and implementation.

The government has already launched a comprehensive tax reform effort towards a fairer, more transparent and legitimate system to facilitate compliance and increase revenues. Some of the measures will further develop elements already introduced in the 2010 budget (such as efforts to simplify the system and broaden the tax base through eliminating exemptions, thus contributing to revenues and facilitating tax compliance – see section 3.3.1 above). The aim is to finalize the overhaul of the tax system by submitting the relevant tax bill to Parliament in March 2010.

##### ***5.4.1. Main elements of the tax reform***

The main elements of new system include the following:

- A unified progressive tax scale for income from all sources without the current differentiation in tax coefficients that apply to certain income sources.
- The abolition of autonomous taxation and most tax exemptions in personal income and corporate profits, which are widespread and often without a social or development justification.
- The treatment of distributed profits as personal income taxed in the above mentioned unified progressive tax scale and not with a fixed tax coefficient at the source as is now the case. Company profits that are reinvested will carry a lower tax rate.
- The reintroduction of progressive tax on large property, inheritances and bequests. The new existing flat tax of 1% will be replaced by tax coefficients which will depend on the value of the property.
- New transfer pricing and “thin capitalization” rules will be introduced, as well as measures that will increase the tax accountability of off-shore companies and their owners.
- A capital gains tax on short term share transactions will be effectively implemented.
- Tax legislation will be codified and substantially simplified to cut down administrative costs, increase transparency and efficiency.
- A comprehensive framework for declaring assets owned supplementing the income tax declaration.
- A move to obligatory wholly electronic tax declarations together with e-tax reforms such as electronic invoicing.

### **5.4.2. Reducing tax evasion and tax avoidance**

The tax reform initiative will be complemented by a sustained effort to strengthen capacities to detect and effectively fight widespread tax avoidance and tax evasion.

#### **INCREASING COLLECTION EFFECTIVENESS**

- **Unification** of the tax collection and the social security collection mechanism to significantly increase the efficiency of revenue collection.
- Adoption of a **risk-based approach** in the audit process, abandoning the requirement for auditing all records within a five year period. This will allow the tax authorities to focus on cases that are most likely to bear fruits.
- Obligation for enterprises to maintain **professional accounts** with commercial banks and a reduction in the threshold amount for which settling payments through the banking system is obligatory.
- Review existing **cross-matching** checks in tax data to concentrate upon those that can yield results. Annual plan for cross-matches on a regular periodic schedule rather than on an ad-hoc basis. Following the risk-based approach, only produce as many results as can be effectively processed by the auditors and inspectors.
- Shift focus from formal checks on books and documents into **in-depth audits** that can uncover complex forms of financial malfeasance.
- Collect data from **utility companies** (power, phone, water) and use that for performing cross-matching.
- **Collect details of all issued receipts.** Modify existing receipt issuing tills and secure invoice marking hardware to submit receipt and invoice details online (through an internet or mobile telephone connection). These details can be used for detecting on a real-time basis fraudulent invoices and establishments that do not issue receipts.

#### **LIMITING CORRUPTION**

- Eliminate bargaining in the penalty assessment process and shift to a point-system based on objective criteria.
- Establish and use an IT-based audit case management system (such a system is being implemented and should be operational within 2010) .
- Establish a tax amnesty for individuals or companies that assist in bringing corrupt officials to justice.
- Remove the regional tax office directors from the dispute resolution process by handling such disputes in a centralized location.
- Minimize the contact of individuals with tax officials. Reduce the number of regional tax offices by adopting other means for obtaining forms, getting help, and filing returns (web-based, postal, call centers).
- Change the existing paper-based system that civil servants use each year for declaring their assets into an IT-based one that can allow effective audits.

## **MANAGEMENT OF EXISTING ARREARS TO THE BUDGET**

- Use drastic methods of debt collection, such as asset seizure, for debtors who have a capacity to pay, instead of relying on installments and special arrangements. This can be effectively implemented by linking outstanding debts with the recently computerized real estate data.
- Review existing debt, and subsequently write-off debt that cannot realistically be collected, such as debt of defunct companies and deceased individuals. This will provide a more reliable estimate of the arrears to the budget that can be collected and focus the collection effort on truly productive debts.

## **IMPROVING SELF-COMPLIANCE**

- Set an example by auditing high-profile individuals, publishing the results of non-compliance including the instigation of criminal proceedings.
- Audit and tax dividends from offshore companies utilizing the existing or forthcoming bilateral tax treaties.
- Allow registered taxpayers to report tax-evading individuals and companies. These reports will be used for statistical profiling and audits, while reporting individuals will get a letter indicating the tax revenue they helped to collect.
- Oblige professionals and self-employed individuals with a high-risk of tax evasion to conduct their business through IT facilities provided or controlled by the Ministry of Finance to enhance transparency and accountability. These could provide a record of appointments and services rendered.
- Track fuel delivery tank-trucks with a GPS system in order to detect suspicious deliveries.
- Force pharmacies to accept only medical prescription forms bar-coded with the issuing doctor's tax id. These can be easily entered to detect the approximate number of patients of each medical doctor.

## **6. LONG-TERM SUSTAINABILITY OF PUBLIC FINANCES**

### **6.1. Introduction**

Due to declining fertility rates and increased life expectancy, the demographic structure of the population is changing rapidly. The share of persons aged over 64 in the total population is expected to rise from 19% in 2007 to 32% in 2060, and Greece is faced with a significant increase in the long-term cost of age-related expenditure (LTC), in addition to unfavourable initial conditions. According to common projections included in the 2009 Ageing Report<sup>3</sup> the age-related public spending is projected to increase by 15.9 percentage points of GDP over the period 2007-2060.

In the same period, age-related public expenditure is projected to increase on average by about 4 ¾ percentage points of GDP in the EU - and by more than 5 percentage points in the Euro area. These figures place Greece in the group of nine other Member-States with “very significant” increase in age-related public expenditure, underlining the need for substantial reform in the pension system<sup>4</sup>.

### **6.2. Pension Reform**

Pension spending has consistently been documented to pose a very significant risk to the long-term sustainability of public finances. On current trends, the projected spending on pensions in 2060 is expected to exceed 24% of GDP and the estimated deficit of the social security system is estimated at over 15% of GDP. This situation is clearly unsustainable. The Greek government intends to tackle the issue of pension spending through two kinds of measures:

- Policies which rationalise expenditure and increase the revenue base, such as measures for containing social security contributions evasion; and
- An institutional reform of the pension system.

To this end, the government initiated in November 2009 a public consultation process in order to engage in dialogue with the stakeholders on the issue of pension reform. The consultation process foresees an active involvement of the government and the social partners (trade unions, employers’ associations, etc) in a Committee of Experts whose role is to prepare, by 30 April 2010, a concrete and comprehensive pension reform proposal covering both types of measures. The specific measures that will be adopted aiming to raise the resources of the system and secure its long term sustainability are currently discussed in the Experts’ Committee. The Committee’s proposals are intended to be accompanied by an actuarial study corroborating its findings.

In the meantime, the government has announced the main issues which will form the basis for the consultation process leading to a reform proposal. The aim is to separate the social security and social welfare functions of the system that are currently closely intertwined and guarantee both the provision of a social welfare net for the senior citizens and the containment of the social security system’s deficit. The former will be accomplished mainly through the

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<sup>3</sup> The projections of the National Actuarial Authority, which were presented in the 2008 update of the SCP, have since been approved by the AWG and the EPC and incorporated in the 2009 Ageing Report.

<sup>4</sup> European Economy 2/2006, “2009 Ageing Report: Economic and budgetary projections for the EU-27 Member States (2008-2060)”.

introduction of a national non-contributory pension for elderly citizens, while the latter will be achieved primarily through the restoration of the link between the level of the pension and the level of accumulated social security contributions, as well as through the containment of (extensive) evasion in social security contributions. The corresponding effects will be quantified at the end of the deliberation. Besides, a number of mostly technical reforms are likely to raise the efficiency of the social security system (consolidation of main social security funds, full computerization of the system, etc.).

Taking into account the magnitude of the problem, there is also considerable scope for the reduction of the contribution of the public budget to the social security system in the short- and medium-term. The contribution of the budget to the pension system (including civil servant's pensions) rose from € 8.9 billion (4.5% of GDP) in 2005 to € 15.8 billion (6.6% of GDP) in 2009. The corresponding figure in the 2010 budget is € 14.5 billion (6.0% of GDP).

The reductions will result from the containment of social security contributions evasion due to lax implementation, mainly in the social insurance funds of private sector employees (IKA) and self-employed (OAEE), as well as through the containment of health care related expenditures. The crackdown on social security contributions evasion is expected to be accomplished through the substantial strengthening of the Labour Inspection Body in terms of both manpower and technical infrastructure, and is anticipated to result in a 7% increase in collected social security contributions in the aforementioned social insurance funds (€ 1 billion).

The containment of health care expenditures will be achieved mainly through the re-introduction of restrictions in the list of medicines provided by the health care branches of the social insurance funds, and is expected to reach the amount of € 300 million. It should be noted that these figures are probably lower bound estimates and more rigorous and successful application of the corresponding measures may result in a decline of budget transfers to the social insurance funds of up to € 2 billion (0.8% of GDP).

The fight against social security contributions evasion and the containment of health care expenditures are expected to intensify in the next two years through the further strengthening of the corresponding mechanisms. The former is anticipated to result in an increase in collected social insurance contributions of € 2.5 billion in 2011 and € 4 billion in 2012, while the latter is expected to lead to reduced health care spending needs of € 900 million in 2011 and € 1.2 billion in 2012.

Moreover, reforms currently underway in the health care insurance branch of the farmers' social insurance fund (OGA) – mainly a 1% increase in the corresponding contribution rate – are likely to result to a decline in budget transfers to this fund from 2.6% of GDP in 2010 to 2.0% of GDP in 2012.

All in all, the successful implementation of the aforementioned measures is expected to reduce the required transfers from the state budget to the pension system from 6.6% of GDP in 2009, to 5.2%-5.5% of GDP in 2012.

Following the decision of the European Court of Justice regarding the equalization of the retirement ages for men and women the government intends to draft legislation to gradually increase the retirement age of women. The draft law will be put to public consultation by the end of January 2010.

### 6.3. Health Reform

The guiding principles of health reform are as follows:

- **Strengthen public regulation.** Government will set overall cash limits and allocate resources in a transparent fashion, consistent with objective criteria. It will reorganize public procurement with a view to getting better value for public money. It will recruit hospital staff and other managers on merit, and devolve them the responsibility for running provider units. It will not be involved in day-to-day management of hospitals and other providers.
- **Reinforce accountability.** Once agreed, budget constraints will be inflexible. Public providers, including hospitals, will be instructed to operate under fixed budgets. Managers will not be allowed to authorize budget overspends, and will be accountable for failing to do so. Consultants and other medical personnel will be encouraged to participate in drawing up plans for ensuring a more efficient use of hospital resources.

