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The Economic Adjustment Programme for Greece
Second review – autumn 2010

Directorate-General for Economic and Financial Affairs

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European Commission
Directorate-General for Economic and Financial Affairs
Publications
B-1049 Brussels
Belgium
E-mail: mailto:Ecfin-Info@ec.europa.eu

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The report was prepared in the Directorate General Economic and Financial Affairs under the direction of Servaas Deroose, Deputy Director-General.

Contributors:
Servaas Deroose, Alfonso Arpaia, Giuseppe Carone, Andrea Conte, Nicola Curci, Fotini Dionyssopoulou, Leila Fernandez Stembridge, Loukas Kaskarelis, Daniel Kosicki, Filip Keereman, Luis García Lombardero, George Moschovis, Laurent Moulin, João Nogueira Martins, Elena Pavlova, Alessandro Turrini, Milda Valentinaitė, Peter Weiss and Ana Xavier. Christos Zavos was responsible for the layout.

The report was prepared in liaison with the ECB.

Comments on the report would be gratefully received and should be sent, by mail or e-mail to:

João Nogueira Martins,
European Commission,
Unit ECFIN-F-3,
BU 1 01-140
B-1040 Brussels
e-mail: joao.nogueiramartins@ec.europa.eu

EXECUTIVE SUMMARY

A joint Commission/ECB/IMF mission met with the Greek authorities in Athens on 15-22 November 2010. The mission assessed compliance by Greece with the terms and conditions of the second review under the economic adjustment programme and updated conditionality for the next reviews. Completion of the review will release the third tranche of the assistance from euro area Member States to Greece (EUR 6.5 billion). Completion of the IMF review under the IMF stand-by arrangement releases an additional EUR 2.5 billion.

Policy implementation has become more difficult. After a strong start with major inroads in fiscal consolidation and structural reforms, including far-reaching pension and labour market reforms, programme implementation has become more difficult. The 2010 ESA fiscal deficit target will be missed, despite very sizeable fiscal consolidation efforts, and there have been delays in the preparation of important structural reforms. Slower progress reflects a combination of factors, including the electoral cycle, the resistance of vested interests, and – in a few cases – difficulties to design and activate a number of complex reforms within a short time-span. With the Government's reform mandate strengthened in the wake of the local elections, the mission argued that the time is right to redouble fiscal consolidation and reform efforts, and to demonstrate enhanced resolve to implement programme policies.

Macroeconomic projections are slightly weaker than previously projected. Recent data suggest that the downturn will be slightly deeper than expected. The growth forecast for 2011 now envisions negative growth of 3 percent in 2011, with a gradual recovery starting in spring 2011, and a U-shaped recovery pattern involving moderate growth in 2012 and 2013. At the same time, lower growth seems to come with a faster external adjustment. Inflation at constant tax rates is running below the euro-area average and is expected to be negative until the end of 2011. Labour market adjustment is proceeding faster than expected with positive effects on labour reallocation, whilst wage cuts in the public sector seem to spill over to the private sector. The current account deficit should, therefore, narrow faster than previously expected.

Fiscal pressure points are more arduous than expected. The quantitative performance criteria (QPC) for end-September have been met. However, revenue has continued to underperform – reflecting problems with tax compliance – and, despite sizeable spending under-execution, the full-year target for the general government cash primary balance is at risk. The ESA government deficit is expected to reach 9.6 percent of GDP, 1½ percent of GDP above the programme target. One third of the shortfall is explained by propagation effects of the 2009 statistical revisions – on 15 November Eurostat revised and validated the 2009 government balance from 13.6 to 15.4 percent of GDP. The mission urged the authorities to do their utmost to respect the end-year cash balance QPC while preventing further accumulation of arrears.

The Government committed to respect the 2011 ESA deficit target of EUR 17 billion. With higher than expected starting deficit and debt levels and somewhat lower growth prospects, larger consolidation efforts are needed to reach initial deficit targets and to put the debt ratio on a downward path from 2013 onwards. It is, therefore, welcome that the Government confirmed that the fiscal strategy remains firmly anchored on the consolidation path agreed in May 2010. To fully recoup the ground lost in 2010, the Government has committed to implement 2½ percent of GDP in new measures, over and above those already agreed. The new measures directly address some of Greece's endemic budgetary weaknesses. They include reforms to restructure state-owned enterprises, to reduce waste and corruption in healthcare, and to better focus social protection. The 2011 budget also includes some one-off measure.

The government will specify in March 2011 measures to achieve the 2012-2014 deficit targets. The programme frontloaded the adjustment in 2010 and 2011, but left part of the adjustment for the outer years of the programme unspecified. Present estimates suggest a need to identify at least 5 percent of GDP in additional structural measures to be implemented over 2012-14. The mission emphasized that durable revenue and spending adjustment required determined actions in the following fields:

improvements in tax administration; reduction in the public workforce; reform of the healthcare system; structural cuts in military spending; a multi-year reform of State-owned enterprises (SOEs); and introduction of multi-annual budgeting.

The authorities are taking steps to increase cash buffers in the Treasury. They have been able to successfully rollover short-term paper. While yields remained high, auctions have attracted strong demand, including from international investors. The privatisation programme will be significantly strengthened, with a total amount of EUR 7 billion targeted over 2011-13, more than twice the amount foreseen in the original programme. These actions should allow for an increase in cash buffers in the Treasury to deal with contingencies and to contribute to the reduction in the government debt ratio.

The banking sector remains fragile, but confidence seems to gradually return. Most banks remain dependent on Eurosystem refinancing. At the same time, there are signs of gradually returning confidence and some banks have succeeded in raising capital in the market and tapping international interbank markets. After a phase of relative stability in summer, retail deposit outflows resumed in November. The board of the Hellenic Stability Fund (FSF) was established in October. Based on the strategic review of the stakes it has in some banks, the Government has devised a programme to address their stability and efficiency. A plan for the restructuring of ATE bank is being designed, in close cooperation with the European Commission. Finally, progress is being made to strengthen the supervisory function of the Bank of Greece, which has become also responsible for the insurance sector.

A second wave of structural reforms needs to be launched. Key reforms on the pension system, the liberalisation of the transport sector and the increase of labour market flexibility were implemented in the early months of the programme. Some of these reforms had been on the national reform agenda for quite some time, and could, therefore, be rapidly enacted. Progress since the summer has been slower with, for instance, reforms of the remuneration system in the public sector and of the wage bargaining system facing significant delays. Slower progress reflects the need to overcome vested interests and, in a few cases, objective technical and legal challenges. Given the many areas of the real economy requiring a deep reform, the mission called for a new decisive impulse to implement reforms that boost the economy's growth potential. New deadlines for key labour and product market reforms were agreed with the authorities. Priority should be given to those reforms that speed-up adjustment and produce an early supply response. Reforms of the wage bargaining system, the liberalisation of restricted professions, and addressing structural losses in state-owned enterprises are on the agenda for the next two reviews.

Subject to approval by the Eurogroup, the positive assessment of compliance with programme conditionality will release the next tranche of the loan from Euro area Member States (EUR 6.5 billion). Overall, the mission concluded that conditions for the third disbursement were broadly met. The authorities recommitted to programme objectives. They adopted additional fiscal consolidation measures for some 2½ percent of GDP and committed to speed up the pace of structural reforms. The joint mission argued that delivering on programme targets will require much stronger resolve to implement the agreed policies than in recent months. It will also require better coordination within the government, and consensus within the whole Greek society, fundamentally with regards to the implementation of the structural agenda.

1. INTRODUCTION

1. **This report assesses compliance with the conditions of the second review of the Greek adjustment programme.** The assessment is based on the authorities' report on "The economic adjustment programme" (of 24 November 2010) and findings of the joint EC/IMF/ECB review mission to Athens (15-22 November 2010). The mission assessed compliance with conditionality attached to the third disbursement and progress towards the key programme objectives of securing fiscal sustainability, safeguarding the stability of the financial system, and boosting potential growth and competitiveness. The mission discussed policy challenges and updated conditionality requirements for the next programme reviews – an updated memorandum of understanding (MoU) was agreed with the authorities.

2. **In May, euro-area Member States and the IMF provided financial support to Greece.** On 2 May, the Eurogroup agreed to provide stability support to Greece via bilateral loans for a total amount of EUR 80 billion. Euro-area assistance is part of a joint package with the IMF of EUR 110 billion – on 9 May the IMF Executive Board approved a stand-by arrangement for the amount of EUR 30 billion. The assistance package fully covers government financing needs related to the deficit and maturing medium- and long-term securities until end-2011. Greece is expected to gradually return to markets for long-term funding in the course of 2012.

3. **Two disbursements have already been made under the programme.** On 18 May 2010, the euro-area Member States disbursed their first instalment of EUR 14.5 billion, following a disbursement of EUR 5.5 billion from the IMF. The second instalment of the assistance loans – EUR 6.5 billion from euro-area Member States and EUR 2.5 billion from the IMF – were released, following completion of the first programme review conducted in early August 2010.

Table 1. Disbursements under the EA/ECB/IMF programme, EUR bn

	EA	IMF	Total
Past disbursements			
May 2010	14.5	5.5	20.0
September 2010	6.5	2.5	9.0
Total past disbursements			29.0
Planned disbursements			
Dec 2010		2.5	2.5
Jan 2011	6.5		6.5
March 2011	10.9	4.1	15.0
June 2011	8.7	3.3	12.0
Sept 2011	5.8	2.2	8.0
Dec 2011	3.6	1.4	5.0
March 2012	7.3	2.7	10.0
June 2012	4.4	1.6	6.0
Sept 2012	4.4	1.6	6.0
Dec 2012	1.5	0.5	2.0
March 2013	4.4	1.6	6.0
June 2013	1.5	0.5	2.0
Total future disbursements			81.0
Total programme			**110.0**

Source: European Commission, IMF.

2. MACROECONOMIC DEVELOPMENTS AND OUTLOOK

4. **The economy is contracting slightly more than previously expected.** Real GDP growth declined by 3.4 percent in H1-2010 compared to the same period of 2009. The recession deepened in Q3-2010, when the economy contracted by 4.5 percent. This reflected a further decline in domestic demand, in particular private consumption, consistent with the sharp drop in households' sentiment since the spring. With the economy expected to contract further in Q4-2010, real GDP is now expected to decline by 4.2 percent in 2010 (see Graph 1), slightly more than the 4.0 percent expected in the original programme.

5. **Inflation at constant taxes is quickly declining.** Headline inflation has remained high at 5.2 percent in October, largely reflecting the impact of indirect tax increases – the standard VAT rate was increased by 2 points in the summer, compounding the impact of higher excises on fuel, alcohol and tobacco. Over January-September the tax component of the HICP inflation rate and tax increases earlier in 2010 averaged 3½ percent. There is evidence of a significantly lower pass-through of the tax increases in the summer compared to those introduced in March. The constant tax inflation rate accordingly dropped from 1.9 percent in January to 0.4 percent in September, and has been below the euro-area average indicator since May, with the differential widening over time.

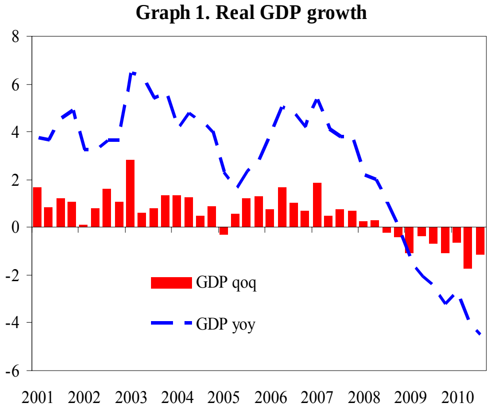
6. **The mission revised the macroeconomic projection underpinning the programme:**

   - **Real GDP is projected to decline by 3 percent in 2011,** compared to 2.6 percent in the original programme**.** The revision mostly reflects negative carry-over effects from 2010 developments. The recession is projected to bottom out in the first half of 2011, when positive effects of the macroeconomic adjustment policies on private sector confidence are expected to materialize, and to develop further in the second half (see Graph 1).

   - **The labour market seems to be adjusting faster than expected.** Employment is now projected to decline by some 2½ percent in 2011, with the unemployment rate peaking at above 14½ percent – higher than expected in the original programme. There is evidence that corporates are adjusting their labour force faster than anticipated. A symmetric faster rebound of employment in the recovery phase is possible, especially if ongoing labour market reforms are implemented as planned (see Graph 2).

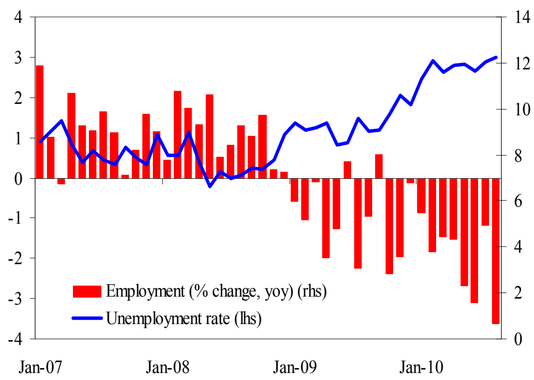
   - **Faster adjustment in wages and costs will support the adjustment in competitiveness.** It will spur labour reallocation and support real wage adjustment, which is also supported by spillovers from remuneration cuts in the public sector and moderate wage agreements – the

Graph 1. Real GDP growth



Source : EL.STAT.

Graph 2. Employment and unemployment rate



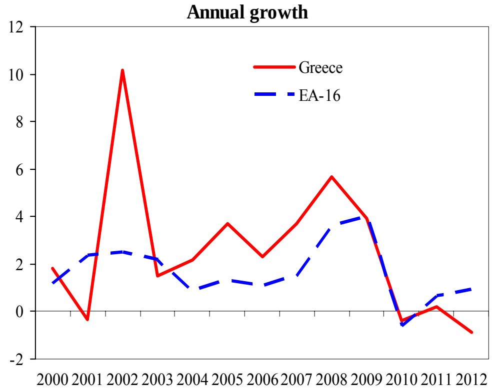
Source: EL.STAT.

minimum wage will be frozen in 2010 and the first half of 2011 and will increase by 1.5 percent in July 2011 and 1.7 percent in July 2012. Unit labour costs are therefore projected to decline somewhat faster than in the programme (see Graph 3).

- **Inflation will fall.** Headline inflation is projected to moderate to 2¼ percent in 2011, despite the planned increase in the reduced VAT rates on 1 January 2011. Core inflation will decline faster than headline inflation in 2011 and is expected to remain below the euro-area average in the next two years. Constant-tax inflation is expected to be negative during 2011 and to remain close to zero thereafter. Risks to the inflation outlook are skewed on the downside, with structural reforms in product and labour markets expected to increase price flexibility and to trigger a stronger reaction of prices to the cycle.

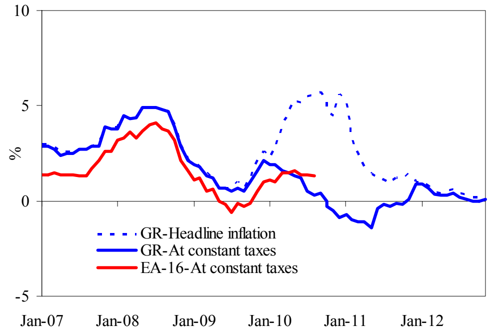
- **The current account deficit is projected to contract at a faster pace.** It should reach 8 percent of GDP in 2011 and should further decline to 6 percent of GDP in 2012, down from 10½ percent of GDP in 2010. Competitiveness gains expected from programme reforms may result in an even faster adjustment of the current account than in this forecast.

Graph 3. Nominal Unit Labour Cost
Annual growth



Source : Eurostat

Graph 4. HICP inflation developments and projections (% change, yoy)



Source : Eurostat

7. **Growth projections for 2012 and beyond remain unchanged.** Real GDP growth is expected to recover to around 1 percent in 2012 and above 2 percent in 2013-14. The medium-term outlook is, however, subject to large uncertainty and depends on the ability of the authorities to enact a critical mass of structural reforms in the early part of the programme. Following three years of economic contraction, potential for a larger rebound is substantial if implementation of programme policies proceeds as planned, with key reforms enacted upfront. At the same time, correcting the very large imbalances and restoring market confidence – a condition for a durable resumption of growth – may take more time than expected, which could delay the recovery.

Table 2. Macroeconomic framework

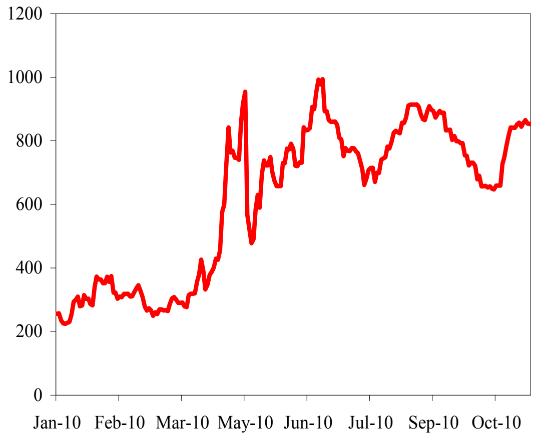
	2010	2011	2012	2013	2014
Real GDP growth	-4.2	-3.0	1.1	2.1	2.1
Domestic demand contribution	-8.0	-6.0	-1.0	0.8	1.0
Net trade contribution	3.9	2.9	1.8	1.3	1.1
Employment growth	-2.8	-2.6	0.1	0.9	0.7
Unemployment rate	12.1	14.6	14.8	14.3	13.9
Unit labour cost growth	-0.8	-0.7	0.2	-0.3	-0.5
HICP inflation	4.6	2.2	0.5	0.7	1.0
Current account balance, pct of GDP	-10.6	-8.0	-6.5	-5.2	-4.1

Source: Commission services.

3. FINANCIAL MARKETS AND FINANCIAL SECTOR DEVELOPMENTS

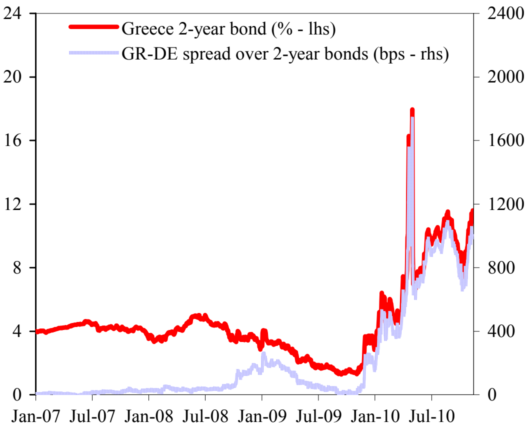
8. **The programme has not yet fully convinced markets.** The improvement in market sentiment during the summer – with spreads on 2-year government bonds down by some 350 basis points between end-August and mid-October – was almost completely reversed in the four weeks to mid-November. Whilst important external factors, including a global increase in risk aversion and talks concerning a European permanent crisis resolution mechanism, played a significant role in the reversal of sentiment, markets were also unsettled by announcements of further fiscal data revisions in Greece and political uncertainty before the November elections. Concerns about the capacity of Greece to service its debt pushed 5-year CDS spreads, a market indicator of sovereign default likelihood, back up to pre-programme levels.

Graph 5. 5-year CDS spreads



Source : Bloomberg

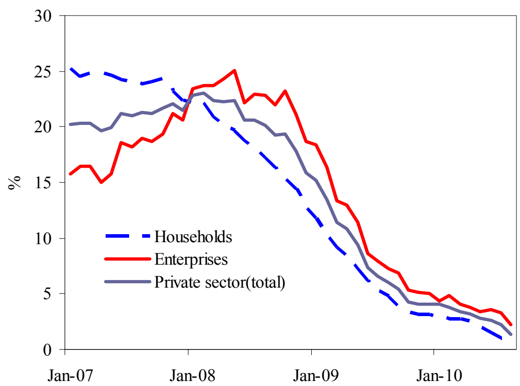
Graph 6. 2-year bond yield and spread



Source : Bloomberg

9. **The liquidity situation of banks remains tight.** Deposits stabilised between July and September, but the outflows accelerated in October and November and the decline since the beginning of the year is sizeable (13 percent). Furthermore, access to wholesale funding markets remains impaired, despite the recent success of a few banks in tapping the repo market. Consequently, Greek banks remain dependent on the Eurosystem for their funding – borrowing from the Eurosystem now represents on average nearly 20 percent of bank liabilities. In late August, Parliament approved a EUR 25 billion expansion of the government guarantee scheme under which banks can issue Eurosystem-eligible uncovered bonds. Following the activation of this expansion, the programme will reach EUR 55 billion. The objective of the recent expansion is to preserve Greek banks' capacity to borrow from the Eurosystem by safeguarding their collateral buffers in the face of two possible risks: first, the decline in the value of the collateral assets due to market price fluctuations; second, the loss of Eurosystem eligibility of some assets, including due to new collateral rules in early 2011. Furthermore, the expansion of the programme is meant to allow

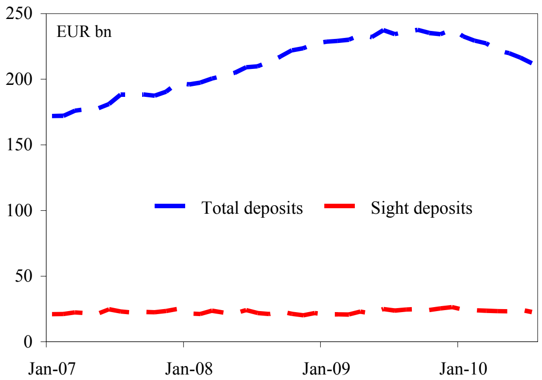
Graph 7. Credit to private sector (% change)



Sourced : Bank of Greece

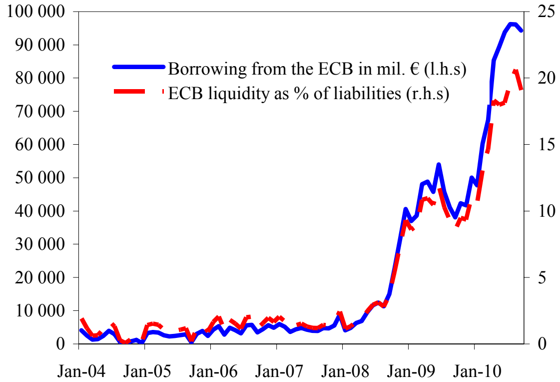
Greek banks to counterbalance a possible further loss of retail and wholesale market funding with a temporary increase in Eurosystem funding.

Graph 8. Greece - Bank deposits



Source : Bank of Greece

Graph 9. Greek banks' borrowing from the ECB



Source : Bank of Greece

10. **Financial soundness indicators are deteriorating, but capital remains adequate.** Banks continue to suffer from losses on their loan book – non-performing loans increased from 5 percent in 2008 to 9 percent in the second quarter of 2010. The corresponding increase in provisioning, especially in the domestic lending portfolio, combined with the revaluation of government bonds held in the trading portfolios, resulted in a loss for the system on a consolidated basis in Q2. Profitability measured by return on assets and equity fell to -0.3 percent and -4.5 percent, respectively, in the second quarter of 2010.

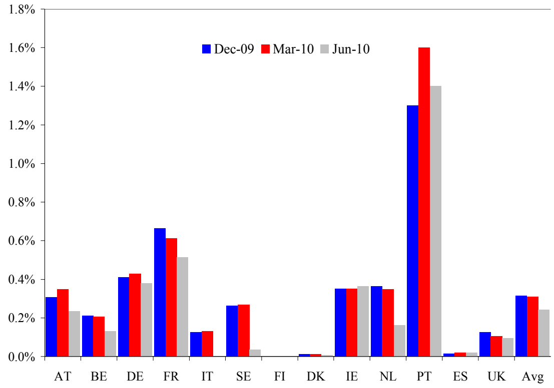
Table 3. Banking sector soundness indicators

	Basis	2007	2008	2009	2010-Q1	2010-Q2
Capital adequacy ratio	consolidated	11.2	9.4	11.7	11.7	11.2
	solo (1)	*12.7*	*10.7*	*13.2*		*12.3*
Tier I ratio	consolidated	9.2	7.9	10.7	10.6	10.1
	solo	*9.3*	*8.7*	*12.0*		*11.0*
Return on assets (after tax)	consolidated	1.4	0.7	0.2		-0.3
	solo	*1.0*	*0.2*	*-0.1*	*-0.6*	*-0.6*
Return on equity (after tax)	consolidated	17.7	10.0	2.4		-4.5
	solo	*14.8*	*3.2*	*-1.5*	*-8.7*	*-9.7*
Loan to deposit ratio	consolidated	106.0	114.0	113.8		122.4
Non performing loan ratio (2)	*solo*	*4.5*	*5.0*	*7.7*	*8.2*	*9.0*
Coverage ratio (3)	*solo*	*53.4*	*48.9*	*41.5*	*42.8*	*43.4*

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

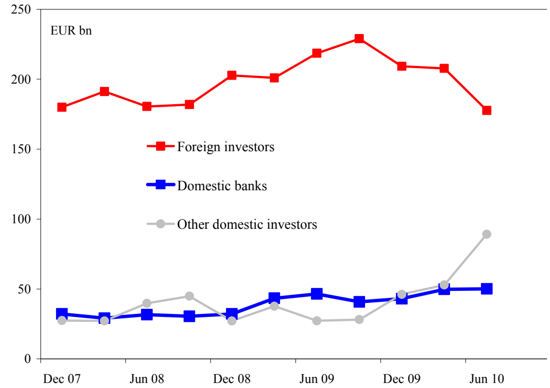
11. **Foreign exposure to Greece has declined.** Total claims of foreign banks on the Greek economy fell in the first half of the year. This trend was observed in most major markets, with the exception of Ireland. Portugal's exposure is declining from high levels. Data on holdings of Greek government debt also confirm the decreasing foreign exposure. Foreign investors reduced their exposure to the Greek sovereign, while holdings by domestic non-bank investors, e.g. pension funds, increased significantly. Regarding the exposure of banks to the sovereign, the increase in securities holdings was largely compensated by a reduction in loans.

Graph 10. Exposure to Greece as % of banking sector assets



Source: BIS

Graph 11. Holding of Greek government debt



Source: WB, ECB, Eurostat, EC calculations

12. **There are signs that confidence is coming back to the financial sector.** The situation of the banking sector remains vulnerable to developments in economic activity and market sentiment. However, some early signs of returning confidence in the system have been observed. NBG was the first bank to raise new capital on the market since the outbreak of the crisis. EUR 1.8 billion were raised in October, which uplifted the bank's capital adequacy ratio (CAR) by 250 basis points to 13.6 percent and provided it with funds for a future buy-back of EUR 350 million preference shares from the State. A further EUR 1 billion will be raised through a sale of 20 percent of the NBG's stake in Finansbank, its subsidiary in Turkey. The NBG rights issue for ordinary shares and convertible notes was oversubscribed 1.8 times, on average. Following NBG's success, Piraeus Bank and Marfin Egnatia announced similar plans, while EFG Eurobank is finalising a sale of its stake in Polbank, the bank's Polish branch. Against this background, no bank is expected to apply for capital injections from the FSF in the near future.

4. PROGRAMME IMPLEMENTATION AND POLICY DISCUSSIONS

13. **While overall strong, programme implementation has become more difficult.** After a very strong start with clear progress regarding fiscal consolidation and structural reforms, including major pension and labour market reforms, implementation of programme policies has been less rigorous since the summer. Fiscal consolidation efforts were impressive but will not suffice to meet the 2010 ESA deficit target. In some areas, the structural reform programme has also faced delay. Slower progress reflects a combination of factors, with the electoral cycle, resistance of vested interests, and institutional weaknesses playing a key role.

14. **Rigorous programme implementation is needed to reassure investors.** While developments over the summer have shown that good progress with implementing programme policies can rapidly translate into lower spreads, investors' concerns regarding the capacity of the sovereign to rollover large amounts of government paper in the immediate post-programme years remain large. With the Government's reform mandate strengthened in the wake of the elections, the mission argued that the time is right to redouble fiscal consolidation and reform efforts and to demonstrate enhanced resolve to reach programme targets.

15. **The authorities have confirmed their commitment to programme policies.** While recognizing that the reform effort had slowed down in some areas ahead of the local elections. The Greek authorities demonstrated their commitment to programme objectives, including through the adoption of additional fiscal consolidation measures. They also committed to strongly reinvigorate implementation of the structural reform programme.