**Table 10. Age-related government expenditure, 2007-2060, % of GDP**

		Greece	EU27	Euro-area
<b>Pensions</b>	Level 2007	11.7	10.2	11.1
	Change 2007 2035	7.7	1.7	2.1
	Change 2007 2060	12.4	2.4	2.8
<b>Health care</b>	Level 2007	5.0	6.7	6.7
	Change 2007 2035	0.9	1.0	1.0
	Change 2007 2060	1.4	1.5	1.4
<b>Long-term care</b>	Level 2007	1.4	1.2	1.3
	Change 2007 2035	0.8	0.6	0.7
	Change 2007 2060	2.2	1.1	1.4
<b>Unemployment benefits</b>	Level 2007	0.3	0.8	1.0
	Change 2007 2035	-0.1	-0.2	-0.2
	Change 2007 2060	-0.1	-0.2	-0.2
<b>Education</b>	Level 2007	3.7	4.3	4.2
	Change 2007 2035	-0.3	-0.3	-0.3
	Change 2007 2060	0.0	-0.2	-0.2
<b>Total</b>	Level 2007	22.1	23.1	24.3
	Change 2007 2035	9.1	2.7	3.2
	Change 2007 2060	15.9	4.7	5.2

Source: Commission services, EPC

**Table 11: Long run sustainability of public finances, % of GDP**

	2000	2007	2020	2030	2040	2050	2060
Pension expenditure	10.8	11.7	13.2	17.1	21.4	24.0	24.1
Social security pension	10.8	11.7	13.2	17.1	21.4	24.0	24.1
Old-age and early pensions		8.8	9.9	13.1	16.3	17.9	17.7
Other pensions (disability, survivors)		2.9	3.3	4.0	5.1	6.1	6.4
<b>Assumptions</b>							
Labour productivity growth		2.5	2.9	1.8	1.7	1.7	1.7
Real GDP growth		3.8	2.9	1.3	1.0	1.2	1.4
Participation rate males (aged 15-64)		78.8	78.5	76.2	75.9	76.7	76.4
Participation rate females (aged 15-64)		55.2	60.1	60.0	60.6	61.2	61.0
Total participation rate (aged 15-64)		67.1	69.4	68.3	68.4	69.1	68.8
Unemployment rate		8.5	6.2	6.2	6.2	6.2	6.2
Population aged 65+ over total population		0.19	0.21	0.24	0.28	0.32	0.32

## **7. THE REFORM AGENDA AND THE SGP**

The Stability and Growth Programme is submitted in the context of unfavourable economic conditions. Policy making is facing a triple challenge: a) to consolidate the country's fiscal position through effective structural measures aiming to reduce the budget deficit and lower the public debt /GDP ratios, b) secure conditions for positive growth by the end of 2010 and c) to enhance the economy's long –term competitiveness.

The deterioration of competitiveness in recent years is reflected in the widening deficit of the current account balance from 6.3% in 2004 to 14.7% in 2008, the small inflows of foreign direct investment and the declining share of private investment and R&D expenditures in both total investment and GDP. Greek enterprises, mostly small and very small by European standards, are facing increasing difficulties to remain competitive both in domestic and international markets. As a consequence, export growth is slowing down and market shares are being lost.

To address these policy challenges a number of reforms are undertaken that bring about change not only in the public finances but contribute to changing mentalities, shift the growth paradigm and improve competitiveness. Below these are classified into the following five broad categories:

- Improving the quality of public finances.
- Growth and employment enhancing measures
- Fostering private sector development.
- Creating more efficient public sector
- Cross-cutting interventions.

### **7.1 Improving the quality of public finances**

The extensive reform agenda under the heading and aiming at improving the quality of public finances has been analysed in section 5 above.

### **7.2 Growth and employment enhancing measures**

#### ***7.2.1 Productive restructuring through a “green economy” agenda***

The shift towards “green growth and development” constitutes a major priority for the country, given the need to address the challenges of climate change and the country's unexplored potential in renewable energy development. This priority is tied with the strategic decisions to invest heavily in energy-saving technology and renewable energy resources so as to change the energy mix by 2020, to strengthen trade openness and to upgrade the quality of both products and services in a number of traditional and modern sectors, including transportation, telecommunications, port facilities, tourism and land development, culture, the agro-food industry, ICT and biotechnology.

These priorities, in combination with the exploitation of supporting growth factors, constitute a growth strategy based on the principles of sustainability cutting across all sectors of activity. Its effective implementation also requires important public investments in supporting activities including education, research, innovative entrepreneurship, management of natural resources and public health.



Implementation of the new green growth and development agenda will be coordinated by a **high level Inter-ministerial Investment and Competitiveness Committee** in open consultation with all relevant private sector stakeholders, facilitated by the Economic and Social Committee of Social Partners (OKE) .

All policy tools that are financed through national or European public funding, including the Public Investment Budget, European Community Structural Funds through the NSRF (National Support Reference Framework) for 2007-2013, the country's Investment Law and Public –Private Partnerships are being utilised to serve this agenda.

**Transparency and monitoring of progress and outcome effectiveness** will be ensured through annual reporting to Parliament as well as to the EC via the established monitoring procedures.

### ***7.2.2. Restructuring expenditures and increasing public investment***

Restructuring budget expenditures to channel resources away from current government expenditures to public investment has been demonstrated to be one of the top fiscal priorities of the Government already in the 2010 Budget. Thus, the Public Investment Programme for 2010 has been increased by € 800 million to reach € 10.3 billion, i.e. 4.2% of GDP . This constitutes a sharp policy reversal since the public investment / GDP ratio was being continuously reduced from over 5% of GDP in 2004 to 3.9% in 2009. The public investment / GDP ratio is expected to increase further to 4.4% in 2011, 4.5 % in 2012 and 5% in 2013.

### ***7.2.3. Revising and effectively implementing NSRF (ESPA) 2007-13***

NSRF, over the programming period 2007-13 is totalling public expenditure of € 26.2 billion of co-financed public expenditures and will become the key financial vehicle for supporting Green Growth and Development priorities.

#### **Box 6: The NSRF (ESPA) 2007-13**

Three years after the beginning of the Programming period, absorption remains at the very low level of 3.6%.

Within the first quarter of 2010, in close consultation with the Commission services, two key reforms will be introduced which will help to speed up effective utilization of the available Community resources through the NSRF.

The first concerns a major simplification of administrative procedures for the generation, streamlining, monitoring and evaluation of projects under Law 3614/2007 to speed up implementation and the targeted and effective utilisation of available resources. Cumbersome procedures will be simplified and decentralised to Regional Management Authorities so as to strengthen capacity-building of Regional Public Administration including Municipalities.

The second concerns the revision and strategic reorientation of the NSRF Operational Programmes towards “green” activities, productive restructuring, innovation and human capital investment and better job creation, which will be completed by June 2010 in close consultation with all Ministries, regional authorities and EC services.

#### **7.2.4. Revising the Investment Law**

NSRF resources are expected to contribute effective financial support for the new Investment Law to be revised and approved in 2010.

The current Investment Law, will be withdrawn at the end of January 2010 to be resubmitted for Parliamentary adoption during the first half of 2010. In the meantime, the evaluation of over 2,700 outstanding applications with an estimated total investment expenditure budget amounting to around € 8 billion for investment projects submitted under the current Investment Law will be accelerated.

#### **Box 7: The new investment law for green development**

The new Investment Law will provide added incentives for Green Growth and Development activities, productive restructuring in the agro-food and traditional sectors, innovative start-ups, cluster development, the use of ICT, export promotion, job retention and creation and regional development especially in areas of high unemployment and low per capita incomes.

Incentives will be thus provided to promote energy-saving investments as well as greenfield investments in Renewable Sources of Energy (RSE), including the use of domestic technology and know-how, effective utilisation of water resources, modern waste management techniques and urban regeneration projects.

Priorities in the area of tourism and culture include, inter alia, the development of tourist and cultural growth –poles through investment incentives for the provision of high-quality services, modern transportation and communication, thematic parks and port development. The diffusion and development of information and communication technologies (ICT), especially by SMEs, remain a top policy priority.

To promote R&D, incentives will be provided for innovative start-ups as well as for appropriate networking and collaboration between the business, academic and research communities especially in the ICT and biotechnology sectors where a number of firms are already profitably active. Total investment in research is expected to increase to 2% of GDP in the coming four year period.

#### **7.2.5 Promoting Public Private Partnerships**

Within the next four years, Greece will improve and facilitate the implementation of the Partnerships Law (L. 3389/2005) for developing, constructing, operating and financing projects across various sectors.

The government expects to enhance coordination and make greater use of the Partnerships Law to implement a growing number of projects presently treated under different legal frameworks depending on the payment mechanism employed (end user tolls or availability payments). This would enable the Greek government to exercise more efficient control of planning and implementation of projects, to ensure more efficient and transparent procedures, and better coordinate, streamline and effectively use a range of of complementary financial instruments, including the Structural Funds and European Investment Bank financing.

### **7.2.6 *Establishing a Hellenic Development Fund***

An important initiative for supporting the green growth and development agenda and improving competitiveness is the establishment of the Hellenic Development Fund.

The Hellenic Development Fund (HDF), scheduled to be in operation within 2010, is expected to act as an important financial vehicle to promote green infrastructure and energy, innovative start-ups, urban regeneration and support local development by focusing on unlocking new sources of private capital and developing new funding models both in Greece and the broader region.

#### **Box 8: The Hellenic Development Fund (HDF)**

Set up as a revolving financial vehicle in the spirit of similar EIB initiatives (such as JEREMIE and JESSICA), the HDF will fund its operations through the international capital markets. It will streamline investments, arrange project financing and monitor and deploy financial resources to economically viable projects.

Operating in the context of multi-annual development programs, HDF will safeguard completion of all necessary technical due diligence prior to the inclusion of a candidate project in the development pipeline. HDF will work with Government agencies, financial institutions and sovereign or private funds to attract and promote investment activities and enhance Greece's role as a regional trade and investment hub.

### **7.2.7 *Containing inflationary pressures***

The new Department for Market Surveillance formed at the General Secretariat of Commerce during the summer of 2009 (Law 728/2008) has already taken actions to apply the new auditing rules on transfer pricing (2008), monitor wholesale prices in various sectors and operate an Electronic Price Observatory of more than 1.000 goods and services around the country .

The Price Observatory which was put in operation in December 2009 will be fully developed over the next year to facilitate daily-price comparisons by consumers and to increase market transparency and competition through continuous monitoring of both wholesale and retail market developments.