Table 4. Summary of compliance with conditionality for end-September

	Overall assessment	Comments
Fiscal policy	Observed	Cash performance criterion met for end-September, but risks for end-December criterion. 2010 ESA fiscal target will be missed. However, the authorities took corrective measures to reach the 2011 programme target.
Structural fiscal reforms	Partly observed; delays	Some progress with tax administration reforms, but delays in reforming fiscal institutions. A key reform of the health care system has started.
Financial sector policy	Largely observed	The FSF will soon be operational, a plan for ATE bank is being designed, and the study on the strategic review has been completed.
Other structural reforms	Partly observed; delays	Delays on labour market reforms. Uneven progress on product market reforms.
Data provision	Partly observed	Clear progress has been made. However, some important shortfalls remain.

Source: European Commission.

4.1. FISCAL POLICY

4.1.1. Fiscal developments in 2010

16. **The programme quantitative performance criteria (QPC) for end-September were met.** The cash primary balance of the general government stood at EUR 3.6 billion, against a ceiling of EUR 4 billion. State cash primary spending as of end-September amounted to EUR 42 billion, well below the ceiling of EUR 50 billion. While the margin under the spending ceiling was sizable, that one below the cash deficit ceiling was small, due to sizeable revenue underperformance. The QPC for government debt and guarantees have also been observed.

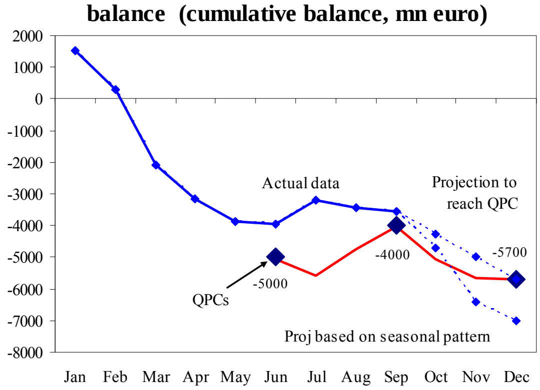
Table 5. Quantitative performance criteria and outcomes (billions of euros)

	Actual data June 2010	QPC June 2010	Actual data Sept. 2010	QPC Sept. 2010
		(in EUR billions)		
General government primary cash balance[1]	-4.0	-5.0 (floor)	-3.6	-4.0 (floor)
State budget primary spending	28.4	34 (ceiling)	43	50 (ceiling)
Overall stock of central government debt	317	342	328	342
New guarantees granted by the central government	0.3	2.0	1.1	2.0
Accumulation of external payment arrears on external debt contracted or guaranteed by general government from official creditors	0	0	0	0

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

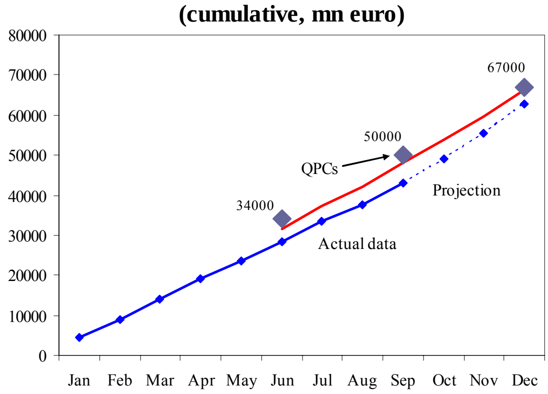
17. **Meeting the end-year cash primary balance ceiling will be challenging.** In August, the government had committed to under-execute annual state primary spending by EUR 3.9 billion relative to programme projections, an estimate that was revised upward to EUR 5.9 billion in September. Under-execution of that magnitude would be sufficient to meet the 2010 general government deficit target in ESA terms (prior to the statistical revision). The mission stressed that achievement of cash targets should not be made at the expense of an additional increase in arrears – since the beginning of 2010, arrears have increased by at least EUR 1.7 billion (as of September 2010).

Graph 12 . General Government Primary balance (cumulative balance, mn euro)



Source : GAO and Commission services

Graph 13 . State Budget Primary Spending (cumulative, mn euro)



Source : GAO and Commission services

18. **The ESA 95 fiscal target for 2010 will be missed**. The ESA government deficit is expected to reach 9.6 percent of GDP (EUR 22.3billion), 1½ percent of GDP above the original programme target of 8 percent of GDP (EUR 18.5 billion). About one-third of the shortfall is explained by

propagation effects of the revisions to 2009 fiscal statistics – on 15 November EL.STAT revised the 2009 government balance data from 13.6 percent to 15.4 percent of GDP. The remainder is explained by revenue underperformance.

19. **Non observance of the ESA deficit target for 2010 reflects the materialization of risks identified previously**. These risks are related to: (i) uncertainties regarding the stability of fiscal statistics; (ii) the somewhat more protracted recession and stringent liquidity constraints; (iii) delays in **improving** tax compliance; and (iv) difficulties in controlling expenditure (including in the capital budget, build up of arrears, performance of local government and of social security). It is, therefore, essential to rapidly strengthen public finance management to address those weaknesses, including measures to improve data collection and intra-year fiscal monitoring; reforms to fight against tax evasion; and accelerate the structural reform agenda.

Box 1: **From cash accounts to ESA95 accounts**

The targets for the annual general government deficit (EUR 18.5 billion for 2010, EUR 17.1 billion for 2011) are defined according to ESA95, the European System of National and Regional Accounts. The quarterly quantitative fiscal performance criteria (primary balance and state spending) are defined on a cash basis. The reason for using two different variables for fiscal monitoring under the programme is that while the ESA95 definition of the deficit is more comprehensive, the cash data are available on a monthly basis with a relatively short delay and with rare revisions. The ESA accounts are available quarterly and annually with relatively long delays, and subject to revisions.

To estimate the ESA95-based government deficit from the available cash figures. Most importantly, the ESA95 deficit is an accrual concept, with transactions recorded when the underlying economic activity takes place and corresponding claims and liabilities arise, which is sometimes different from the moment when a related cash flow is made. Moreover, there are differences in coverage relative to the general government perimeter according to ESA95 and according to the definitions observable monthly. The table below summarises the adjustment from the 'cash' accounts to the ESA95 accounts for the year 2010 as a whole as estimated by the Commission services.

- **Deficit-increasing adjustments** (i.e. adding to the cash balance to approach the ESA95-based government deficit) concern the projected balance for extra-budgetary funds, the difference between cash outflows and deliveries in relation to military equipment procurement, guarantees called and accounts payable. One should also consider the balance of the recently reclassified state-owned enterprises, and spending pending payment (lump sums) to civil servants that retire.

- **Deficit-decreasing adjustments** (i.e. reducing the ESA95-based government deficit) refer to taxes pending collection (by convention, a number of taxes collected in January and February 2011 are allocated to the 2010 accounts; one needs also to subtract the corresponding amounts of January and February 2010). A similar adjustment applies to structural funds-related flows, taking into account the usual lag between submission of payment claims to Brussels and the actual payments by the EU budget. Other than differences in the payment and accruing of interest on government debt, one should also consider that the settlement of accounts payable at the beginning of 2010 is included in the cash data, but should be excluded from the ESA95 accounts.

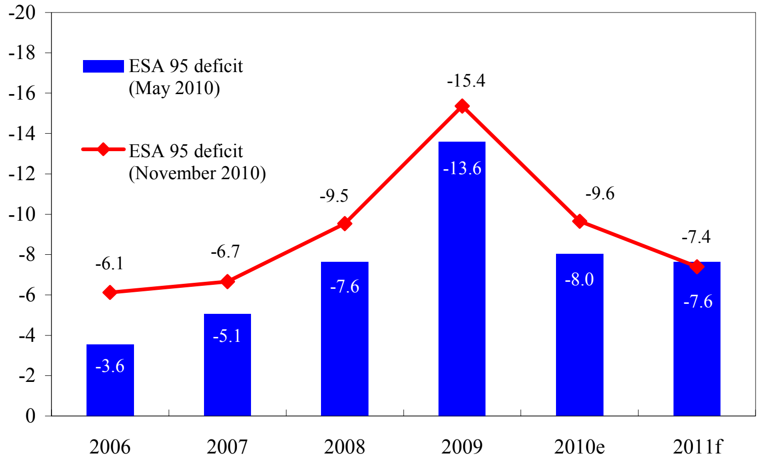
Table 1 : Annual adjustment - from cash to accrual accounts ESA 95 for 2010

Deficit-increasing adjustment	**-4252**
Posts and telecommunications authority	-24
Guarantees called	-944
Interest	-1005
Privatizations account	-239
Accounts payable	-946
Reclassified public enterprises balance	-570
Lump sum payment to public sector retirees	-524
Deficit-decreasing adjustment	**3317**
Military deliveries	200
Single Treasury account	400
Tax-related time adjustment (accounts receivable)	320
EU funds time adjustment	1165
Hospitals spending, accrued in 2009 and paid in 2010	345
Timing adjustment in transfers to local government (OTA)	433
Intergenerational Fund, ELEGEP and ATE	374
Special fund for unauthorised buildings	80
Total	**-935**
General government modified cash balance	**-21398**
General government balance (ESA 95) estimate (A) + (B)	**-22333**
General government balance (ESA 95) - ceiling	**-18508**
difference	*3825*

4.1.2. Fiscal policy in 2011

20. **The Government confirmed its commitment to meet the fiscal deficit target for 2011.** With higher than expected starting points for the deficit and debt levels, and lower than expected real GDP growth, larger consolidation efforts are needed to reach the deficit targets and to put the debt ratio on a downward path from 2013. The government confirmed that its fiscal strategy remains firmly anchored on the fiscal path agreed in May 2010. It therefore decided to immediately fully recoup the ground lost in 2010, in order to rapidly restore a sustainable fiscal position, keep financing needs in line with the programme, and support market confidence. The reduction in the government deficit-to-GDP ratio in 2011 will, therefore, need to be larger than planned in the original programme – 2.2 percentage points of GDP instead of 0.4 points.

Graph 14. Path for the ESA government balance in May and November 2010 (percent of GDP)



Source : Commission services

21. **The government will implement 2½ percent of GDP in new measures to reach the target**. This will bring total fiscal consolidation measures in 2011 – including those agreed in May and carry-overs from 2010 – to 5¾ percent of GDP. About two thirds of the total measures agreed to be implemented in 2011 are on the expenditure side, and most of them are of a structural nature. However, among the new measures, EUR 0.7 billion are temporary and one-off measures, thereby not contributing to the structural fiscal adjustment. New measures include cuts in unproductive and untargeted spending, a reduction in short-term contracts in the public sector, better targeting of universal household subsidies (fuel subsidy and family allowances), and better management in the collection of tax arrears. In 2011 the government will also tackle two key structural fiscal problems – excessive health spending and losses by state-owned enterprises:

- **Health expenditure**. Public expenditure on health grew on a per capita basis at an average real rate of 5.4 percent per year over 2004-08. Public expenditure on pharmaceuticals is 1.9 percent of GDP in Greece, against 1 percent on average in the EU. Should past trends continue, the share of health spending in GDP would increase dramatically in the coming years. The government started to introduce reforms in 2010 to reduce waste, and these have begun to yield results. Further measures will be implemented in the first half of 2011 to reduce spending on pharmaceuticals, enhance spending control, and reduce hospital operating expenses. These actions are expected to generate about ½ percent of GDP in savings.

- **State-owned enterprises (SOEs).** Several SOEs have run large losses over many years. The biggest deficits originate from public transport enterprises, particularly in OSE Group, TRAINOSE, ETHEL, HLPAP, HSAP, OASA, where payroll alone in some cases exceeds total revenues. In several of these companies, wages have been substantially above those paid for similar jobs in the private sector and in the central administration. Some progress has been made in 2010, in particular through cuts in operating expenditure and employment, and with the publication of the financial statements (certified by external auditors) of the ten largest loss-makers. In 2011 the Government will reduce wages in SOEs by 10 percent on average, limit secondary remuneration to 10 percent of basic pay, and introduce a ceiling of EUR 4 000 per month for gross wage (12 payments per year). In addition, in order to address the specific problem of transport enterprises, urban transport tariffs will be increased by at least 30 percent. About ½ percent of GDP in savings is expected from these measures.

Table 6. Greece - Fiscal consolidation measures agreed for 2011

	EUR million	% GDP
Carry overs from measures enacted in previous years, November estimate	**2200**	**1.0**
Revenue	1300	0.6
Expenditure	900	0.4
New measures identified before November	**5390**	**2.4**
Revenue	3740	1.6
Expenditure	1650	0.7
New measures identified in November and included in 2011 budget	**5490**	**2.4**
Revenue	2940	1.3
Expenditure	2550	1.1
Total measures in 2011	**13080**	**5.7**
Revenue	7980	3.5
Expenditure	5100	2.2

Box 2: **Fiscal data revision for 2006-2009 and propagation effects**

The table below shows the deficit and debt data published (but not validated) by Eurostat on 22 April 2010 and those published and validated on 15 November 2010. Both deficit and debt data have been revised upwards, while nominal GDP has been revised downwards. For 2009, the deficit-to-GDP ratio has increased by 1.8 points. Of these, 1.6 points are related to revisions in the nominal deficit figures; the residual reflecting a smaller GDP. The 2009 debt ratio has been revised upwards by 11.7 points, of which more than 10 points are related to the upward revision in the nominal debt figures.

Table 1. Greece - Revision of the 2009 deficit estimate

	% GDP
Initial deficit estimate (April 2010)	**-13.6**
Revision (total), of which:	**-1.8**
Accounting of off-market swaps	**0.1**
Reclassification of public enterprises	**-0.8**
New estimate for social security accounts	**-0.8**
Revision GDP level	**-0.3**
Revision deficit estimate (November 2010)	**-15.4**

Source: Eurostat

These revisions to deficit and debt data are larger than expected. In April, Eurostat expressed a reservation ‘on the quality of the data reported by Greece, due to uncertainties on the surplus of social security funds for 2009, the classification of some public entities, and on the recording of off-market swaps’ and that it was expecting a revision for the year 2009 of the order of 0.3 to 0.5 percent points of GDP for the deficit and 5 to 7 percent of GDP for the debt. The revisions to the 2009 deficit and debt data as published in November was effectively larger than expected.