Following the introduction of transfer pricing rules in 2008, the new government will improve the current provisions and monitor the effective implementation of transfer pricing rules and will intensify transfer pricing tax audits to be supported through the development and continuous updating of comparable databases for the evaluation of arms-length pricing.

### **7.2.8 *Active Labour Market Policies***

In December 2009 an estimated 750,000 persons were registered at Public Employment Service (OAED), while only one third of them received unemployment benefits. This represents a 20% increase in comparison to November 2009, indicating the pace of lay-offs in

the private sector, with another one third declaring that they were searching for a job. In this sense, the number of registered unemployed amounted to around 500 thousand, a number comparable to the LFS estimations. These numbers reflect a growing concern regarding the extent and the timing of the adverse impact of the economic crisis on labour market and employment.

The combination of economic recession and the fiscal adjustment implies that the activation framework of labour market programmes should be strengthened:

- First, by applying the **mutual-obligations principle** by which jobseekers must actively seek work in exchange for targeted actions to help them find a job. Stricter job-search requirements on benefit recipients are to be enforced, and existing sanctions for non-compliance are to be rigorously applied.
- Second, by requiring **participation in job-search training** of all unemployed youth after a period of independent search.

Completing the merger of offices responsible for benefit payments with those in charge of re-employment measures is a necessary condition for the effective application of the mutual-obligations principle in Greece. In this sense, a major concern of employment promotion policy should be the conversion of unemployment benefits to employment support measures. With the basic unemployment benefit around 61% of the minimum gross wage, this measure represents a key policy direction that should also contribute to the partial backing of the social insurance finances.

The second major policy area in employment promotion concerns reducing labour demand barriers, especially to the hiring of youth. The **reduction of non-wage costs** should be narrowly targeted on specific labour force groups, clusters of small enterprises and geographical areas facing severe economic and employment difficulties, in order to avoid significant deadweight losses. In this sense, a major policy direction refers to subsidizing social insurance costs for the recruitment of the young, facilitating their transition to work.

Modern **apprenticeship schemes** are among the most effective pathways for the transition from school to work, but also for the reintegration to the labour market. While various forms of combining training and work experience exist in the vocational training system in Greece, the system is broadly fragmented and is lacking coherence and effectiveness. The continuous vocational training schemes, mostly funded by the ESF, will be gradually transformed to articulated apprenticeship systems, combining classroom education, on-the-job training and in-work practice. The expansion of apprenticeship training to include more professions and encourage employers, particularly SMEs, to take on more apprentices, is a priority.

The employment prospects for some labour market groups, i.e. low-skilled older workers, are quite ominous even in times of economic growth. At the same time there are key shortages in the fields of local welfare and environmental policy. In this sense, the implementation of **Social and Community Work Plans** in collaboration with Local Administration Agencies represent a composite mixture of public policy objectives in the fields of employment promotion, environment and natural resources protection, local welfare enhancement, etc.

One of the main deficiencies of active labour market policies in Greece originates from the lack of a regional and local specification. Employment promotion measures are planned at a central level, lacking the required flexibility to adjust to regional and local specificities. The current economic crisis is leading to a mosaic of divergent local employment conditions that can be met only by specific **Regional and Local Integrated Employment Plans**, designed

and implemented by Local Employment Support Networks, with the local PES playing the pivotal role. In this area, the promotion of entrepreneurship for the young and women, will be a main policy objective.

The current business downturn forces medium and large enterprises to cut labour costs, not only through lay-offs but also in the form of short-time work and work suspension, while there is no established institutional system of partial or temporary unemployment, leading to a sizeable reduction of employee income. A major policy in this area is the redirection of ESF funds for the training of the employed, through flexible training initiatives aimed at enhancing the skills of the threatened workers and the partial replacement of their income.

**Labour market transparency** is a *sine qua non* for the effectiveness of active policies. Even in times of recession, there are openings of new jobs and a sizeable level of labour turnover. PES contribute only to a negligible level in the recruitment process, the matching between labour demand and supply and the facilitation of the regional mobility of labour. The main measures to confront these deficiencies include the reorganization and decentralization of OAED (the national agency responsible for the PES), the active involvement of the social partners both at central and regional management of the PES, the restructuring of the internet portal of OAED for the matching between labour demand and supply and the establishment of targeted PPPs focused in the enhancement of labour market services.

## **7.3 Fostering private sector development**

### ***7.3.1 Promoting regulatory reform to spur private investment***

Improving the business environment, enhancing competitiveness and promoting productive restructuring and a green growth and development agenda through investment promotion will critically depend on the active pursuit and timely implementation of a major regulatory reform agenda to radically simplify procedures for starting, licensing and operating a business in the country.

Presently, according to the World Bank's Cost of Doing Business Indices, administrative hurdles, bureaucratic procedures, high costs and lack of transparency are major disincentives for investment promotion and for attracting foreign direct investment.

The regulatory reform agenda, already announced and initiated by the Government includes a) major legislative initiatives to simplify and accelerate the process of establishing, licensing and operating enterprises in Greece, b) the reengineering of administrative processes through the use of ICT tools and c) the establishment of regional one-stop shops to promote entrepreneurship with emphasis in supporting SMEs - with the overall impact of these reforms significantly contributing to effective reduction of administrative burden.

Regulatory reform also involves systematic efforts to improve **transparency, meritocracy and accountability**. The Government has already demonstrated its determination to face the challenge. Since the change of Government in October 2009, all Ministerial decisions are available on the internet. All draft laws are open to public consultation and all high administrative appointments have been made through open call procedures.

### **Box 9: Regulatory reforms for investments: top priorities for 2010**

The first legislative initiative for the simplification of business start-up procedures is expected to be submitted to Parliament in the first quarter of 2010. The primary purpose of the Act is to reduce the steps and bureaucratic procedures required for the establishment of a firm from 12 to 3 through the use of the Enterprise Registries maintained by the regional Chambers of Commerce and linking them up electronically to the tax authorities. This will lead to a reduction of more than 70% of the administrative costs related to establishing enterprises.

Major legislative initiatives for the simplification of business licensing and operation procedures will be introduced within 2010, following a consultation period with the pertinent Ministries, the business community and social partners.

Process reengineering will be supervised by the Ministry of the Economy, Competitiveness and Shipping in close collaboration with the Ministry of Interior, Decentralization and Electronic Governance, other Ministries which presently issue licenses as well as the Chambers of Commerce which will become one-stop shops for supporting business entrepreneurship.

The acceleration of licensing procedures will also be facilitated through implementation of the Fast Track Licensing Law Initiative. "Fast Track" expedites licensing for large private investments significant for the Greek economy, securing a license within a three month period through the one-stop-shop service "Invest in Greece". The services of "Invest in Greece" will be expanded to support investment advisory services, project generation and cluster development in key sectors including energy, tourism, industry, ICT, biotechnology etc. As many companies located in Greece are interested in developing trade and investment activities in the regional market of SE Europe and the Eastern Mediterranean, a national and regional perspective will be adopted in service provision.

### **7.3.2 Promoting External Competitiveness**

Export promotion constitutes a major pillar of our strategy in order to restore the competitiveness of the economy.

A three year plan will be implemented in order to achieve specific and measurable targets to increase export activity. Measures are designated at 3 levels designed to address the challenges facing the export community: a) Institutional level, b) capacity building and c) export promotion.

## **Box 10: Policies to enhance openness and export promotion**

### ***a). Institutional level***

Specific policies towards establishing a simplified business environment that will improve the current institutional setting for export companies and will provide incentives for new ones to engage in export activity are planned:

-Policies to improve the institutional environment of export activity and to address the specific needs of export companies within the general “tackling bureaucracy” framework. Measures to reduce and simplify the steps and procedures that are currently required in order to engage in export activity in cooperation with our Chambers of Commerce. Application of IT tools in order to simplify exporters’ registrars and records at a regional and country-level.

### ***b). Capacity building***

Capacity building is crucial so as to enable export companies, and particularly SMEs, to retain their presence in traditional destination markets as well as develop a sustainable presence in new ones:

- Technical assistance to export companies, focusing on SMEs needs, namely a) consulting services ranging from basic market and regulatory information to assistance in formulating business plans or market entry strategies, b) market intelligence per target-country and sector.
- Export-related training and workshops tailor-made to sector and company size needs.
- Opportunities in new markets for Greek export companies, such as bids and tenders by international organizations: provide consulting and technical assistance.
- Cluster-based sector development programmes aimed at promoting and developing SMEs into becoming reliable suppliers of parts, components and services to leading sectors. Fiscal incentives and business matching tools will be implemented, as well as programmes that will support linkages in key sectors, such as technology development, skills upgrading, export and market development.

### ***c). Export promotion***

Promotion of the “Greek product” overseas:

- Export Action Plans: Plans that will integrate Promotion Plans for entering foreign markets, including overview of how export activities will affect companies' finances, production and workforces. These will also assist Greek companies to overcome regulatory barriers; provide advice for particular markets; develop market entry and expansion strategies; finding and liaising with agents, buyers, distributors and trade associations; bidding for contracts; support for joint promotion activities & direct marketing.
- Organize Export-related events, such as Annual Export Days, in order to develop closer relationships with companies believed to have significant latent export potential.
- Set up an updated and complete export companies databases.
- Organize Partnerships and related Exporter-Buyer Matching Programmes: These programs aim at facilitating exports and promote services by using overseas networks and databases to link buyers with exporters. They also entail meetings organization between local firms & foreign buyers.
- Facilitate participation in Trade Fairs and Exhibitions overseas. Organize displays in major stores and venues overseas. Financing of export plans.

### ***7.3.3 Strengthening Competition and Enhancing the Quality of Regulation***

Comprehensive action is undertaken to strengthen competition in product and financial markets. Enhancing the quality of regulation is a major determinant of both price and structural competitiveness and a top priority of government policy.

A new Special Service for Antitrust Monitoring will be created under the auspices of the General Secretary of Commerce to improve regulatory quality through effective monitoring and market reviews.

Revising and modernizing the institutional framework under which the Competition Authority Board is operating (Law 703/1977) within 2010 and increasing the number of its scientific personnel will allow it to exercise its authority more effectively, to investigate unauthorized or oligopolistic practices and to impose timely penalties where needed.

In labor markets, the timely implementation of Directive 123/2006 within 2010 following a period of consultation will liberalize a number of restricted professions, promote competition and enhance competitiveness.

In financial markets, overall regulatory quality is expected to improve via a major legislative initiative to be introduced in 2010. Its scope is to curtail excessive charges and open up financial services to competition as well as to improve coordination of the presently segmented regulatory authorities covering commercial, investment and insurance services.

Finally, major cost reductions are expected through the introduction of a modern Unified Public Procurement System to be implemented within 2010 that would operate on an electronic platform, implementing modern auctioning and procurement methods. This would allow a major acceleration of procurement processes, the opening up of markets to new suppliers and substantial reductions in government expenditures and costs, especially for public hospitals and pension funds, and support “green public procurements” for public sector activities.