Revision of deficit figures. The revision related to the proper accounting of off-market swaps is small (+0.1 points). However, the revision related to the sectoral reclassification of state-owned enterprises (-0.8 points) is much larger than expected (more enterprises were reclassified). Moreover, the significantly improved method used to compile social security accounts revealed a worse than expected fiscal position of the sector, which recorded a deficit in 2009, instead of a surplus, as initially estimated. Finally, the revision in the GDP level (with an impact on the deficit ratio of 0.3 points) was not anticipated in April.

Revision of debt figures. As far as debt is concerned, the revision that is related to the proper recording of off-market swaps (i.e. specific swap contracts with a ‘hidden loan’ component) was as expected (around 2 points); the revision in relation to state-owned enterprises (7.7 points) was two to three points more than expected. The revision to GDP data and other revisions impacting the debt ratio (0.2 and 2.4 points, respectively) were not expected in April.

Table 2 : Government balance and debt levels (revisions as of 15 November 2010)

	2006		2007		2008		2009	
General government balance	*Euro million*	*% GDP*	*Euro million*	*% GDP*	*Euro million*	*% GDP*	*Euro million*	*% GDP*
April 2010	-7 496	-3.6	-11 478	-5.1	-18 303	-7.7	-32 342	-13.6
15 November 2010	-12 109	-5.7	-14 465	-6.4	-22 363	-9.4	-36 150	-15.4
Difference	***-4 613***	***-2.2***	***-2 987***	***-1.3***	***-4 060***	***-1.8***	***-3 808***	***-1.8***
of which, from								
changes in the deficit level		*-2.2*		*-1.3*		*-1.7*		*-1.6*
changes in the GDP level		*0.0*		*0.0*		*-0.1*		*-0.2*
General government consolidated gross debt								
April 2010	205 738	97.8	216 731	95.7	237 252	99.2	273 407	115.1
15 November 2010	224 204	106.1	238 581	105.0	261 396	110.3	298 032	126.8
Difference	***18 466***	***8.3***	***21 850***	***9.3***	***24 144***	***11.1***	***24 625***	***11.7***
GDP at current market prices								
April 2010	210 459		226 437		239 141		237 494	
15 November 2010	211 314		227 134		236 936		235 035	
Difference	***855***	***0.4***	***697***	***0.3***	***-2 205***	***-0.9***	***-2 459***	***-1.0***

The revisions of the 2009 deficit have an impact on 2010 accounts. The impact mainly comes from the reclassification of state-owned enterprises and public entities and the proper recording of the obligation by the state to pay lump-sum payments to public employees who retire. The latter has always been an obligation for the State but the transaction was not being recorded properly in the national accounts. Both effects had not been included in the programme's pre-revision projections. According to current estimates, the impact of these two effects on the 2010 government deficit is estimated at EUR 1.1 billion (EUR 0.6 and 0.5 billion, respectively). An additional amount of some EUR 0.8 billion (net) has been observed in the cash-based 2010 fiscal data and was therefore already included in the pre-revision projections.

Table 3: Government accounts revision - Propagation for 2009 to 2010

(EUR millions)	2009	2010
Central government (total)	**-1909**	**-64**
Reclassified puiblic enterprises and entities	-1996	-570
Other	87	506
Social security funds (total)	**-1769**	**-1886**
Lump-sum to be paid to public sector retirees	-400	-524
Other	-1369	-1362
Local governments (Total)	**-130**	**0**
Various revisions	-130	0
Total	**-3808**	**-1950**

4.1.3. Fiscal policy in 2012 and beyond

22. **By March 2011, the government will specify measures to achieve the 2012-2014 deficit targets**. The original programme left part of the adjustment for the outer years of the programme unspecified. Present estimates suggest a need to identify at least 5 percent of GDP in additional structural measures to be implemented over 2012-14. This is slightly more than expected in May, since the implementation of some measures is estimated to yield less and the baseline is slightly less favourable, due to lower growth and revenue assumptions; it also reflects the one-off nature of some of the measures included in the 2011 budget. The gap is too large to be bridged by a further compression of selected spending items. Reaching the targeted savings will require the implementation of reforms addressing the roots of fiscal problems. In a strategy paper to be adopted in March 2011, the government will present a plan laying out time-bound actions.

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

	EUR million			% of GDP		
		cumulative measures			cumulative measures	
		2010-2014	2012-2014		2010-2014	2012-2014
2009 deficit	**36150**			**15.4**		
nominal deficit drift in 2010	4183			1.8		
identified measures	18000	18000		7.8	7.8	
impact on ratio of nominal GDP growth	--			-0.2		
2010 deficit	**22333**			**9.6**		
nominal deficit drift in 2011	9345			4.1		
identified measures	14800	32800		6.5	14.4	
unidentified measures	0	0		0.0	0.0	
impact on ratio of nominal GDP growth	--			-0.1		
2011 deficit	**16877**			**7.4**		
nominal deficit drift in 2012	6198			2.7		
identified measures	5575	38375	5575	2.4	16.6	2.4
unidentified measures	2584	2584	2584	1.1	1.1	1.1
impact on ratio of nominal GDP growth	--			0.1		
2012 deficit (target)	**14916**			**6.4**		
nominal deficit drift in 2013	1687			0.7		
identified measures	575	38950	6150	0.2	16.3	2.6
unidentified measures	4629	7213	7213	1.9	3.0	3.0
impact on ratio of nominal GDP growth	--			0.2		
2013 deficit (target)	**11399**			**4.8**		
nominal deficit drift in 2014	-503			-0.2		
identified measures	-1050	37900	5100	-0.4	15.4	2.1
unidentified measures	5561	12774	12774	2.3	5.2	$\boxed{5.2}$
impact on ratio of nominal GDP growth	--			0.2		
2014 deficit (target)	**6385**			**2.6**		

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

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

23. **The mission and the Government agreed on a list of priority reform areas for the medium-term fiscal strategy:**

- **Restructuring of SOEs and closure of some public sector entities.** These entities are a source of recurrent losses and negative surprises for government finances. Moreover, the quality of the service provided tends to be insufficient. In addition to the measures planned for 2011, the authorities will prepare a multiannual plan for loss-making entities. Measures will consist of cuts in operating expenditure – including the wage bill – and revenue-raising measures – including tariff increases. Unnecessary public sector entities will be closed, while a few other will be merged with the aim of reducing costs and increasing efficiency.

- **Tax reform.** The purpose will be to improve the fairness, efficiency and administration of the system. Tax bases will be broadened, controls against evasion strengthened, barriers to effective tax collection removed, and rates potentially adjusted. The necessary legislation will be enacted before the end of 2011, and implemented in a medium-term framework.

- **Reforms of public administration and social programmes.** Reforms in this area will be informed by the results of the ongoing independent functional reviews of the central public administration (including subordinated entities) and of existing social programmes. These reviews will identify actions to rationalise the organisation of public administration, and will quantify potential savings.

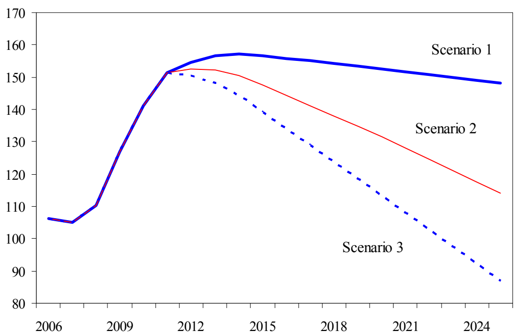
- **Reductions in personnel spending.** Hirings in the government sector will be limited to one recruitment for five exits, without sectoral exception. For the purpose of this rule, staff transferred from restructuring SOEs to the State will count as recruitments. Moreover, the remuneration system in the public sector will be simplified. By the end of 2010, the Ministry of Finance will publish a report, in collaboration with the Single Payment Authority, on the structure and levels of remuneration and the volume and dynamics of employment in the general government.

- **Reductions in military spending.** Savings realised this far were through postponements in the delivery of military equipment. The military sector should contribute to the fiscal adjustment, through significant and structural cuts in procurement expenditure. By the end of 2010, the authorities will present a multi-annual programme setting priorities and targets for the coming years. Despite it all, Greece's military spending needs are expected to remain significantly above those of other EU Member States.

- Other medium-term fiscal reforms are listed in the section on structural fiscal issues.

24. **The higher debt ratio does not affect the assessment of debt sustainability**. The debt ratio at the end of 2011 is projected to reach 153 percent of GDP, 7 points larger than estimated in the original programme. The difference is mainly due to a reclassification of public entities in the general government. Therefore, the balance sheet of the wider public sector has not been affected by the reclassification.

Graph 15. Developments in the debt ratio - Scenarios



Assumptions: Nominal growth rates: 2.0, 3.5 and 5.0 percent for scenarios 1, 2 and 3. Common assumptions: primary surplus: 5.5 percent of GDP; implicit interest rate: 4.8%.

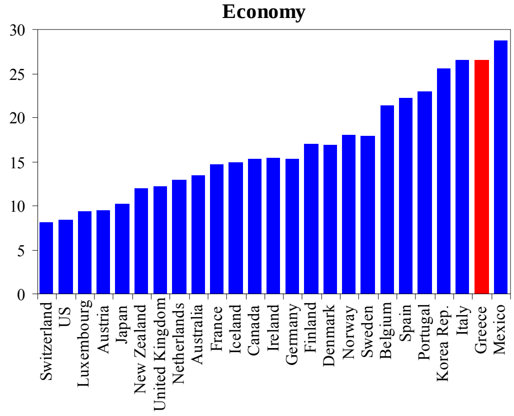
25. **To speed up debt reduction, the government scaled up its privatisation programme**. The original programme target of EUR 1 billion in annual revenue from privatisations over 2011-13 was revised to EUR 7 billion cumulative over the three years – of which at least EUR 1 billion in 2011. Privatisation proceeds (including sales of real estate) are to be used to redeem debt and do not substitute fiscal consolidation efforts.

4.2. STRUCTURAL FISCAL REFORMS

4.2.1. Tax administration reforms

26. **Progress has been made to improve tax administration and controls**. Reforms to reduce tax evasion and fraud are important for the fiscal adjustment programme. They are also crucial to ensure social fairness and a sustainable adjustment. Some progress has been made with the creation, during the summer, of task forces to prepare measures and reforms to fight tax evasion. The government is expected to implement the task forces' proposals in early 2011 and set quantitative performance indicators to hold the revenue administration accountable on performance.

Graph 16 . Ranking of 25 OECD Countries According to the Size of the Shadow Economy



Source: World Bank

27. **The government envisages strengthening the legislative framework to fight tax evasion.** The administrative tax dispute and judicial appeal processes will be simplified, impediments to the exercise of core tax administration functions (indirect audit methods, tax returns processing) will be removed, and the status of personnel in charge of tax administration reformed to sanction corruption and poor performance of officials. Moreover, the government will set up and make fully operational a risk-management framework, introduce modern taxpayer services. It also intends to re-build the tax audit function; and to establish a full-service large taxpayer office. Given resistance from vested interests, vigorous implementation of these reforms will be essential.

4.2.2. Fiscal institutions

28. **Some progress was made in ensuring a timely provision of reliable fiscal data**. Commitment registers have been introduced in all general government units in November and the government has started to publish monthly reports on cash spending and arrears for general government entities. At the same time, monthly data availability for general government sub-sectors other than the state remains clearly below par and prevents adequate monitoring of intra-year budgetary developments at general government level. While the situation has somewhat improved in the social security sector and state-owned enterprises, fiscal information on local governments remains very limited. The mission urged the authorities to make further progression this area.

29. **Budgetary institutions were strengthened**. In line with the provisions of the draft organic budget law – adopted in July 2010 – the draft budget for 2011 includes expenditure ceilings for the State and deficit targets for the general government. The budget also includes data on the financial performance of the largest state-owned enterprises and a list of extra-budgetary funds. The new organic budget law provides for the setup of a Parliamentary Budget Office, which is now being created (the Parliament Regulation has already been amended). Its composition and staffing will be decided and announced before end-2010.

30. **The reform of the General Accounting Office (GAO) is progressing slowly**. This is a key reform to ensure reliable budgetary forecasts and provision of timely monthly cash-based statistics on revenue, expenditure and accounts payable in the general government and sub-sectors. The Ministry

of Finance has commissioned a comprehensive study for the reorganisation of the General Accounting Office to a private consulting company, the results of which will be available by early 2011.

4.2.3. Pension reforms

31. **The pension reform will be completed in 2011**. In July 2010, the Parliament adopted a comprehensive pension reform. The reform simplifies the current highly fragmented pension system, enhances transparency and fairness, increases the retirement age and decreases the generosity of benefits, while preserving an adequate pension for the low-middle income earners. The new rules on entitlements, contributions, accumulation rules and indexation of pension rights apply to the main pension funds. The following steps have been foreseen to secure the overarching target of reducing the overall increase of public sector pension spending, over the period 2009-2060, to under 2.5 percentage points of GDP.

   - **Updated long term projections for pension expenditure.** By the end of the first quarter 2011, the National Actuarial Authority (NAA) will submit comprehensive long-term projections of pension expenditure up to 2060 – the projections will then be validated by the EU Economic Policy Committee (EPC) and the European Commission, IMF and ECB staff. If the NAA projections reveal that the planned increase in public pension expenditure exceeds the target of 2.5 percentage points of GDP over 2009-60, the government should further revise the main parameters of the pension system.

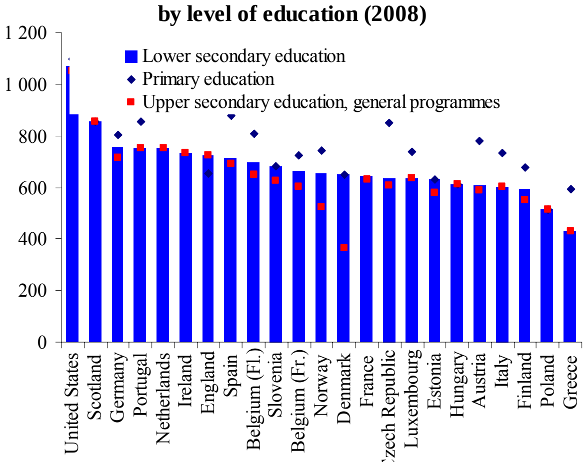
   - **Reform of the functioning of supplementary pension funds.** The aim of the reform should be to stabilise pension expenditure and guarantee the budgetary neutrality of these schemes in the medium and long run. The revision should stabilise current spending by 2012 and ensure the long-term sustainability of secondary schemes through a strict link between contributions and benefits.