### ***7.3.4 Providing Adequate Liquidity and Development Financing***

As part of the new government’s policies to control and eventually reduce national debt and to spur economic activity, the provision of adequate liquidity and development financing in the market will be promoted through a number of channels including the restructuring of business and commercial debts, the provision of state guarantees to SMEs, the timely repayment of state obligations to enterprises, the implementation of Public Private Partnerships (PPPs) and the establishment of the Hellenic Development Fund.

A draft law has already been submitted and is under discussion in the National Parliament to channel liquidity to the real economy via the restructuring of business and commercial debts to credit institutions. The law provides for one-off special measures of limited scope allowing mostly economically viable SMEs which have been adversely affected by the financial crisis to postpone capital payments for two years and to reconstruct their debt obligations to credit institutions.

The budget of the Credit Guarantee Fund for Small and Very Small Enterprises (TEMPME) will be increased and new disbursement provisions are expected to be developed for providing targeted state guarantees to small and very small enterprises that have been particularly adversely affected by the credit squeeze.



Outstanding obligations of the Public Administration to enterprises through the current Investment law, and co-financed projects dating from 2004 have already started being repaid. Total repayments amounting to almost 800 million euro will be fully repaid within 2010.

#### **7.4. Creating a more efficient and transparent public administration**

##### **7.4.1. Recruitment in the public sector**

The main parameter of the "Greek problem" is the functioning of the state and of the wider public sector. The excessive growth in the operational cost of the state can be attributed mainly to the management of the human resources of the public sector, especially personnel recruitment, which leads to an enormous growth in wage cost in the public sector. To this is added mismanagement of financial resources, waste of resources in the state budget and the budgets of public sector organizations. Together they lead to high deficits and the accumulation of debt.

As far as recruitment in the public sector is concerned, the past few years saw the proliferation of project contracts or fixed-term contracts with no objective criteria, growing in total to more than 100.000 per year. To this was added the improper use of the "stage" contracts, leading to the recruitment of more than 60.000 people in the "wider" public sector. Finally, numbers hired increased in all cases where personnel categories in the wider public sector were not supervised by the Council for Civil Personnel Selection (ASEP), the independent authority guaranteeing recruitment with objective and fair criteria.

The new government after the elections stopped all new recruitment, and adopted a new bill according to which all recruitments in the "wider" public sector are subordinated to the procedures of ASEP. No recruitment can be made without its approval and without the implementation of the objective examination procedure. The "stage" system has been abolished in the public sector and no project contract can be formed without the explicit authorization by ASEP. Finally, all recruitment exceptions are abolished, and they are all subordinated to the procedures of ASEP.

These fundamental changes of a structural nature already have a significant impact on the public sector wage bill and will significantly affect its medium-term development when combined with the decisions announced by the government, namely:

- A **hiring freeze in 2010**, excluding limited hiring in the health, security and education sectors (in schools only to fill vacancies).
- A **rule limiting hiring** to one new hire for every five retirements as of 2011 (as an indication of the change implied, during 2009 about 14,000 permanent civil servants retired and 29,000 were hired).
- A **reduction in short-term contracts** of up to one-third in most government areas.

##### **7.4.2 Increasing transparency and accountability**

It is impossible to account for the burden imposed on the budget by the thousands of daily decisions taken by the central administration, the local government, the organizations of the public sector and the companies controlled by the State. These are decisions that utilize a complicated legal framework which allows for grants, reinforcements, acquittals, debt settlements, licensing, procurements, public commissions, sponsorships etc.

In order to address this problem the government is instituting a law on transparency (already approved by the Council of Ministers; to be voted in Parliament in January). According to this law it will be obligatory to post on the internet all decisions and actions taken by any public

official, including all the bodies of the local government and the organizations that belong to or are controlled by the state. The obligation of publication through posting on the internet becomes a legal prerequisite for the validity of the action: for every euro spent the decision must already be posted on the internet, otherwise its disbursement is illegal.

Under this law, whose limit is only the law for the protection of personal data and the law for state and corporate confidentiality, all the relevant decisions are under public scrutiny. This new environment of transparency is a structural reform of a permanent character as it is politically impossible to add exemptions to the obligation of transparency. But combating corruption and dissipation of state money is not the only expected gain. In this way rationalization of public expenditure is *de facto* achieved, since the obligation of accountability for all decisions will also lead to the rationalization of priorities.

This effort in transparency is complemented by concrete initiatives in reducing overspending and waste. The first ministerial decision concerned a regulation on state cars, until then totally unregulated, setting limits (1600cc as the maximum standard for the Prime Minister and Ministers and 1400cc for all the remaining public servants) and reducing expenditures. At the same time a significant number of commissions with doubtful productivity and necessity for the public sector were abolished, also producing a permanent cut in operational costs.

#### **7.4.3. A “New Institutional Architecture”**

Of particular importance for ensuring the emergence of a streamlined but effective wider public sector is the new legislation on the local administration. A draft law recently approved by the Council of Ministers and shortly to be presented to the parliament completely reconstructs the decentralized government and administration. At the same time, new auditing institutions are being introduced with the obligatory submission of all public organizations under the preventive control of the Auditing Council, the obligatory constitution of financial services in all the municipalities, and the obligation of online publication.

#### **Box 11: Regulatory reforms for investments: top priorities for 2010**

The decentralization of important competences from the central government to local administration is expected to contribute to the reduction of bureaucracy, the rationalization of expenditure and the reinforcement of accountability, but also lay the foundation for sustainable development in Greece’s regions. Under the new law the levels of local administration authorities are reduced from 5 to 3. More specifically the law:

- Strengthens the role of the first level of local administration, while, at the same time, reduces the number of municipalities from the current number of 1034 to only 370.
- Replaces the second layer of prefectures by elected regional authorities and reduces the number of institutions from 76 to a number corresponding to the existing 13 regions.
- Introduces 7 regional general authorities to replace the current 13 regional authorities.

The law drastically reduces the many thousands of legal entities that were founded by the bodies of local authorities. In particular the law will reduce the number of legal entities from the current number of 6000 to 2000, a reduction which will reduce waste and the total operating costs of the local administration. While there is no estimate of the total savings under the new legislation both the cost reductions and the increased efficiency in the operations of the wider public sector are likely to be very significant.

#### **7.4.4. e-Government**

Electronic governance is vital for the fulfillment of the state's obligation to help all citizens participate in modern information and knowledge societies. The provision of e-Government services requires the utilization of open technological choices that support the evolution and simplification of public administration operations, minimizes administrative burden, as well as organizational changes and the new public sector's human resources skills.

The expected restructuring of public sector operations, the provision of services to citizens at their workplace and their home, the rationalization of public expenses by deploying IT systems in critical sectors (e.g. public supplies in the health sector), the provision of cheaper broadband services to citizens and business, and especially the interoperability between information systems of the public sector (G2G), as well as between businesses and the public sector (B2G), is expected to significantly contribute to the saving of financial resources.

#### **7.4.5. Migration**

The government aims at clarifying and strengthening the legal status of regular immigrants residing in Greece and thereby their contribution to growth and social welfare in the country. In this context it is providing institutional guarantees of residence to immigrants complying with national and EU legal requirements governing migration, while speeding up their integration processes. As an incentive, as well as an institutional safeguard for public security and social cohesion, voting rights in local elections and accessibility to Greek citizenship, especially for second generation migrants, are included in a bill to be presented to Parliament in the first months of 2010.

#### **7.4.6. Policy on Asset Privatization and Restructuring**

The government's overall policy on asset privatization and the restructuring and management of public assets involves the reduction or elimination of government control in most economic activities outside public goods, and the continued stake holding in sectors of strategic importance for the public interest and national security.

Reducing public debt and restructuring are both goals under this agenda. It is expected that privatization of assets will raise € 2.5 billion in 2010 and will continue in subsequent years. The withdrawal of state ownership in sectors outside the public strategic interests and the establishment of supervisory bodies where appropriate will contribute to overall economic efficiency. At the same time, retaining a degree of ownership and control in certain aspects of the banking system, as well as in unique infrastructure elements, can safeguard the protection of the public good without excluding the contribution of private management expertise.

The state owned portfolio (Table 14) contains substantial holdings in the banking sector through direct ownership of stakes in the Agricultural Bank (77%) and Hellenic Postbank (34%). Holdings in telecoms or energy utilities, such as OTE and DEI, or in companies managing pipelines and owning pipeline infrastructure involve minority or large majority stakes, e.g. in DEPA and DESFA, as well as water management companies. Holdings in companies managing ports and airports and owning such infrastructure involve large majority stakes e.g. in OLP, OLTH and AIA. Finally the state continues to have important stakes in casino companies as well as in the state monopoly betting company OPAP.

The plan spans all asset classes and considers four degrees of state ownership. Full privatization is envisaged for assets that are not related to public goods and fall outside the state strategic interests. A blocking minority state ownership (34%) or a minority state ownership (less than 34%) with shareholder agreements is envisaged for assets on which an effective discretionary intervention should be retained. Finally a majority state ownership (at least 51%) is envisaged for a limited number of assets that relate to public goods and security.

The timetable of the privatization plan commences in early 2010 with a number of mature projects and continues in 2011 and 2012 with cases and sectors requiring careful design and improved market conditions. The methodology employed in each case varies from strategic partnership to pure securitization of assets. Asset privatization will be designed to maximize the value of the assets and minimize risks. A number of cases will be treated on an individual basis, but the policy initiative also envisages incorporating a portfolio or sub-portfolio of assets in a holding company, which could subsequently be listed in the stock exchange.

A special asset class concerns the state owned real estate, which has not been included in previous restructuring plans. This class presents significant opportunities of development given the extensive list and wide variety of commercially interesting real estates. The formation of homogeneous portfolios of real estate assets in e.g. commercial urban or tourist areas in conjunction with private funds will give rise to new developments and opportunities for subsequent listing in the stock exchange. Holdings in real estate constitute a tremendous portfolio which will be rebalanced and professionally managed through cooperating with private funds for development and listing in the stock exchange.

**Table 12. Indicative values of the Hellenic Republic's equity stakes and assets. January 2010**

<b>COMPANIES</b>	<b>% of the public sector's participation</b>	<b>Value (in € million)</b>
Casino of Parnitha <sup>(2)</sup>	51.0%	200
DEPA <sup>(3)(4)</sup>	65.0%	325
DESFA <sup>(3)(4)</sup>	65.0%	650
AIRPLANES A340-300	100.0%	100
National Bank	0.5%	54
Alpha Bank	0.6%	27
Bank of Pireus	2.5%	67
Bank of Attika	39.0%	163
Agricultural Bank of Greece	77.0%	1,365
ΟΑΠ (Port of Piraeus Authority)	74.0%	278
ΟΑΘ (Port of Thessaloniki Authority)	74.0%	111
ΕΥΔΑΠ <sup>(5)</sup> (Athens Water Company)	61.0%	440
ΕΥΑΘ <sup>(5)</sup> (Thessaloniki Water Company)	74.0%	152
ΟΠΑΠ (Public Betting Company - OPAP)	34.0%	1,627
ΔΕΗ (Public Power Corporation)	51.0%	1,585
ΕΛΠΕ	35.50%	888
ΤΤ Hellenic PostBank	34.0%	429
ΔΑΑ <sup>(3)</sup>	55.0%	550
Other Assets in cities not in current use	100.0%	100
ΕΛΤΑ <sup>(3)</sup>	90.0%	90
<b>Total</b>		<b>9,200</b>

**Other Assets With 100% State Holding**

Regional airports

HELEXPO

ETA (Hellenic Tourist Properties)

Real estate for the Olympic games

ΚΕΔ (National Real Estate Company)

ΟΣΕ (National Railways)

ΟΔΙΕ

(1) The value reflects an agreed transaction

(2) On the basis of adviser's valuation

(3) On the basis of investment banks valuation

(4) Value of DEPA & DESFA €1,5 billion and ratio 1/3 ΔΕΠΑ και 2/3 DESFA

(5) Stockmarket valuation plus 20% premium

## **7.5 Cross-cutting issues**

### ***7.5.1 Education: the emphasis on the New School***

The key reform policy of the Ministry of Education concerns the reform of the “New School” and is implemented through actions and policies that give priority to the critical first stages of education, the integration model of education, the integration of new teaching practices and technologies, the Educational Priority Areas, the new modernized curricula and to building new and modernizing existing school infrastructure.

The operation of the new school also supports the government’s wider education objectives, which is based on the continuous evaluation of the educational task and of the educators, the effective integration of all students, the saving of time and money for parents and students and the weakening of the causes which have led to the growth of para-education, and the improvement of student performance.

The aim is to improve the overall national PISA indices and indicators for the integration of Information Technology in Education, and the promotion of the Society of Information and Innovation, which are areas where the country lags significantly behind.

At the same time important reforms are currently under implementation concerning the organization and the Evaluation/Assesment of the Educational Task and the Educators along with the Thematic and Spatial Restructuring of the Universities. The objective is for the assessments to total 120 by the end of 2010, taking into account that only eight were made in 2008 and zero in 2009. On the other hand no new University School or Department will start its operation without first ensuring that the financial and academic requirements have been met.

The New Institutional Framework for Lifelong Learning has been announced recently, where the target is to complete the construction and operation of the National Qualifications Framework (NQF) by 2012 in accordance with the corresponding European (EQF) and the relevant structural changes concerning mergers and restructuring of institutions like EKEPIS and OEEK.

### ***7.5.2 Support for research, technology and innovation***

The inclusion of the General Secretariat for Research and Technology in the Ministry of Education strengthens the efficient and effective coordination and functional integration of national policies and budgets for education, research, technology and innovation. For the first time, all research activities of universities and research centres in the country fall under a single policy and planning framework, while, at the same time, the National Council for Research and Technology is under institutional reconstruction and one National Plan for Research is under preparation.

The objectives include effective management of research resources, the gradual increase of private sector involvement in research funding, the evaluation of the produced research projects and organizations, the public sector intervention in the demand for knowledge, the development of research in fields associated with the production and the implementation of policies pursued by the government, the support of research and innovation on specific technologies related to the critical option of sustainable (green) growth. At the same time the national objective to improve the competitiveness of Greek production of goods and services is effectively supported.

### **7.5.3 Environment**

Environmental issues are at the very centre of the promotion of green development. In setting environmental policy emphasis is placed on environmental protection and the promotion of reforms to strengthen the developmental potential of the economy and society.

Areas of concentration include:

- Renewable Energy Resources (RES), where the target set is for RES to cover 20% of the total consumption of energy by 2020. Furthermore a national target is set with regard to a 40% coverage by RES of Greece's total electricity consumption. A draft law aiming at the acceleration of the development of RES, the improvement in the business climate and the promotion of existing investment projects is currently under public consultation, which will be completed within January 2010.
- Waste management, where the three goals include: i) the reduction in the volume of waste; ii.) recycling; and iii.) use. The aim here is to use effectively the available earmarked resources from the EU, to avoid penalties and to create new employment and income.
- Forests and areas under protection, to further safeguard the country's environmental wealth and create new developmental opportunities in depressed areas. These aims are promoted by the law on the protection of forests and the institutions for the effective management of areas under protection.

Finally operational programmes are re-assessed to ensure the effective management of resources and the maximisation of the positive externalities for the economy and society.

The newly created Ministry of Environment, Energy and Climate Change has recently presented a bill which drastically reduced the time and cost involved in obtaining licenses for investments for renewable energy. Under the draft law, current procedures taking an average of 2 years will be completed in 8-10 months. The draft legislation has been approved by the council of Ministers and is soon to be submitted to parliament (01/2010)

**Annex A**  
**Revised Tables to be Annexed to the SGP Code of Conduct**

**Table 1a. Macroeconomic prospects**

	ESA Code	Year 2008 Level Bn euros	Year 2008 rate of change	Year 2009 rate of change	Year 2010 rate of change	Year 2011 rate of change	Year 2012 rate of change	Year 2013 rate of change
<b>1. Real GDP</b>	B1*g	185.4	2.0	-1.2	-0.3	1.5	1.9	2.5
<b>2. Nominal GDP</b>	B1*g	239.1	5.6	0.4	1.7	3.5	3.8	4.4
<b>Components of real GDP</b>								
<b>3. Private consumption expenditure</b>	P.3	135.0	2.3	-1.5	-1.0	0.3	0.8	1.0
<b>4. Government consumption expenditure</b>	P.3	29.6	0.6	11.0	-4.4	-5.9	-5.9	0.7
<b>5. Gross fixed capital formation</b>	P.51	38.9	-7.4	-18.8	-1.6	4.5	5.5	8.4
<b>6. Changes in inventories and net acquisition of valuables (% of GDP)</b>	P.52 + P.53	3.3	1.8	-1.1	-0.9	0.3	1.0	0.4
<b>7. Exports of goods and services</b>	P.6	44.5	4.0	-16.0	2.5	4.0	6.5	7.2
<b>8. Imports of goods and services</b>	P.7	66.0	0.2	-24.7	-3.0	2.0	2.8	3.4
<b>Contributions to real GDP growth</b>								
<b>9. Final domestic demand</b>		-	0.06	-3.28	-1.80	-0.04	0.60	2.34
<b>10. Changes in inventories and net acquisition of valuables</b>	P.52 + P.53	-	1.11	-2.88	0.17	1.23	0.65	-0.54
<b>11. External balance of goods and services</b>	B.11	-	0.85	4.95	1.32	0.31	0.65	0.71

**Table 1b. Price developments**

	ESA Code	Year 2008 Level Bn euros	Year 2008 rate of change	Year 2009 rate of change	Year 2010 rate of change	Year 2011 rate of change	Year 2012 rate of change	Year 2013 rate of change
<b>1. GDP deflator</b>			3.5	1.6	2.0	2.0	1.9	1.9
<b>2. Private consumption deflator</b>			4.1	1.2	1.4	1.9	1.8	1.8
<b>3. HICP<sup>1</sup></b>			4.2	1.2	1.4	1.9	1.8	1.8
<b>4. Public consumption deflator</b>			4.3	2.3	2.0	2.0	2.0	1.8
<b>5. Investment deflator</b>			3.4	0.6	1.1	1.7	1.6	1.7
<b>6. Export price deflator (goods and services)</b>			3.8	-5.4	1.3	1.8	1.8	1.8
<b>7. Import price deflator (goods and services)</b>			4.3	-2.8	1.1	1.6	1.3	1.2

<sup>1</sup> Optional for stability programmes.



**Table 1c. Labour market developments**

	ESA Code	Year 2008 Level	Year 2008 rate of change	Year 2009 rate of change	Year 2010 rate of change	Year 2011 rate of change	Year 2012 rate of change	Year 2013 rate of change
1. Employment, persons <sup>1</sup> (000)		4706.9	0.1	-1.1	-0.5	-0.2	0.4	0.6
2. Employment, hours worked <sup>2</sup>								
3. Unemployment rate (%) <sup>3</sup> (000)		377.8	7.4	9.0	9.9	10.5	10.5	10.3
4. Labour productivity, persons <sup>4</sup>			1.9	-0.1	-0.1	1.7	1.5	1.8
5. Labour productivity, hours worked <sup>5</sup>								
<b>6. Compensation of employees bn euro</b>	D.1	82.7	5.9	4.4	0.8	1.7	2.4	3.4
<b>7. Compensation per employee</b>		27.1	5.9	5.7	1.6	2.4	2.2	2.7

<sup>1</sup>Occupied population, domestic concept national accounts definition.

<sup>2</sup>National accounts definition.

<sup>3</sup>Harmonised definition, Eurostat; levels.

<sup>4</sup>Real GDP per person employed.

<sup>5</sup>Real GDP per hour worked.

**Table 1d. Sectoral balances**

% of GDP	ESA Code	Year 2008	Year 2009	Year 2010	Year 2011	Year 2012	Year 2013
<b>1. Net lending/borrowing vis-à-vis the rest of the world</b>	B.9	-12.4	-8.8	-6.6	-5.9	-4.9	-4.0
<i>of which:</i>							
- Balance on goods and services		-10.2	-6.0	-4.7	-4.4	-3.6	-2.7
- Balance of primary incomes and transfers		-3.6	-3.8	-3.4	-3.3	-3.3	-3.3
- Capital account		1.4	1.0	1.5	1.8	2.0	2.0
2. Net lending/borrowing of the private sector	B.9	-4.7	3.9	2.1	-0.3	-2.1	-2.0
3. Net lending/borrowing of general government	EDP B.9	-7.7	-12.7	-8.7	-5.6	-2.8	-2.0
<b>4. Statistical discrepancy</b>		optional	optional	optional	optional		