4.2.4. Health care and education reforms

32. **The government will start preparing and implementing a comprehensive reform of the health care system**. The overarching objective of the reform is to improve the cost efficiency of the system, and keep public health expenditure at or below 6 percent of GDP, while maintaining universal access and improving the quality of care delivery. In the short-term, the focus will be on macro-level discipline and cost-control. In a medium-term perspective, more profound structural changes will be needed to contain spending. The government will create an independent task force of health policy experts that will produce, by end-May 2011, a detailed blue print for an overall reform of the health system (both public and private). The report will include policy recommendations and provide quantitative targets, consistent with the objective to keep public expenditure on health as a proportion of GDP constant at or below 6 percent. On the basis of this report, the government will adopt an action plan by end-June 2011, including a timetable for reform implementation.

33. **A similar reform approach will be followed in the education sector**. The government will establish, by end-February 2011, an independent taskforce of education policy experts whose task will be to produce, by end-June 2011, proposals for the public education reform (including higher education). The purpose is to improve efficiency in the education sector. The taskforce will benchmark Greece with international best practices. It will consider measures that increase the quality and effectiveness of the education system and fight waste.

Graph 17. Number of teaching hours per year, by level of education (2008)



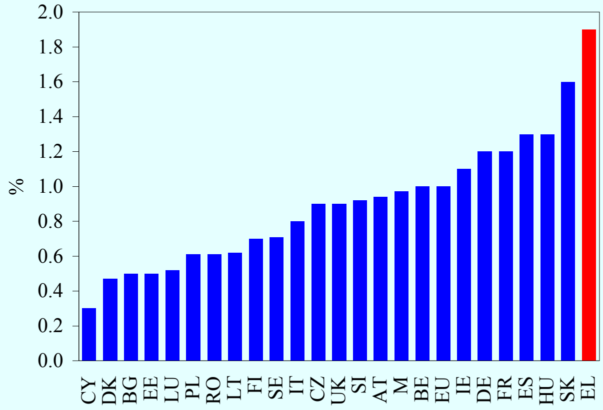
Source : OECD

Box 3: **Reform of the healthcare system**

A reform of the healthcare sector is urgently needed. Public expenditure on health accounted for 5.9 percent of GDP in 2008. Public per capita expenditure grew at a real average rate of growth of 5.4 percent in 2004-08. If expenditure on health continued to grow at a similar rate, the ratio would increase dramatically in the coming years. Several studies show that there is, however, a large room for improvement in the use of resources allocated to the sector. A large set of measures are needed to stabilise or even reduce the public health spending-to-GDP ratio to around 6 percent, while improving the quality of care provision trough substantial gains in productivity and significant cuts in waste and corruption.

Greece spends much more than other countries on pharmaceuticals. Public expenditure on pharmaceuticals (for outpatient care) as a percent of GDP (1.9 percent) and as a share of total current health expenditure (20.4 percent) is considerably above the EU average (1 percent and 11.5 percent, respectively) and shows a consistent increase over time. Therefore, reducing unnecessary expenditure on pharmaceuticals is a priority for the coming years. The authorities plan to save between EUR 2 and 3 billion in the coming years. In addition to e-prescribing that is to be extended to all social security funds by end 2010, an updated price list and a "positive list" of reimbursed medicines based on new reference prices are due to be launched by end-2010. Overall, the government should aim at reducing this spending to the EU average of 1 percent of GDP.

Graph 1. Public expenditure on outpatient pharmaceuticals as % of GDP



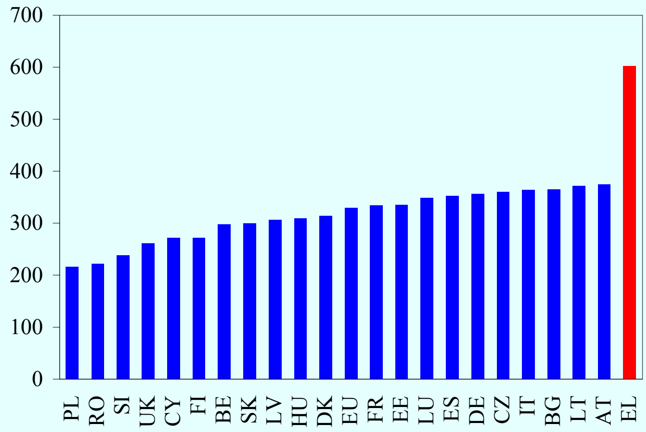
Source : OECD

A number of measures have already been initiated. The aim is to create the prerequisites for an effective monitoring and information system: a) monitoring of expenditures, including adequate and modern accounting and billing systems; b) monitoring of stocks and flows (warehouse book-keeping) of medical supplies and medicines used by providers and c) monitoring of activity (physicians' consultations, hospital admissions and discharges, prescription of medicines, of medical diagnostics and of referrals to other physicians). Such monitoring aims at reducing waste and fighting corruption (e.g. there are reports of over prescription of medicines and diagnostic tests due to a lack of monitoring). It is also expected to result in more timely payments. For monitoring to lead to efficiency gains, it has to be coupled with regular auditing, data reporting, and assessment vis-à-vis clinical guidelines. Effective penalties have to apply when abuse takes place.

Existing legislation needs to be fully implemented. The authorities should fully and swiftly implement some of the new provisions reforming the health system, voted into law in July 2010 (L. 3868/2010). In particular, they should fully exploit the benefits of centralised public procurement of medical supplies and medicines to be used by public providers of health services and reimbursed by social security funds. This could lead to price savings for the public system and timely payments for private sector companies selling medical supplies and medicines. The authorities have taken important steps in this direction with the launching of eight central tenders for medical supplies, which may result in about 30 percent price discounts for certain products.

Further measures need to be directed at physicians, patients, pharmacists and third-party payers. Third-party payers should look for agreements with industry for price-volume agreements, rebates and discounts, notably through the use of centralised procurement. For physicians, measures should include e-prescribing, prescribing by active substance and prescription monitoring and assessment vis-à-vis prescription guidelines. Policies directed at pharmacies and wholesale companies include changes in payment schemes. For patients, measures should include cost-sharing and information campaigns on generics, on the drawback of overconsumption of certain medicines and the importance of treatment compliance.

Graph 2 . Number of practising physicians by 100 000 inhabitants



Source : OECD

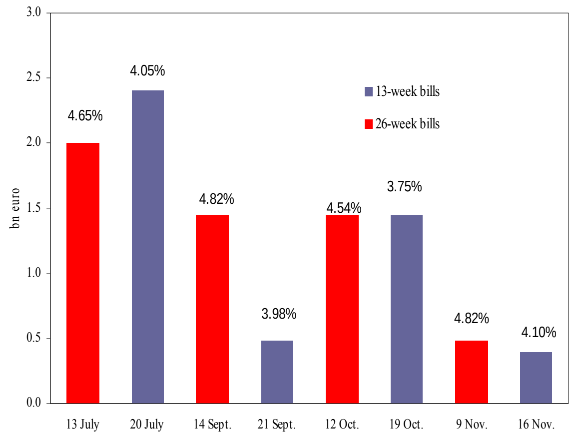
The coming years should see a greater role of generics as a cost-containment tool ensuring value for money in the system. Encouraging generics use requires ensuring faster registration and price competition in the generics market. It requires reconsidering current reimbursement schemes to encourage generics use, while ensuring procurement and prescription by active substance and generics substitution by pharmacies. Payment practices to pharmacies should not be detrimental to generics. Other measures that can induce additional revenue include: the simplification of contribution schemes to social security funds, a better contribution collection by social security funds, the effective collection of co-payments by NHS facilities and the billing of non-residents for treatment in Greek public facilities. Co-payments and billing of costs for non-residents is currently not done for a variety of reasons, including technical reasons. Hospital computerisation should overcome such obstacles and can also support a better management of public health facilities.

In the medium and longer term, more profound changes to the system should be considered. This will help improve its cost-effectiveness and the quality of care. In the next two years, measures should be taken to improve pooling of funding to purchase health services, to better integrate private and public provision in a general and common provision framework to be used by all patients, to improve the provision and use of primary care services versus hospital services, to implement patient electronic medical records, to improve costing and budgeting systems for hospitals and to improve payment systems for physicians and hospitals. In the longer run, authorities need to ensure an overall coherence of the system i.e. improve health system governance by streamlining and clarifying responsibilities across all agents.

4.3. FISCAL FINANCING AND TREASURY MANAGEMENT

34. **Since September, the debt management agency introduced greater flexibility in its short-term debt issuance**. PDMA (Public Debt Management Agency) has adjusted its issuance to market circumstances. The T-bill auctions became smaller in size but more frequent, to smooth redemption profiles and reduce interest costs. Yields on short-term securities sold in the primary market remained broadly stable over July – November. The 3-month and 6-month T-bills were placed at around 4 percent and 4.7 percent, respectively. Short-term debt auctions witnessed a reasonably strong demand, with bid-to-cover ratios between 3.6 and 6.3. About one third of the total amount was bought by foreign investors.

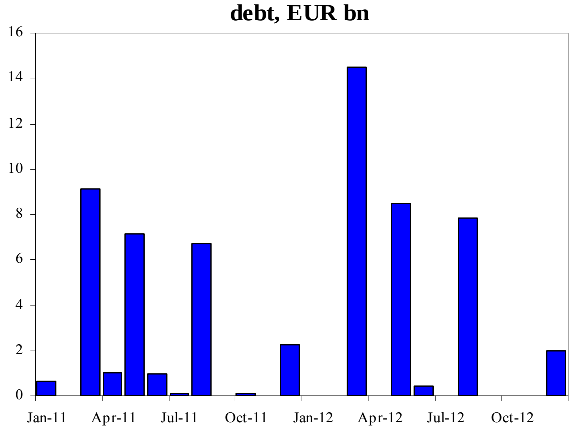
Graph 18 . Greece - T-bill auctions since May 2010



Source : PDMA

35. **Going forward, the authorities will further develop their debt management strategy**. They intend to minimise the costs of short-term debt by carefully selecting the appropriate time, size and securities offered in the auctions. Market conditions allowing, longer maturity securities will be auctioned. Auctions of medium- and long-term paper are not envisaged in 2011 – in that year official financing loans fully cover the needs of the sovereign. However, the authorities intend to rollover some bonds before end-2011, and therefore to overperform relative to programme assumptions.

Graph 19. Maturing medium- and long-term debt, EUR bn



Source : GAO

4.4. FINANCIAL SECTOR POLICIES

36. **The study on strategic options for state-controlled banks was completed in November**. The authorities had appointed three investment banks (HSBC, Deutsche Bank and Lazard) to carry out a strategic review of the banking sector and to identify options for the Ministry of Finance in relation to its stakes in ATE Bank, Post Bank, Attica Bank and the Consignment Deposit and Loan Fund (CDLF). The options included mergers, sales of individual or merged entities to private banks, full privatisation and liquidation. It was emphasised that in order to ensure compliance with State aid rules, a sale of the State's stake in any bank should take place through open tender and the option chosen should be consistent with the restructuring plans.

37. **A restructuring plan for ATE bank has been submitted**. ATE has a poor asset portfolio and a rapidly deteriorating capital base. There are concerns regarding its profitability and long-term

viability. The bank management designed a restructuring plan. However, the plan does not yet fully ensure proper burden sharing and may distort competition. The mission argued that ATE should gradually reduce its assets, improve its efficiency – including by significantly reducing operating costs – and adopt best practices of corporate governance. In parallel, ATE should take measures to improve its CAR, following up on CEBS stress test results. The capital need is expected to be broadly in line with the shortfall identified in the July CEBS stress test – if the need is larger, it would be reflected in the restructuring plan. The due diligence of ATE bank by external auditors will be extended to include a detailed analysis of the quality of the bank's loan portfolio.

38. **Banks need greater flexibility to reduce their costs**. Employees of public banks benefit from contracts similar to those granted to civil servants, which hinders the adjustment of the bank's operating expenditure and weighs on profitability. By end-December 2010, the authorities will take legislative action to harmonise the status of bank employees, regardless of the bank's ownership structure. This will give more leeway to banks to independently negotiate employment conditions.

39. **The FSF board was established in October 2010**. An account at the Bank of Greece has been opened, on which EUR 1.5 billion has already been disbursed. However there have been delays in the recruitment of qualified staff. The authorities committed to allow the necessary flexibility in the recruitment of staff to ensure that the fund is fully operational soon. On current projections, however, banks are not expected to turn to the FSF in the near future. A dedicated account will be opened by the General Accounting Office on which the subsequent tranches for the FSF will be parked until they are needed by the FSF. This will allow the Government to optimize cash management – the remuneration of the FSF account at the Bank of Greece is very low.

40. **Progress has been made regarding the methodology of supervisory stress tests conducted by the Bank of Greece**. The main objective of the stress tests is to assess potential funding needs to be covered by the FSF. In cooperation with European Commission, IMF and ECB staff, the Bank of Greece reviewed the methodology used for the stress tests during a technical assistance mission in September. Discussions will continue in December.

Box 4: **The strategic review of options for state-controlled banks**

The public pillar in the banking sector has to be restructured. The largest public bank is Agricultural Bank of Greece (ATE) which has an important stake in First Business Bank (FBB), while the Consignment Deposit and Loan Fund (CDLF) is fully owned by the State. Postbank is also directly controlled by the State, whereas Attica and TTbank are influenced by the state in an indirect way (through Postbank and also CDLF in the case of Attica). The following is envisaged:

- **ATE will be thoroughly restructured as a stand-alone institution**, with reduced lending to public entities and enhanced corporate governance. The accumulation of losses led to an erosion of its capital base, as highlighted by the CEBS stress tests of July 2010. As a consequence, a recapitalization of the bank has been announced and is envisaged in early 2011, subject to Commission approval, possibly drawing from the reserves in the CDLF.

- **The CDLF will be unbundled by end-March 2011.** The consignment activity, which is a public service, will be separated from the commercial banking activities. This will enhance the transparency of this institution and avoid cross-subsidisation of commercial and non commercial activities.