Table 2. General government budgetary prospects

	ESA Code	Year 2008 Level Bn euros	Year 2008 % of GDP	Year 2009 % of GDP	Year 2010 % of GDP	Year 2011 % of GDP	Year 2012 % of GDP	Year 2013 % of GDP
<b>Net lending (EDP B.9) by sub-sector</b>								
<b>1. General government</b>	S.13	-18.5	-7.7	-12.7	-8.7	-5.6	-2.8	-2.0
<b>2. Central government</b>	S.1311		-6.1	-12.2	-9.0	-6.3	-3.8	-3.0
<b>3. State government</b>	S.1312							
<b>4. Local government</b>	S.1313	-0.2	-0.1	-0.1	-0.0	0.0	0.0	0.0
<b>5. Social security funds</b>	S.1314	-3.9	-1.5	-0.4	0.3	0.7	1.0	1.0
<b>General government (S13)</b>								
<b>6. Total revenue</b>	TR	97.0	40.6	39.3	41.9	43.5	45.0	45.3
<b>7. Total expenditure</b>	TE1	115.5	48.3	52.0	50.6	49.1	47.8	47.3
<b>8. Net lending/borrowing</b>	EDP B.9	-18.5	-7.7	-12.7	-8.7	-5.6	-2.8	-2.0
<b>9. Interest expenditure</b>	EDP D.41	10.9	4.6	5.0	5.2	5.4	5.4	5.2
<b>10. Primary balance<sup>2</sup></b>		-7.6	-3.2	-7.7	-3.5	-0.2	2.6	3.2
<b>11. One-off and other temporary measures<sup>3</sup></b>			0.1	-1.1	0.1			
<b>Selected components of revenue</b>								
<b>12. Total taxes (12=12a+12b+12c)</b>		48.0	20.1	19.4	21.0	21.5	22.3	22.3
<b>12a. Taxes on production and imports</b>	D.2	28.9	12.1	11.3	12.0	12.3	12.7	12.7
<b>12b. Current taxes on income, wealth, etc</b>	D.5	18.5	7.7	7.9	8.6	8.8	9.2	9.2
<b>12c. Capital taxes</b>	D.91	0.6	0.3	0.2	0.4	0.4	0.4	0.4
<b>13. Social contributions</b>	D.61	35.2	14.7	14.2	14.7	15.3	15.8	15.8
<b>14. Property income</b>	D.4	2.2	0.9	0.9	1.0	1.0	1.0	1.0
<b>15. Other<sup>4</sup></b>		11.6	4.9	4.8	5.2	5.7	5.9	6.2
<b>16=6. Total revenue</b>	TR	97.0	40.6	39.3	41.9	43.5	45.0	45.3
p.m.: Tax burden (D.2+D.5+D.61+D.91-D.995) <sup>5</sup>			32.6	31.4	33.6	34.7	36.0	36.0
<b>Selected components of expenditure</b>								
<b>17. Compensation of employees + intermediate consumption</b>	D.1+P.2	<b>39.3</b>	<b>16.5</b>	<b>18.7</b>	<b>17.8</b>	<b>16.3</b>	<b>15.1</b>	<b>14.7</b>
17a. Compensation of employees	D.1	27.4	11.5	12.7	12.5	12.0	11.7	11.3
17b. Intermediate consumption	P.2	11.9	5.0	6.0	5.3	4.3	3.4	3.4
<b>18. Social payments (18=18a+18b)</b>		<b>45.6</b>	<b>19.1</b>	<b>21.0</b>	<b>21.1</b>	<b>20.9</b>	<b>20.7</b>	<b>20.3</b>
18a. Social transfers in kind supplied via market producers	D.6311, D.63121, D.63131							
18b. Social transfers other than in kind	D.62	45.6	19.1	21.0	21.1	20.9	20.7	20.3
<b>19=9. Interest expenditure</b>	EDP D.41	10.9	4.6	5.0	5.2	5.4	5.4	5.2
<b>20. Subsidies</b>	D.3	0.3	0.1	0.1	0.1	0.1	0.1	0.1
<b>21. Gross fixed capital formation</b>	P.51	6.8	2.9	2.8	3.0	3.1	3.2	3.6
<b>22. Other<sup>6</sup></b>		7.7	3.2	2.0	1.5	1.5	1.8	2.0
<b>23=7. Total expenditure</b>	TE1	115.6	48.3	52.0	50.6	49.1	47.8	47.3
p.m.: Government consumption (nominal)	P.3	40.4	16.9	19.1	18.3	17.0	15.7	15.4

<sup>1</sup>Adjusted for the net flow of swap-related flows, so that TR-TE=EDP B.9.

<sup>2</sup>The primary balance is calculated as (EDP B.9, item 8) plus (EDP D.41, item 9).

<sup>3</sup>A plus sign means deficit-reducing one-off measures.

<sup>4</sup>P.11+P.12+P.131+D.39+D.7+D.9 (other than D.91).

<sup>5</sup>Including those collected by the EU and including an adjustment for uncollected taxes and social contributions (D.995), if appropriate.

<sup>6</sup>D.29+D4 (other than D.41)+ D.5+D.7+D.9+P.52+P.53+K.2+D.8.

**Table 3. General government expenditure by function**

% of GDP	COFOG Code	Year 2008	Year 2009
1. General public services	1	8.6	
2. Defence	2	2.0	
3. Public order and safety	3	1.2	
4. Economic affairs	4	6.7	
5. Environmental protection	5	0.6	
6. Housing and community amenities	6	0.3	
7. Health	7	5.1	
8. Recreation, culture and religion	8	0.4	
9. Education	9	3.1	
10. Social protection	10	20.2	
11. Total expenditure (=item 7=23 in Table 2)	TE1	<b>48.3</b>	

<sup>1</sup>Adjusted for the net flow of swap-related flows, so that TR-TE=EDP B.9.

**Table 4. General government debt developments**

% of GDP	ESA Code	Year 2008	Year 2009	Year 2010	Year 2011	Year 2012	Year 2013
1. Gross debt <sup>1</sup>		99.2	113.4	120.4	120.6	117.7	113.4
<b>2. Change in gross debt ratio</b>		3.8	14.2	7.0	0.2	-2.9	-4.3
<b>Contributions to changes in gross debt</b>							
3. Primary balance <sup>2</sup>		-3.2	-7.7	-3.5	-0.2	2.6	3.2
4. Interest expenditure <sup>3</sup>	EDP D.41	4.6	5.0	5.2	5.4	5.4	5.2
<b>5. Stock-flow adjustment</b>		1.0	1.9	0.2	0.2	0.2	0.2
<i>of which:</i>							
- Differences between cash and accruals <sup>4</sup>							
- Net accumulation of financial assets <sup>5</sup>							
<i>of which:</i>							
- privatisation proceeds							
- Valuation effects and other <sup>6</sup>							
p.m.: Implicit interest rate on debt <sup>7</sup>		5.1	5.1	4.7	4.7	4.6	4.6
<b>Other relevant variables</b>							
6. Liquid financial assets <sup>8</sup>							
7. Net financial debt (7=1-6)							

<sup>1</sup>As defined in Regulation 3605/93 (not an ESA concept).

<sup>2</sup>Cf. item 10 in Table 2.

<sup>3</sup>Cf. item 9 in Table 2.

<sup>4</sup>The differences concerning interest expenditure, other expenditure and revenue could be distinguished when relevant.

<sup>5</sup>Liquid assets, assets on third countries, government controlled enterprises and the difference between quoted and non-quoted assets could be distinguished when relevant.

<sup>6</sup>Changes due to exchange rate movements, and operation in secondary market could be distinguished when relevant.

<sup>7</sup>Proxied by interest expenditure divided by the debt level of the previous year.

<sup>8</sup>AF1, AF2, AF3 (consolidated at market value), AF5 (if quoted in stock exchange; including mutual fund shares).

Table 5. Cyclical developments

% of GDP	ESA Code	Year 2008	Year 2009	Year 2010	Year 2011	Year 2012	Year 2013
<b>1. Real GDP growth (%)</b>		2.0	-1.2	-0.3	1.5	1.9	2.5
<b>2. Net lending of general government</b>	EDP B.9	-7.7	-12.7	-8.7	-5.3	-2.8	-2.0
<b>3. Interest expenditure</b>	EDP D.41	4.6	5.0	5.2	5.4	5.4	5.2
<b>4. One-off and other temporary measures<sup>1</sup></b>		0.1	-1.1	0.1			
5. Potential GDP growth (%)		2.6	1.8	1.6	1.5	1.0	1.1
contributions:							
- labour		0.8	0.6	0.6	0.5	0.1	0.2
- capital		0.8	0.4	0.3	0.3	0.3	0.3
- total factor productivity		1.0	0.8	0.7	0.6	0.6	0.6
6. Output gap		2.8	-0.2	-2.1	-2.1	-1.2	0.2
7. Cyclical budgetary component		-1.2	0.1	1.0	0.6	0.6	-0.1
8. Cyclically-adjusted balance (2 - 7)		-8.9	-12.6	-7.7	-4.7	-2.2	-2.1
9. Cyclically-adjusted primary balance (8 + 3)		-4.3	-7.6	-2.5	0.7	3.2	3.1
10. Structural balance (8 - 4)		-9.0	-11.6	-7.8	-4.7	-2.2	-2.1

<sup>1</sup>A plus sign means deficit-reducing one-off measures.

Table 6. Divergence from previous update

	ESA Code	Year 2008	Year 2009	Year 2010	Year 2011	Year 2012	Year 2013
<b>Real GDP growth (%)</b>							
Previous update		3.0	1.1	1.6	2.3	-	-
Current update		2.0	-1.2	-0.3	1.5	1.9	2.5
Difference		-1.0	-2.3	-1.9	-0.8		
<b>General government net lending (% of GDP)</b>	EDP B.9						
Previous update		-3.7	-3.7	-3.2	-2.6	-	-
Current update		-7.7	-12.7	-8.7	-5.6	-2.8	-2.0
Difference		-4.0	-9.0	-5.5	-3.0		
<b>General government gross debt (% of GDP)</b>							
Previous update		94.6	96.3	96.1	94.7	-	-
Current update		99.2	113.4	120.4	120.6	117.7	113.4
Difference		4.6	17.1	24.3	25.9		

**Table 7. Long-term sustainability of public finances**

% of GDP	2000	2007	2020	2030	2040	2050	2060
Total expenditure							
Of which: age-related expenditures							
Pension expenditure	10.82	11.7	13.2	17.1	21.4	24.0	24.1
Social security pension	10.82	11.7	13.2	17.1	21.4	24.0	24.1
Old-age and early pensions		8.8	9.9	13.1	16.3	17.9	17.7
Other pensions (disability, survivors)		2.9	3.3	4.0	5.1	6.1	6.4
Occupational pensions (if in general government)							
Health care							
Long-term care ( <i>this was earlier included in the health care</i> )							
Education expenditure							
Other age-related expenditures							
Interest expenditure							
Total revenue							
Of which: property income							
<i>Of which: from pensions contributions (or social contributions if appropriate)</i>							
Pension reserve fund assets							
<i>Of which: consolidated public pension fund assets (assets other than government liabilities)</i>							
<b>Assumptions</b>							
Labour productivity growth		2.5	2.9	1.8	1.7	1.7	1.7
Real GDP growth		3.8	2.9	1.3	1.0	1.2	1.4
Participation rate males (aged 20-64)		78.8	78.5	76.2	75.9	76.7	76.4
Participation rates females (aged 20-64)		55.2	60.1	60.0	60.6	61.2	61.0
Total participation rates (aged 20-64)		67.1	69.4	68.3	68.4	69.1	68.8
Unemployment rate		8.5	6.2	6.2	6.2	6.2	6.2
Population aged 65+ over total population		0.19	0.21	0.24	0.28	0.32	0.32

**Table 8. Basic assumptions**

This table should preferably be included in the programme itself; if not, these assumptions should be transmitted to the Council and the Commission together with the programme.