- **Concerning the Government stakes in Postbank and Attica, a sale is considered.** The sale should be completed by end-2011 for Postbank. The Government stakes in Attica are indirect and the disposal of its holdings needs to be done in consultation of the management. Bearing in mind that a pension fund is a large share holder of Attica, prudential supervisory requirements have to be taken into account in the selection of the prospective buyer.

Table 1. Key features of Greek banks

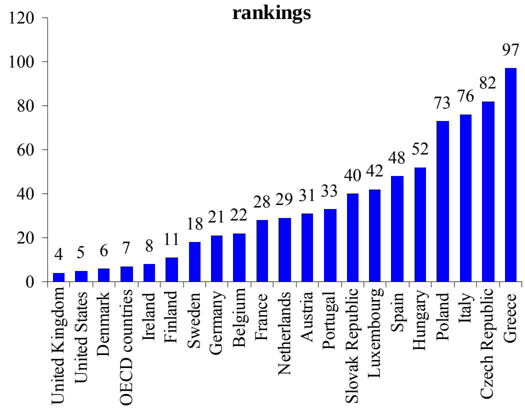
in percent	2008 Q4	2009 Q4	2010 Latest	Overview
ATE				
CAR	8.6	9.1	-	ATE is a publicly owned bank (77%) with total assets of around EUR 33 bn by end 2009. It has specialised in providing credit to the agricultural sector and also provides a significant part of public sector lending. ATE holds a 40.52% stake in FBB.
NPL	5.4	8.6	-	
ROA	0.1	-1.4	-	
Market Share	5.9	6.4	-	
FBB				
CAR	9.4	10	-	FBB is a commercial bank involved in shipping, corporate and retail banking. It had EUR 2 bn in assets by end 2009. Following the share capital increase in July '10 by EUR 29 mn the bank ownership now consists of: the Restis family (57%), ATE (41%) and other shareholders (2%).
NPL	3.9	7.7	-	
ROA	0.02	-1.3	-	
Market Share	0.4	0.4	-	
CDLF				
CAR	-	-	-	The CDLF is a State owned entity. As it is not a bank it is supervised by the MoF and not the BoG. It also owns 19.3% of Attica. It carries out a number of activities, including granting loans to public entities and civil servants, keeping any kind of consignment and accepting deposits mainly from individuals.
NPL	-	-	-	
ROA	-	-	-	
Market Share	-	-	-	
TT PostBank				
CAR	8.6	17.1	-	TT is controlled by the State through a 34% stake. It had a balance sheet total of almost EUR 18 bn at the end of 2009. It developed out of Hellenic Post and still has cooperation agreements with the post offices. It hold a 9.6% stake in Attica bank and 32.9% in T Bank
NPL	12.5	15.1	-	
ROA	2	2	-	
Market Share	3.2	3.7	-	
Attica				
CAR	11.2	16.5	-	Attica is a bank with around 28.9% indirect Government stake: 19.3% via the CDLF and 9.6% via TT as of end 2009. It focuses on retail banking and especially on loans to commercial and industrial companies and less on mortgages and consumer loans.
NPL	5.5	6	-	
ROA	0.4	0.25	-	
Market Share	1	2	-	
T Bank (Aspis)				
CAR	12.1	7.6	-	T Bank is a commercial bank with EUR 2.4 bn in assets at the end of 2009. The acquisition of a 32.9% stake in the Bank's share capital in 2010 by TT Hellenic Postbank (becoming the main shareholder) resulted in the Bank's renaming to "T-BANK" from "Aspis Bank".
NPL	8.7	15.9	-	
ROA	-1.7	-2.4	-	
Market Share	-	4.9	-	
NBG				
CAR	10.3	11.3	-	NBG is the oldest and largest commercial banking group in Greece with EUR 113 bn in assets and 23% of the market share by end 2009. It conducts a wide range of banking activities.
NPL	4.1	6.4	-	
ROA	1.7	0.9	-	
Market Share	-	23	-	
EFG				
CAR	10.4	12.7	12.2	Eurobank EFG group is a Greek banking organization with total assets of EUR 84.3 bn and 17% of the market by end 2009. It is controlled by the Latsis family which holds 44.6% of total shares.
NPL	3.9	6.7	7.3	
ROA	0.9	0.4	0.1	
Market Share	20	17	-	
Alpha				
CAR	10.1	13.3	13	Alpha Bank is a group of companies in the financial sector that offers a wide range of financial services to individuals and companies both in Greece. Alpha bank has nearly EUR 70 bn in assets by end 2009 and 14% of the market. 47% is owned by individuals.
NPL	4.5	6.7	6.9	
ROA	0.9	0.5	0.1	
Market Share	14	14	-	
Piraeus				
CAR	9.9	9.8	9.7	Piraeus Bank covers small and medium-sized enterprises, capital markets, investment banking and leasing. Piraeus Bank went through a period of state-ownership and management before it was privatised in December 1991. It had assets of EUR 54 bn in 2009
NPL	2.9	5.1	6	
ROA	0.7	0.4	0	
Market Share	11	11	-	

Source: Banks financial statements

4.5. OTHER STRUCTURAL REFORMS

41. **The potential for increasing output through reforms is considerable in Greece**. Many sectors remain sheltered or subject to distorted competition. Mark-ups are among the highest in the EU. Labour is underutilised and there is a large informal economy. While adoption of several important reforms ahead of schedule demonstrated the determination of the authorities to enact key reforms upfront – with the perspective to see their impact materialising already over the programme period –, rapid progress also reflected a higher degree of preparation for these reforms. Some of them had indeed been on the national reform agenda for long. Reforms have been slower since the summer, reflecting the political cycle and the need to carefully design the reforms, overcome vested interests and, in a few cases, address technical and legal obstacles.

Graph 20. World Bank Doing Business 2010 rankings



Source : World Bank

42. **Structural reforms that boost the economy's potential are key for the success of the programme**. Successful reforms strengthen the supply-side of the economy already in the short run, improve external competitiveness and, by supporting higher sustainable growth, facilitate budgetary consolidation and induce more favourable debt dynamics. Given the many areas of the real economy requiring deep reform, the mission called for a new decisive impulse to implement structural changes. Programme conditionality has been revised, with new deadlines for key labour and product markets reforms. Priority has been given to those reforms that will speed-up adjustment and trigger an early supply response.

Box 5: **Contribution of structural reforms to growth**

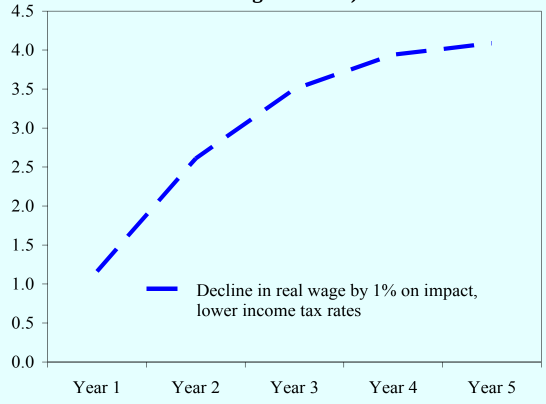
This box provides background on the impact of structural policies on medium- to long-term growth, based on the Commission's QUEST III model. Greece has engaged into a very comprehensive structural reform programme, and it is interesting to examine what benefits the planned reforms could bring to the country. The charts below show the impact of three types of permanent favourable shocks. The shocks reach their maximum impact in the fifth year after their occurrence, whereby significant positive effects can be observed already after 2-3 years. Following the peak, the impact gradually moderates in the long term. Another chart presents the immediate impact of a reduction by 100 basis points in risk premia. The following shocks are modelled:

(i.) Labour market reforms;
(ii.) Product market reforms;
(iii.) Productivity-enhancing reforms.

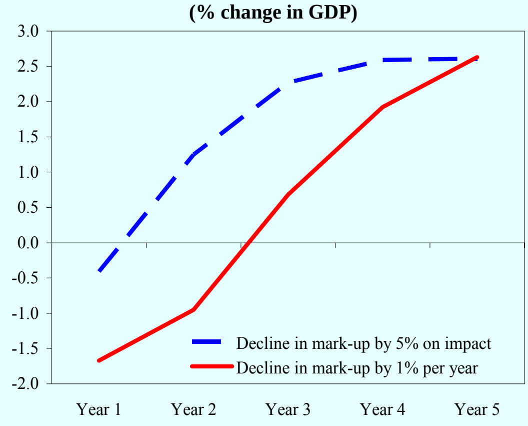
A favourable labour supply shock would lead to a significant increase in real GDP growth. The shock mimics the impact of reforms in employment protection legislation, minimum wages or wage bargaining that bring about a decline in real wages by 1 percent, an increase in labour supply and demand, and higher employment. Reforms in these areas are currently envisaged in Greece. The favourable labour supply shock is further enhanced in case the additional tax revenue feeds into a reduction in labour income tax rates (see Graph 1).

A favourable shock implying a decline in mark-ups by 1 percentage point also has a very significant impact on real GDP. The shock illustrates the impact of reform measures such as improving regulation, breaking up monopolies, removing barriers to competition in previously protected sectors, etc. Again, reforms in all these areas are currently envisaged by Greece. The initial slightly negative impact on growth is explained by the temporary increase in the real interest rate under the assumption of constant ECB policy rate and price reduction expectations. Graph 2 presents real GDP effects under a scenario with the average mark-up in the tradable and non-tradable sector decreasing by 1 percentage point over five years and an alternative simulation when the 5 percent impact occurs at once in year 1. In both cases, GDP increases by around 2½ percentage points compared to the baseline after five years.

Graph 1 . Impact of labour market reform (% change in GDP)



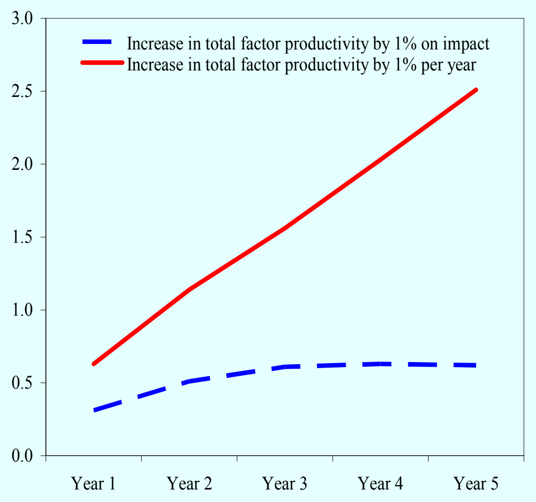
Graph 2. Impact of product market reform (% change in GDP)



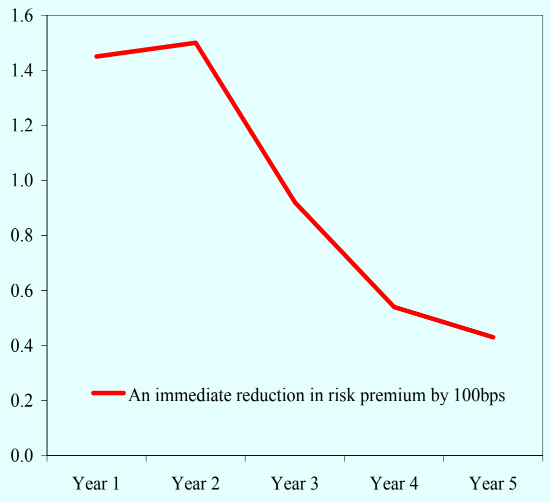
An increase in total factor productivity (TFP) in the tradable and non-tradable sectors has a swift effect on growth. An increase by 1 percentage point results in an increase in real GDP by 0.6 percent in the medium term. In case the shock persists over five years, the impact reaches 2½ percentage points. It should be noted, however, that of all three examined supply-side shocks, it is most difficult to engineer a favourable TFP shock by targeted economic policies. Its occurrence should, therefore, be regarded rather as a by-product of appropriate labour and product market reforms that free up resources for private sector investment in R&D and innovative technologies. Given the comprehensive structural reform agenda in Greece, some positive effect on TFP is likely, as a combination of reforms may favour stronger economic efficiency.

Finally, a decline in risk premium by 100 basis points has a large immediate impact estimated at around 1.5 percent of GDP in the year of occurrence. The confidence effect is expected to have an immediate impact on the intermediation premium required by the banking sector for loans for physical investment and consumption, thus contributing to the recovery in domestic demand, investment and private consumption in particular. The reduction of the risk premia would also imply access to cheaper government and private sector financial market financing, including the possibility of rolling-over existing high-interest-rate debt at more favourable conditions.

Graph 3. Productivity effects (% change in GDP)



Graph 4. Confidence effects(% change in GDP)



4.5.1. Labour market reforms

43. **The second wave of labour market reforms should be enacted as soon as possible**. These reforms have a direct link with the programme objective of improving external competitiveness through supporting labour supply and increasing wage flexibility. Important progress was achieved in the early part of the programme. The government reformed EPL, reduced the minimum wage for young workers and took measures to tackle early retirement. However, progress has been slower since the summer. Two key reforms are in the short-term agenda: first, a reform of the arbitration system (to introduce symmetric access and secure independence of arbitration) and second, a reform of the wage bargaining system. The latter is supposed to promote a better alignment of wages with productivity at firm level, and to eliminate the automatic extension of sectoral agreements to those not represented in the negotiations:

- **Mediation and arbitration system.** The reform under preparation should guarantee equal access to arbitration for all parties involved and ensure that arbitration internalises the objective to improve the economy's cost competitiveness. It should free the Mediation and Arbitration Organization (OMED) from Government influence – this objective should be reflected in the composition of the board of directors.

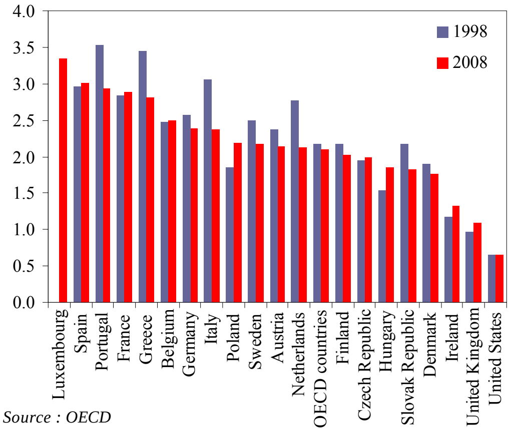
- **Firm-level collective bargaining system.** The Ministry of Labour is drafting a law defining conditions under which firm-level collective agreements can temporarily derogate from sectoral-level **collective** agreements. The draft law contains provisions to reduce extra time remuneration for part-time workers, ease the recourse to shift work, and make temporary working agencies more accessible. However, the draft law that was discussed between the government and the mission was not fully consistent with the MoU. In particular, the latter requires that firm-level collective agreements take precedence over sectoral and occupational agreements without undue restrictions. In other words, it should allow firms to deviate from sectoral wage agreements, facing no limits on the magnitude and on the time length of the deviation, without imposing any requirements regarding the size of firms entitled to engage in collective bargaining, and without imposing on firms bureaucratic or administrative burdens.