	Year 2009	Year 2010	Year 2011	Year 2012	Year 2013
<b>Short-term interest rate<sup>1</sup> (annual average)</b>	1.3	1.5	2.5	2.5	2.5
<b>Long-term interest rate (annual average)</b>	3.2	3.5	3.8	3.8	3.8
<b>USD/€exchange rate (annual average) (euro area and ERM II countries)</b>	1.39	1.48	1.48	1.48	1.48
<b>Nominal effective exchange rate (for countries not in euro area or ERM II) exchange rate vis-à-vis the €(annual average)</b>	2.7	1.6	0.0	0.0	0.0
<b>World excluding EU, GDP growth</b>	-0.4	3.8	4.1	4.1	4.1
<b>EU GDP growth</b>	-4.1	0.7	1.6	1.6	1.6
<b>Growth of relevant foreign markets</b>	-11.8	3.9	4.5	4.5	4.5
<b>World import volumes, excluding EU</b>	-12.6	4.6	5.0	5.0	5.0
<b>Oil prices (Brent, USD/barrel)</b>	61.3	76.5	80.5	80.5	80.5

<sup>1</sup>If necessary, purely technical assumptions.

## ANNEX B

Annex B describes the policy measures included in the Addendum to the 2008 SGP and the additional measures announced by the Greek government following the recommendations by the European Commission

**Table 1. Description of Measures included in the Addendum to the 2008 SGP**

<i>(in million €)</i>	Initial Estimation	Impact
REVENUES <i>(permanent effect)</i>		
A 20% increase in the excise tax on alcohol and alcoholic beverages	52	52
A 20% increase in the excise tax on beer	12	12
Increase in the rate of the minimum excise tax on cigarettes to 80% (from 75%)	90	90
REVENUES <i>(one-off effect)</i>		
One-off tax contribution for incomes earned in 2008 in excess of € 60,000	320	300
Extension of the deadline for the settlement of unsettled tax accounts and tax arrears	400	350
EXPENDITURES		
Reduction in current expenditures in the public sector	500	472
Wage and pension freeze in the public sector, accompanied with one-off benefits on lower wages and pensions	261	243
Reduction in the Overseas Development Aid	120	0

**Table 2. Description of Measures announced after the EC Recommendations**

<i>(in million €)</i>	Initial Estimation	Impact
REVENUES <i>(permanent effect)</i>		
Annual excise duties on yachts over 10m and sailing boats over 15m	20	10
A special annual tax imposed on private vehicles of large engine capacity	80	80
A 14.2% increase in the excise tax on petrol (from 359 to 410 euros per kl)	200	200
Readjustment of the calculation of duties paid by mobile phone line subscribers (12%-20%), and 12% duty imposed on pay-as-you-go mobile phones	140	25
A 20% and 10% tax imposed on lottery gains, betting etc	180	0
“Green” duty on vehicles	493	480
REVENUES <i>(one-off effect)</i>		
A one-off levy imposed on the owners of yachts	40	10
Imposition of a capital levy on buildings with land-use violations	1150	0

## ANNEX C

Annex C contains a detailed breakdown of the measures for 2010.

**Table 1. 2010 Budget. Analysis by measures (one-off and permanent)**

**[An adjustment of 9377 million euro required in 2010 to reduce general government budget deficit to 8.7% of GDP]**

Description	Item		Cumulative fiscal adjustment	Observations	Intervention	Timetable
	Million €	% GDP	Million €			
<b>A. One-off expenditures in 2009</b>	<b>3228</b>	<b>1.3%</b>				
A1. Salaries and pensions	203	0.1%	203	None	Not needed	None
A2. Subsidy to social security funds	975 (500 of which to replace social contributions)	0.4%	678 (+475)	Additional to the 1% of GDP given to IKA due to collapse in social contribution collection.  A part of 500 million euro of this one-off expenditure is expected to be replaced by social contribution receipts.	-Return to normal social contribution collection levels -Legalisation of immigrants -Changes in the medical procurement system -e-checks on prescriptions from 1/5/2010	Early 2010
A3. Social protection	866	0.4%	1544	500: Solidarity allowance 350: abolition of Social Cohesion Fund 16: other	Solidarity allowance repeated in 2010 and accounted for in G. No interventions	None
A4. Grants to public sector entities	394	0.2%	1938		Not needed	None
A5. Consumption Expenditures	541	0.2%	2479	Arbitration decision for Olympic airlines etc.	Not needed	None

Description	Item		Cumulative fiscal adjustment	Observations	Intervention	Timetable
	Million €	% GDP	Million €			
A6. Election expenditure	194	0.1%	2673	An amount of 50 million for the 2010 elections expenditure has been subtracted	Not needed	None
A7. Other	55	0.0%	2728			None
<b>B. One-off revenues in 2009</b>	<b>705</b>	<b>0.3%</b>				
B1. Taxes to incomes 60000+ euro	-300	-0.1%	2428	Already collected	Not needed	None
B2. Tax settlements	-350	-0.1%	2078	None	Not needed	None
B3. Revenue from bank liquidity scheme	-55	0.0%	2023	None	Not needed	None
<b>C. One-off revenues in 2010</b>	<b>1330</b>	<b>0.5%</b>				
C1. Revenue from bank liquidity scheme	280	0.1%	2303	In place. At some point the exit phase will begin	Not needed for the moment	None for the moment
C2. Special levy on profitable firms	870	0.4%	3173		Legislation	Passed
C3. Special levy on high value real estates	180	0.1%	3353		Legislation	Passed
<b>D. Permanent expenditure cuts in 2010</b>	<b>1825</b>	<b>0.7%</b>				
D1. 10% cut in general government expenditure on salary allowances	650	0.3%	4003	Includes all allowances, excluding family allowances and child benefit, for central government, subsidized legal entities and local authorities.	Incomes policy for 2010	February 2010 (Retroactive from 1/1/2010)



Description	Item		Cumulative fiscal adjustment	Observations	Intervention	Timetable
	Million €	% GDP	Million €			
D2. Recruitment freeze in 2010	80	0.0%	4083	With the exception of 1000 security officers, 3000 medical and 3000 teachers	Legislation as part of the 2010 incomes policy Law	January-February 2010
D3. Reduction in short term contracts	120	0.1%	4203	A very large number of short term contracts exist.  7-8,000 less short term teachers	Automatic non-renewal	None
				None contracted since October 2009. Abolition of service contracts	Legislation for recruitments only via ASEP	Early in 2010. Already through the Cabinet.
D4. Reduction in operating costs	360	0.1%	4563	Various	Monitoring mechanism	January 2010
D5. Reduction in pension fund subsidy	540	0.2%	5103	Administrative changes and reorganization	Return to pre-crisis contribution collection levels	Early 2010
D6. Reduction in overtime etc	75	0.0%	5178	Various	Monitoring mechanism	January
<b>E. General Government cuts</b>	<b>1857</b>	<b>0.8%</b>				
E1. Military equipment expenditures	457	0.2%	5635	Reduced deliveries	Not needed	None

Description	Item		Cumulative fiscal adjustment	Observations	Intervention	Timetable
	Million €	% GDP	Million €			
E2. Hospital expenditures				The subsidy for hospital operating costs is reduced to 800 million in 2010 from 2200 million in 2009. This improvement is split into: 1) an one-off expenditure (from replacing stocks and additional stockpiling when the payment of hospital debts was announced in 2009), and 2) efficiency gains of 700 million in a total budget of 5300 million of hospital operating costs).	Interventions of the Ministry of Health	Early 2010
-E21. One-off E2. Hospital	700	0.3%	6335			
-E22. Permanent	700	0.3%	7035			
<b>F. Permanent expenditure increases in 2010</b>	<b>1900</b>	<b>0.7%</b>		The public investment figure includes also an additional 500 million earmarked for Education. The percentage of education expenditures in GDP is the lowest in the Eurozone.	Ministry of Education Budget	January 2010
F1. Education	-500	-0.2%	6535			
F2. Public investment	-800	-0.3%	5735	Increased public investment funds are needed to match the EU Structural Funds commitments.	Ministry of Economy and Competitiveness Budget	January 2010
F3. Interest payments	-600	-0.2%	5135	Treated as “permanent” in the medium term.		

Description	Item		Cumulative fiscal adjustment	Observations	Intervention	Timetable
	Million €	% GDP	Million €			
<b>G. One-off expenditure increases in 2010</b>	<b>500</b>	<b>0.2%</b>				
G1. Solidarity allowance	-500	-0.2%	4635	Safety net payments due to the crisis.	Legislation	Early 2010
<b>H. Permanent revenue increases in 2010</b>	<b>5210</b>	<b>2.1%</b>				
H1. Unique taxation scale and elimination of special taxation rules	1100	0.4%	5735		Legislation	March 2010. Retroactive from 1/1/2010
H2. Property taxes	400	0.2%	6135		Legislation	March 2010. Retroactive from 1/1/2010 (partly passed)
H3. Increase in excise tax on cigarettes	650	0.4%	6785	Tax equivalent to increasing the price of cigarettes from 3 to 4 euro per 20 cigarette box.	Legislation	Passed
H4. Increase in excise tax on alcohol	60	0.0%	6845	20%	Legislation	Passed
H5. Tax increases in mobile telephones and petrol (carry over from 2009)	400	0.2%	7245	Carry over from previous government measures. The higher mobile telephone tax was introduced in September and the additional petrol tax in July 2009.	Existing legislation	Done

Description	Item		Cumulative fiscal adjustment	Observations	Intervention	Timetable
	Million €	% GDP	Million €			
H6. Reducing tax evasion	1200	0.5%	8445	Reduction in tax evasion is underestimated. Given figure is derived only from applying the 2007-08 percentage of VAT/GDP ratio to the 2010 GDP	See interventions in chapter 5 of the SGP	Early 2010
H7. Reducing social contribution evasion	1200	0.5%	Approxim. offset with D5 and part of A2	Returning to pre-2009 social contribution payment level		
H8. EU receipts for the public investment programme	1400	0.6%	<b>9845</b>	Due to acceleration of the public investment programme. Only 3.5% absorption rate of EU funds so far.		