- **Extension of sectoral and occupational collective agreements.** Greece is expected to eliminate the **possibility** for the Ministry of Labour to extend the coverage of sectoral and occupational agreements to firms and workers not represented in negotiations. However, no legislative action has taken place so far.

44. **Further reform efforts are needed**:

- **Restrictions on employment and working hours.** Reforms should be initiated to extend the probationary period for new jobs to one year, eliminate temporal limits in the use of temporary working agencies, adopt legislation to promote fixed-term contracts, facilitate the use of part-time working arrangements by firms, and allow for a more flexible working time management. Concrete discussions were held during the mission and reforms are expected to be tabled in Parliament by end-2010.

Graph 21.Strictness of employment protection legislation



Source : OECD

- **Tackling undeclared work.** The government committed to strengthen the Labour Inspectorate by end-June 2011. Quantitative targets on the number of controls to be executed should be set. In parallel, the authorities will modify legislation on tackling undeclared work to require the registration of new employees before they start working.

Box 6: **The reform of collective wage bargaining in Greece**

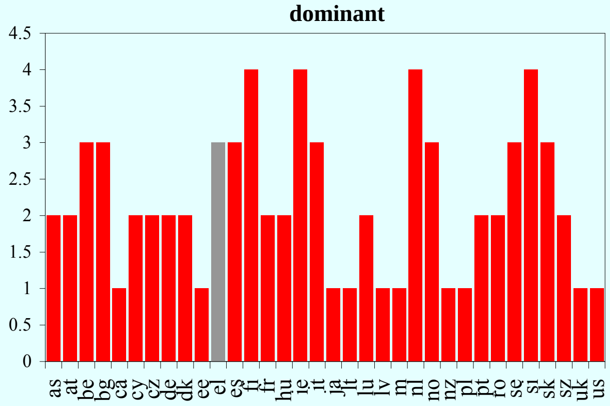
Greece's competitiveness problem is rooted in excessive wage growth during the boom phase. During the pre-crisis decade, real wage growth consistently outpaced productivity gains. The resulting increase in ULC (unit labour costs) eroded external competitiveness. Greece's real effective exchange rate (REER) appreciated by some 10-20 percent (depending on the deflator used) over 2000-09. According to Commission services' calculations, REER was overvalued by 10 to 20 percent in 2009.

A reform of the wage bargaining system should fulfil a number of conditions. It should promote a better alignment of wages with productivity, facilitate an effective and timely response of wages to changing market conditions, and create the conditions for competitive cost conditions throughout the economy. In Greece, the reform should encourage collective agreements at firm level and reduce the scope for the extension of sectoral and occupational-level agreements.

The existing collective wage bargaining system introduces an upward bias in wage agreements. Wage bargaining in Greece takes place mainly at sectoral level. Literature has shown that the sectoral level is, among all levels of wage negotiations, since it internalises competitiveness considerations to the smallest extent.* Wage bargaining at a lower level can only improve on the wage outcome established at higher level of negotiation. The system, therefore, effectively prevents firms from deciding upon more moderate wage increases and wage cuts, in line with production needs. Firm-level wage agreements are underdeveloped and are only used by a small fraction of firms in Greece. The current legislation limits the faculty of engaging in collective bargaining to firms with more than 50 employees. Furthermore, wage conditions bargained at the sectoral and occupational levels can be made compulsory for all parties within the sector by an act of the Ministry of Labour under the condition that contracting parties are sufficiently representative; such extensions have been frequently used in Greece.

The unionisation structure protects insiders. The "excessive coverage", i.e., the difference between the share of employees covered by collective bargaining at sectoral level (coverage) and the share of employees members of unions (union density) is high in Greece. This implies that a relatively small number of insiders influence wage levels for much larger groups. This does not guarantee that demand-supply dynamics on the labour market – including the need to improve external competitiveness and to reduce unemployment – are properly captured during negotiations.

Graph 1. Level at which wage bargaining is dominant



Source: Database on Institutional Characteristics of Trade Unions, Wage Setting, State Intervention and Social Pacts (ICTWSS).
Legend: The dominant level(s) at which wage bargaining takes place
5 = national or central level
4 = national or central level, with additional sectoral / local or company bargaining
3 = sectoral or industry level
2 = sectoral or industry level, with additional local or company bargaining
1 = local or company bargaining

*Collective bargaining in Greece currently takes place at national, sectoral, occupational, and firm level. The overlapping of sectoral and occupational agreements is addressed by permitting sectoral and firm-level agreements to take precedence over occupational agreements.

4.5.2. Public administration

45. **Progress in simplifying the public sector remuneration system has been slow**. A new impetus to this important reform is needed. The purpose is to achieve a fairer and simpler remuneration system – the current one being viewed as unwieldy, due in particular to the proliferation of allowances and an obstacle in transfer of staff between different departments. By end-2010, the government is expected to present a detailed action plan with a timeline to design and implement a simplified remuneration system. The system should ensure that remuneration reflects productivity and tasks. Legislation is expected to be adopted by June 2011 and the system should be operational before end-2011.

46. **The functional review of public administration will start soon**. In spite of delays, the government has committed to launch independent functional reviews of the central public administration and of existing social programmes. The review of central administration will take stock of the resources used to carry out government functions, identify actions to rationalise the system and quantify potential savings. The review of social programmes will identify the least effective programmes and quantify potential savings from their streamlining or elimination. The terms of reference of both reviews should be agreed before end-2010.

    - **Central administration.** Critical areas that need to be reformed include strategic planning and programming, and the management of human resources and infrastructure. The functional review should lead to operational policy conclusions with regards to the organization of public administration, including all ministries and subordinated public entities (secretariats and agencies, about 70 in total). The review will be conducted by the OECD.

    - **Social programmes.** Public spending on social protection in Greece as a share of GDP is not substantially lower than the EU-27 average. Yet, the impact of social transfers (beyond pensions) in reducing the risk of poverty is clearly lower than the EU average – 4 percentage points against 9 percentage points for EU-27 in 2007. Social policy is made of a number of heterogeneous programmes, without clear policy targets: most schemes are not means-tested schemes. There is no clear articulation between income - support benefits and active inclusion measures, especially active labour market measures. The review will also be conducted by the OECD.

4. 5. 3. State-owned Enterprises (SOEs) reform and Privatisation Plan

47. **SOEs financial accounts were published on 1 November 2010**. The statement from the Ministry of Finance provides the financial accounts for 2005-09 of the ten largest-loss making SOEs and for 2010H1 of 30 SOEs, as well as the payrolls of all 52 SOEs that are monitored by the Ministry of Finance. According to the published data for the 30 enterprises, losses of about EUR 270 million were recorded in 2010H1. The published data suggest that wages in SOEs are generally higher than those of civil servants and in the private sector, and in many of them, payroll exceeds total revenues. From now on, all 52 SOEs will be audited on a quarterly basis. The largest loss-making SOE is the national railway company (comprising OSE, TRAINOSE and EDISY) with an accumulated debt of ca. EUR 10 billion. The second largest loss-making company is ETHEL (urban transport buses) and the third, EAS (Hellenic Defense Systems).

48. **The privatisation plan announced last summer should be revised**. Privatisations are planned to be conducted mostly through concession agreements, with outright sales and IPOs playing a smaller role. Privatisation could generate sizable proceeds not only by selling equity in SOEs (including banks), but also in infrastructure-related concessions (like ports and airports) and real estate (land and buildings). The government has revised upwards the target for privatisation proceeds from EUR 3 billion over 3 years to EUR 7 billion over 3 years. The plan should be revised and be made fully consistent with the revised targets. Restructuring and privatisation should be conducted in accordance

with EU competition and State aid rules.. Moreover, steps should rapidly be made to centralise data collection on the value of state assets, including land and real estate.

Box 7: **SOEs restructuring and potential savings**

The Ministry of Finance has identified two immediate and concrete restructuring targets:

Public transport system, particularly OSE (EDISY, GAIOSE, ERGOSE) and TRAINOSE (circa EUR 10 billion debt accumulated in the last 10 years), OASA Group (OASA, ETHEL, ILPAP, ISAP) and TRAM (ATTIKO METRO Group).

Other SOEs classified in the General Government,(*) as well as non-classified loss-making EAV (Hellenic Aerospace Industry) and ODIE (Horse Racing Organization).

Restructuring requires monitoring and a sound corporate governance system, and compliance with the EU state aid rules:

Monitoring: the Ministry of Finance's special secretariat for public enterprises (EGDEKO) will ensure that the SOEs restructuring process is successful through: a regular control of operational expenses (monthly and quarterly data, according to the IFRS reviewed by chartered certified accountants; and internal audits.

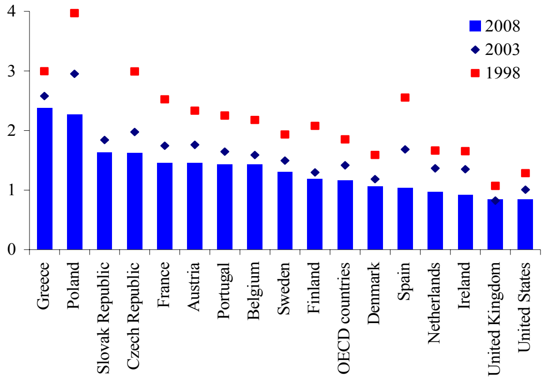
Corporate governance: in order to ensure SOEs are no longer exposed to excessive government intervention in their decision-making process, the Ministry of Finance will revise Law 3429/2005 (on SOEs) to ensure a sound corporate governance similar to those required for listed companies.

(*) SOEs recently classified from the corporate sector into general government include: ETHEL (buses); ILPAP (Athens-Piraeus Trolley Buses); ISAP (Athens-Piraeus Electric Railways); OSE (Hellenic Railways Organization); TRAINOSE (Train Operator); ATTIKO METRO (Athens metro) EAS (Hellenic Defence Systems); TRAM (Electric Trains); ERT (Radio & TV); ELGA (Agricultural Insurance Organisation); OPEKEPE (Farmers Subsidies Guarantee); KEELPNO (Centre for Contagious Diseases) and ELECTR. KYMIS.

4. 5. 4. Reforms to improve the business environment and to strengthen competition

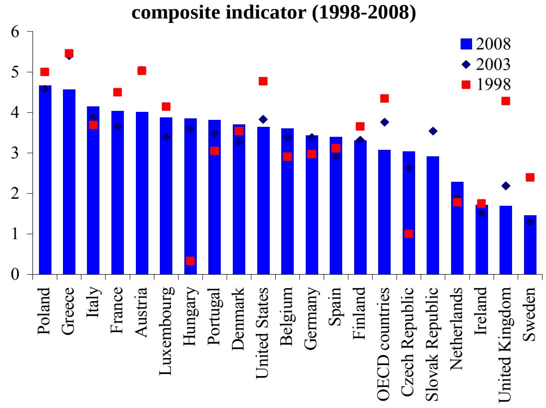
49. **The business environment suffers from obstacles to starting a business and excessive regulation**. There is insufficient competition in services which remains, to a large extent, sheltered. Professional services, which represent 7 percent of employment, face strict licensing requirements and restrictions on fees or prices charged. Licensing requirements are also high in the retail distribution sector.

Graph 22. Composite indicator of product market regulation (1998-2008)



Source : OECD

Graph 23. Barriers to entry in services: OECD composite indicator (1998-2008)



Source : OECD

50. **A number of initiatives are underway to improve the business environment**. A law simplifying and speeding up business start-ups has been passed, but its operability hinges on the completion of the business register (GEMI), which has made only slow progress so far. Regarding licensing, a draft law is currently under preparation with a view to accelerating and facilitating the granting of licenses for industrial activities. In parallel, regulations on environmental permits, which make up almost half of the permits, are being reviewed. Also in the area of industrial activities, a law is in preparation on the development of business areas. A reform of public procurement is under way which should increase transparency and efficiency, based on an action plan prepared in cooperation with the European Commission. Finally, the authorities are finalising a draft law on the licensing of technical professions. While it is not clear whether the legislation will be ready for adoption by end 2010, work appears to go in the right direction, with measures including the setting of deadlines and the introduction of tacit agreement clauses, using certified controllers, pre-defining standards that the applications should meet or abolishing prior in-situ inspections.

51. **Compliance with conditionality related to the Services Directive has been mixed**. An ambitious implementation of the directive is needed to increase competition and efficiency of the largest sector of the economy – the overarching objective being to achieve lower prices and higher quality services for consumers. Conditionality for the third quarter of 2010 related to finalising a screening of sectoral legislation and providing a list of restrictions that are being abolished or amended. It also called for the completion of the electronic point of single contact (PSC) – the user friendly webpage portal with information on procedures to be complied with by the service provider and allowing for the on line completion of procedures. Whilst the first requirement has been partially met, the second has not:

- **Screening.** The authorities have provided the mission with the results of the screening. Results for the tourism, retail and education sectors were assessed. The mission argued that the government should abolish some requirements they planned to keep and provide more information on some others. Changes to sectoral legislation should be ready by the end of 2010. Some sectors, such as wholesale and privately funded schools, were not covered by the screening. Moreover, restrictions on technical professions were not screened either. To cater for these omissions, the mission asked the Greek government to specify by end 2010 a limited number of priority services sectors and to present a timetable for adopting sectoral legislation six months later. Lastly, the Government is planning to pass a framework law in the area of closed professions, which will remove unnecessary restrictions. The removal of restrictions is legally and technically complex and should be done in a legally robust manner. It is not yet clear whether a framework law that does not specifically address each of the existing restrictions is appropriate.