**Break down of fiscal correction: One-off/Permanent**

One-off: A-B+C+E21-G=**4053 million (1.7% of GDP)**

Permanent: D+E1+E22+H-F=**6292 million (2.6% of GDP)**

(Assuming that the additional permanent expenditures for education and public investment are funded through the additional permanent taxes)

## ANNEX D

### Reform Programme Timetable

Annex D contains the reform programme's timetable. Each of the four matrices that appear below is subdivided into 5 columns. In particular:

- Column 1 contains a brief summary of the envisaged intervention.
- Column 2 mentions relevant technical assistance projects (if any).
- Column 3 provides a description of the legislation or action required for implementation.
- Column 4 indicates the timetable; and finally
- Column 5 summarizes the current status of implementation.

Annex D will be updated in the next update of the SGP in order to provide both an account of the implementation record to date and the envisaged interventions. With regard to the technical assistance entries in the above table: The co-operation with the OECD is ongoing. The IMF entries in the table reflect areas of potential technical co-operation following preliminary consultations.

#### **1. Strengthening the transparency, accountability and monitoring of budget execution and the budget process**

INTERVENTION	TECHNICAL ASSISTANCE	LEGISLATION/DECISION	TIMETABLE	STATUS OF IMPLEMENTATION
Legislation to render the Statistical Service independent		Draft legislation	Q1 2010	Draft law sent to EU and ECB for comment; to be submitted to Parliament in January 2010
Creation of a Budget Office under the Parliament	IMF, OECD	Legislation	Q3 2010	
Introduction of effective checks and balances in the compilation and reporting of fiscal statistics	Independent review group	Ministerial decision	Q1 2010	Pending parliamentary review of report by independent group
Introduction of reporting requirements from each line Ministry on a monthly basis	IMF, Auditing companies	Ministerial decision	Q1 2010	In progress; circular sent to all ministries
Publish online the monthly execution of the budget	General Secretariat on Information Systems	Ministerial decisions to set specific monthly reporting requirements	Q1 2010	In progress

<b>INTERVENTION</b>	<b>TECHNICAL ASSISTANCE</b>	<b>LEGISLATION/DECISION</b>	<b>TIMETABLE</b>	<b>STATUS OF IMPLEMENTATION</b>
Create standing Bilateral inter-ministerial working groups composed of officials between the Ministry of Finance and all other Ministries		Ministerial decision	Q1 2010	Decision signed
Improved wage bill accountability through the Single Payment Authority	General Secretariat on Information Systems	Ministerial decision / circular to all line ministries to collect information	Q1 2010 (1 <sup>st</sup> phase) Q2 2010 (2 <sup>nd</sup> phase)	In progress
Establish an MIS to monitor the expenditures of each Ministry		Gradual implementation	Q2 2010	In progress
Extend the MIS coverage to all public sector agencies		Gradual implementation	Q4 2010	Not started
Use external auditors in public sector entities to assist understaffed General Accounting Office	Auditing companies ("big 5")	Contract preparation	Q1 2010	In progress / negotiation
Introduce 3-year budget plans for each Ministry incorporating cost cutting, in line with PM's instruction	IMF, auditing companies	MoF to produce templates and instructions	Q1 2010	In progress
Proposals on merging and/or abolishing public sector organizations and entities	IMF, Auditing companies	Letter to all ministries sent; proposals to be submitted by ministries	Q1 2010	In progress
Significant reduction in the public sector paid special committees		Circular sent	Q1 2010	In progress
Introduce a "zero basis" methodology to re-evaluate all applications for funding	IMF, OECD, auditing companies	Ministerial decision	Q2 2010	

<b>INTERVENTION</b>	<b>TECHNICAL ASSISTANCE</b>	<b>LEGISLATION/DECISION</b>	<b>TIMETABLE</b>	<b>STATUS OF IMPLEMENTATION</b>
Introduce aspects of programme budgeting in the 2011 budget process	OECD	Legislation in 2010; application in 2010	2011 onwards	Ongoing work
Adoption of fiscal rules for effective medium term execution of the budget	IMF, external experts	Legislation mid-2010	2011 onwards	Joint MoF-Parliament working group to be set up
Creation of a contingency reserve by setting an upper 90% limit on all budgetary appropriations		MoF decision	Q1 2010	In progress

## **2. Tax policy**

<b>INTERVENTION</b>	<b>TECHNICAL ASSISTANCE</b>	<b>LEGISLATION/DECISION</b>	<b>TIMETABLE</b>	<b>STATUS OF IMPLEMENTATION</b>
Introduce unified progressive tax scale for income from all sources		Legislation	Q1 2010	Public consultation in progress
Introduce incentives for issuing transaction receipts		Legislation	Q1 2010	Public consultation in progress
Abolish autonomous taxation and most tax exemptions in personal income and corporate profits		Legislation	Q1 2010	Public consultation in progress
Treat distributed profits as personal income taxed at the unified progressive tax scale, and provide incentives to induce enterprises to re-invest		Legislation	Q1 2010	Public consultation in progress

<b>INTERVENTION</b>	<b>TECHNICAL ASSISTANCE</b>	<b>LEGISLATION/DECISION</b>	<b>TIMETABLE</b>	<b>STATUS OF IMPLEMENTATION</b>
Reintroduce a progressive tax on large property, inheritances and bequests		Legislation	Q1 2010	Public consultation in progress
Introduce transfer pricing and "thin capitalization" rules and measures that will increase the tax accountability of off-shore companies and their owners.		Legislation	Q1 2010	Public consultation in progress
Implement an effective capital gains tax on short term share transactions		Legislation	Q1 2010	Public consultation in progress
Codify and simplify tax legislation		Legislation	Q1 2010	Public consultation in progress
Move to obligatory wholly electronic tax declarations together with e-tax reforms, such as electronic invoicing.		Legislation		Public consultation in progress



### **3. Tax administration**

<b>INTERVENTION</b>	<b>TECHNICAL ASSISTANCE</b>	<b>LEGISLATION/DECISION</b>	<b>TIMETABLE</b>	<b>STATUS OF IMPLEMENTATION</b>
Review and improve existing procedures for cross-checking of tax data		Administrative decision	Q2 2010	In progress
Focus on a risk-based approach in the auditing process		Administrative decision	Q3 2010	In progress
Eliminate bargaining in penalty assessment process and shift to a point system		Legislation	Q3 2010	Pending
Establish IT-based audit case management system		Administrative decision	Q3 2010	In progress
Centralise dispute resolution process		Legislation	Q3 2010	Pending
Minimize the contact of individuals with tax officials		Legislation	Q3 2010	Pending
Unification of the tax and social security collection mechanism		Legislation and Administrative decision	Q4 2010	Pending

#### 4. Competition and Growth

INTERVENTION	TECHNICAL ASSISTANCE	LEGISLATION/DECISION	TIMETABLE	STATUS OF IMPLEMENTATION
Draft and submit legislative initiatives to simplify and accelerate process of establishing, licensing and operating enterprises		Legislation followed by Ministerial Decrees and Administrative decisions	Q1 2010	In Progress
Strengthen the Service for Antitrust Monitoring		Administrative decisions	Q2 2010	In Preparation
Modernize the institutional framework under which the Competition Authority is operating (i.e. Law 703/1977)		Legislation	Q2 2010	In Preparation
Liberalize a number of restricted professions		Public Consultation followed by legislation	Q3 2010	
Introduce a modern unified public procurement system		Legislation and administrative decision	Q3 2010	Planning
Department for Market Surveillance at the General Secretary of Commerce (Law 728/2008) to apply new auditing rules on transfer pricing (2008),		Amendment to existing legislation (in cooperation with Ministry of Finance)	Q1 2010	In Progress
Retain permanent monitoring of wholesale prices in various sectors through the continued operation an Electronic Price Observatory for more than 1000 goods and services		Administrative decisions	Q1 2010 onwards	In operation
Restructure business and commercial debts		Legislation	Q1 2010	In Progress
Revision of the Investment Law		Legislation	Q2 2010	In preparation

<b>INTERVENTION</b>	<b>TECHNICAL ASSISTANCE</b>	<b>LEGISLATION/DECISION</b>	<b>TIMETABLE</b>	<b>STATUS OF IMPLEMENTATION</b>
Simplification in the NSRF administrative procedures to facilitate acceleration		Amendment to existing legislative framework; Ministerial Decrees	Q1 2010	In Progress
Provide state guarantees to SMEs		Legislation	Q2 2010	
Promote Public Private Partnerships			2010 onwards	Ongoing
Establish the Hellenic Development Fund	Advisory Services	Legislation; cooperation with EIB	Q3 2010	In Progress
Strategic re-orientation of NSRF operational programme		Programming	Q23 2010	In progress

### 5. Other structural reforms/interventions

INTERVENTION	TECHNICAL ASSISTANCE	LEGISLATION/DECISION	TIMETABLE	STATUS OF IMPLEMENTATION
Local administration Reform		Legislation to <ol style="list-style-type: none"> <li>1. Strengthen the role of the first level of local administration and reduce the number of municipalities from 1034 to 370.</li> <li>2. Replace the second layer of prefectures by elected regional authorities and reduces the number of institutions from 76 to a number corresponding to the existing 13 regions.</li> <li>3. Introduce 7 regional general authorities to replace the current 13 regional authorities.</li> <li>4. Drastically reduce the legal entities that founded by the bodies of local authorities from the current number of 6000 to 2000.</li> </ol>	Q1 2010	First approval by the Council of Ministers. Currently in public consultation
Freeze hiring in 2010, excluding the limited hiring to cover critical vacancies in the health, education and security sectors		Legislation	Q1 2010	In Progress
Maintain the 5-to-1 rule, linking retirees with new public service employees		Legislation in Q1 2010	2011-2013	

<b>INTERVENTION</b>	<b>TECHNICAL ASSISTANCE</b>	<b>LEGISLATION/DECISION</b>	<b>TIMETABLE</b>	<b>STATUS OF IMPLEMENTATION</b>
Reduce short-term contracts of up to one-third in most government areas		Legislation in Q1 2010	Q1 2010 onwards	
All public sector recruitments through the Public Sector Hiring Authority (ASEP) Abolition of all recruitment exceptions		Approved by Council of Ministers; pending in Parliament	Q1 2010 onwards	In Progress
Publication online of all government decisions involving expenditure. This becomes a necessary condition for the validity of any such decision		Approved by Council of Ministers; to be submitted to Parliament	Q1 2010 onwards	In Progress
Develop regional and local Integrated Employment Plans				
Improve labour market transparency				
Migration legislative initiative		Approved by Council of Ministers	Q1 2010	
Law on transparency in public decisions involving disbursements of funds		Draft legislation	January 2010	Draft law approved by the Council of Ministers Approval by Parliament expected in January 2010
Transposition of services directive		Legislation	Q1 2010	
Equalisation of women and men retirement ages in public sector		Legislation	Q1 2010	
Opening of closed professions		Legislation	Q2 2010	