- **PSC.** None of the conditions related to the PSC were met. Indeed, prior and during the review mission, the Government stressed that it faced difficulties to implement the PSC. According to the authorities, the Greek legislation does not distinguish between the situation of established service providers and cross-border services – a situation that needs to be changed to provide legal certainty to cross-border service providers. In addition, some technical issues, including the identification of the service provider and the possibility that the provider can pay fees at a distance, need to be solved. It was also argued that work on the simplification of administrative procedures – required by the Services Directive – should be completed. Lastly, that there is a need to issue ministerial decisions to define the exact responsibilities of the PSC. The Commission services have made suggestions as to how to best tackle these issues including, inter alia, the use of qualified electronic signatures and the issuance of the ministerial decisions in parallel to the work on simplification.

52. **There has been some progress concerning the recognition of professional qualifications.** The respective directive has been transposed and the administrative body responsible for the application of the rules of recognition of professional qualifications has been created. However, the practical

implementation still raises problems and delays in treating pending applications are a source of concern. Moreover, Greece does not yet recognise qualifications when delivered through franchised agreements. The recognition of professional qualification is an important component in opening up restricted professions.

4. 5. 5. Actions to promote investments and exports

53. **Some progress has been made to promote investments and exports, but with delays**. The MoU calls for measures to facilitate FDI and investment in innovation in strategic sectors (green industries, ICT, etc.). These requirements have been partly met with delays.

- **Two important laws are about to be adopted.** The first law concerns the revision of the legislative framework on exports, the details of which have not been disclosed yet. The reform aims at eliminating bureaucratic burdens and speeding up procedures for exporters. The second one is the law to facilitate FDI and investment in innovation. According to government sources, the law will count on an annual budget of around EUR 1 billion. Incentives will rely mostly on tax breaks, not on direct grants. The law will target investments promoting economic openness, competitiveness, technology upgrading and the reduction of regional inequalities. The mission argued that there is a need to ensure these measures do not distort incentives.

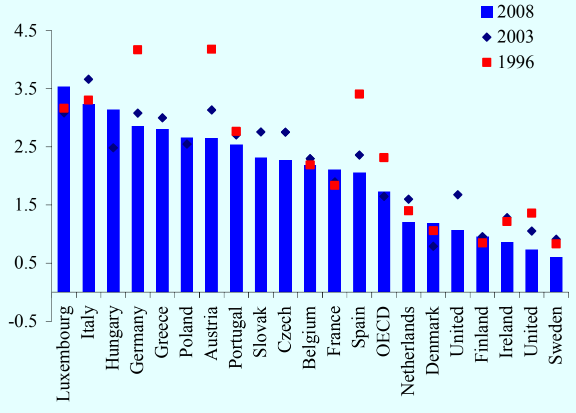
- **A law to fast-track strategic investment projects was passed in Parliament** on 17 November. The law introduces a new integrated framework and shorter deadlines to examine and approve strategic investment plans. The new framework includes a definition of strategic investments using qualitative and quantitative criteria.

- **In addition, Invest in Greece – the official investment promotion agency – will operate as a one-stop shop for strategic investments.** As such, it will receive applications from the investors, will assess them, deliver its opinion and conduct the authorisation procedures and organize calls for tenders. Lastly, the law sets up a new Inter-ministerial Committee on Strategic Investments. The Committee will decide which projects receive strategic status based on criteria such as the investment's viability, the investor's trustworthiness; the improvement in regional growth and competitiveness. An important feature of the law is its flexibility to define and evaluate strategic projects. The Committee can also require additional information and impose conditions on the project and decides on the amount of the assessment management fee and the promotion management fee. The law is a step in the right direction: it integrates procedures and shortens deadlines for examination and approval of strategic investment projects. However the mission argued that there is a need to avoid that the identification of strategic projects distorts incentives. The mission argued that the Government should in addition accelerate the examination and approval of all investment projects and avoid using their discretion that could increase red tape and administrative burdens.

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

Professional services represent a large part of the economy. According to EU KLEMS database, the sector's contribution to GDP is around 2.5 percent, and it represents 7 percent of employment. The economic importance of these services goes, however, beyond their direct weight in the economy. They are providers of inputs for business and thus their quality and competitiveness spills over across the whole economy and are an important element for productivity and competitiveness.

Graph 1. Regulation in professional service indicator (1996-2008)



Source : OECD

There is a clear need for reform regarding regulated professions. Indicator-based evidence shows that the degree of regulation of professional services in Greece is one of the highest in the EU. Restrictions normally consist of regulations on price setting, advertising, entry requirements, and limits on business structure and multi-disciplinary activities.

There are valid reasons as to why some regulation of professional services is needed. Regulations address the issue of asymmetry of information between customers and service providers, which requires practitioners to display a high degree of technical knowledge. Moreover, they also address externalities, as these services might have an impact on third parties. In addition, some professional services produce public goods that are of value for the society in general; hence the need for regulation. However, in Greece there is room to lift some requirements. This should not come at the expense of quality and consumer protection. Empirical evidence suggests that in countries with low degrees of regulation there are proportionally more practitioners generating a relatively higher overall turnover. Liberalization also comes along with substantial moderating effects on prices and higher quality for consumers.

Proportionality is important. Restrictions should be kept if they are needed to attain a public interest objective and they must be the least restrictive mechanism of competition to achieve this objective. The screening of sectoral legislation as part of the implementation of the Service Directive has made information available as to which restrictions apply for the various regulated professions and as to which ones are unnecessary disproportionate. This should speed up the discussions and the work of the drafting committee of the law to open up regulated professions.

The adjustment program targets a series of professions and identifies a number of restrictions to be lifted. It calls the Greek government to tackle unnecessary restrictions on tariffs and where applicable, territorial restrictions which limit the possibility of professionals to operate in the country.

Liberalisation of restricted professions will have a positive effect on growth. According to a recent study by the Institute of Economic and Industrial studies (IOBE), the opening up of a number of services is expected to have positive effects on economic activity, amounting to gains in GDP of over 10 percent in the long run. Other studies show the expected gains of opening up closed professions at the EU-wide level: the Dutch Planning Bureau (CPB) estimates a growth potential of 0.6-1.5 percent of GDP due to the implementation of the Service Directive while the liberalization of closed profession may drive prices down by 7.2 percent and, thus, boost demand for these services.

4. 5. 6. Transport and energy

54. **Good progress has been made in reforming the transport sector**. Concrete steps have been taken to liberalise the road freight transport and a law for an effective restructuring of railways has been adopted. Transport will also be linked to the opening of the tourism sector. The Government has committed to act in two areas: (1) to facilitate the conclusion of concession agreements for regional airports and (2) to remove the current restrictions on the provision of services for occasional passenger transport by buses, coaches and limousines. The provision of regular passenger transport by bus is an area where no progress has taken place so far.

55. **While in past years reform progress has been very slow in the energy sector, a welcome acceleration is noted over recent months**. In particular, in the area of liberalisation of the lignite-fired electricity generation the government has recently submitted a proposal that is currently assessed regarding its effectiveness in opening up the market by the relevant services of the European Commission. In other areas, the government has started to promote actively policies aiming at the liberalisation of the energy market. For instance, in the wholesale market, a new grid code has been introduced and first experience of its working is positive, with prices becoming better aligned to market conditions. Retail regulation will be made more cost-based with effect from 1 January 2011. As regards unbundling, PPC, the government-controlled supplier that dominates the Greek electricity market, has decided to set up two separate subsidiary entities for transmission and distribution by the end of the year. Finally, with regard to the management of hydro reserves, the government has decided to attribute this role to HTSO (Hellenic Transmission System Operator).

Box 9: **Liberalisation of the Road Freight Transport**

Road freight transport in Greece used to be one of the most closed sectors in the country. It represents 98 percent of total freight transport by land. The new bill provides scope for an effective liberalisation of the sector. A license was until now required to transport freight for third parties (license for vehicle for public use), but the number of licenses unchanged since the early 1970s. Licenses were classified in three categories (regional, national and international) and they were sold in secondary market at high prices that reflected the incumbent's rents. License prices ranged from EUR 30 000 to EUR 300 000, depending on the type of license. Moreover, the fare was administratively set for national road freight transport. Apart from vehicles for public use, firms could use their own vehicles to transport their own freight without quantitative constraints. At the moment, whereas the number of public-use vehicles is 33 000, the number of private-use vehicles is above 1.2 million.

Law 3887/2010 on road freight transport was adopted on 30 September 2010. The law provides for free entry in the sector of road freight transport, as all quantitative restrictions on the issuance of licenses for public-use vehicles were abolished. It provides for a two and a half-year transitional period (until June 2013) to allow transporters to adjust to the new institutional framework. During this transitional period, new licenses will be issued with a fee, which will be gradually reduced by 30 percent in 2011 and an additional 35 percent in 2012 and 2013, respectively. After July 2013, no fee will be required; only administrative costs relating to the issuance of the license will apply.

Table 1 : Greece - Cost of new licenses over 2009-2013

Type of license	Capacity	Cost of new licenses				
		2009*	30/09/2010**	01/01/2011 (-30%)	01/01/2012 (-35%)	01/01/2013 (-35%)
Transportation of goods	40tn	up to €150,000	€71 500	€50 050	€25 025	€0***
Transportation of fuel	40tn	up to €280,000	€144 000	€100 800	€50 400	€0***

* Estimated figures. These prices were valid before the beginning of the discussions on the liberalisation of the market (and before the economic crisis). Prices were more or less halved after public consultation of the draft law.

** Entry into force of the law

*** An administrative cost will apply

Source: Commission services.

Box 10: **Restructuring of the Railways Sector**

The law on the restructuring of the railway group was adopted on 4 November 2010 (Law 3891/2010) and it reforms the railway system in the following way:

- **Restructuring.** The law foresees the financial and operational autonomy of TRAINOSE and a possible transfer (with no return) of its full share capital from OSE to the State; EDISY (previously managing railways infrastructure) is **merged** into OSE. The law improves the functioning of ERGOSE (which is responsible for infrastructure development) and GAIAOSE (which is responsible for the management of real estate assets).

- **Debt settlement.** The debt of TRAINOSE to OSE and EDISY is written-off; the States formally undertakes the debt of OSE but, at the same time, benefits from the transfer of the OSE group's real estate property.

- **Personnel issues.** Transfer of redundant staff to other public sector services; internal re-organisation of remaining staff within 3 months. The transfer of staff to other public services will be included under the rule of one recruitment for five exits.

- **Clear delineation of powers and responsibilities** in OSE, its subsidiaries and TRAINOSE: Indicatively: OSE – in view of the **merger** with EDISY – is the manager of the national railways infrastructure and operates under four organisational sectors which may in total employ up to 2 800 employees. TRAINOSE assumes new responsibilities (e.g. logistics).

- **Compliance with EU directives.** Establishment of an independent authority, the Railway Regulatory Authority, aimed at opening up the railway market and monitoring the application of competition rules in the Greek railway system.

Building on the law, progress has been made in the preparation of a business plan restructuring the sector in a viable manner. The train operator (TRAINOSE) and the infrastructure manager (OSE) should break even by early 2011. The restructuring of railways will start already in 2011, after final agreement on the viability of the business plan (providing an overall fiscal impact analysis and establishing enforcement mechanisms in case of deviations from the plan), and on its adaptation to ensure compliance with competition and State aid rules. TRAINOSE is expected to be privatised before the end of 2011.

5. DATA PROVISION

56. **Improving fiscal reporting is an integral part of the programme**. Working closely with Eurostat, the government has started to take measures to address statistical issues. Among these, full independence has been granted to the Hellenic Statistical Authority (EL.STAT.) and sufficient resources will be devoted in the coming years to improve statistical systems. The original programme foresaw that the General Accounting Office (GAO) would start publishing monthly data on expenditures pending payment, including arrears, from July 2010. It included provisions to improve the collection and processing of general government data compiled according to ESA95 and to compile comprehensive data on employment in the general government.

57. **Data reporting has improved since the launch of the programme**. The government publishes on a monthly basis preliminary data on the state budget execution (10 days after the end of each month) and detailed data on state budget execution, including functional breakdown by main categories of revenue and expenditure and by line ministry (20 days after the end of each month).

58. **Infra-annual data for non-state government sub-sectors is limited**. Most of the available monthly data are derived from the Bank of Greece's banking statistics. The first official publication of non-state fiscal data was made by the GAO on 21 October (data for September) and included the balances (no breakdown between revenue and expenditure) of social security funds, local governments and some extra-budgetary funds. Going forward the authorities committed to extend the provision of infra annual data on public enterprises and other public entities, and on the social security sector (from the beginning of 2011). In addition, a functional breakdown by main categories of revenue and expenditure and by entity should be provided. Quarterly ESA95-based data have continued to be transmitted to Eurostat, and subsequently published. The quality of the data has been improved through increasing access to direct sources.

59. **GAO has started publishing data on arrears**, with some delay relative to the initial programme target. Data were provided for a number of public entities, including the state (broken-down by line ministry) and a number of non-state entities. While it does not cover all government sectors – in particular data for accounts payable by hospitals are not comprehensive – the information provided is useful for fiscal monitoring purposes. GAO is expected to continue to improve the reporting system for arrears and other payables.

60. **The government has not yet provided detailed data on the public wage bill**. The same applies to the number of employees (and retirees). There is no clear picture regarding the evolution of public employment in the general government sector on a monthly or quarterly basis. The impact on the wage bill of intra–government reallocation of staff is not available. A full and comprehensive set of data related to public employment and wages (including the relative shares of the base wage, allowances and bonuses), with a breakdown per line ministry and public entity should be published by GAO on a monthly basis.

61. **Data on the state guarantees to public and private enterprises also needs to be improved**. While relevant data is available on demand, the GAO should standardise a monthly publication including all available data.

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

Table 1: Fiscal consolidation

Measures in the MoU (by end-September 2010)	Comments
Rigorously implement the budget for 2010 and the fiscal consolidation measures announced afterwards, including those in this Memorandum (including its previous version). The Ministry of Finance ensures tight supervision of expenditure commitments by the government departments, and effective tax collection, to make certain that the general government deficit targets in cash and ESA95 bases (cumulative quarterly deficit ceilings in the Memorandum of Economic and Financial Polices (MEFP) including the Technical Memorandum of Understanding (TMU); and Article 1 of Council Decision 2010/320/EU) are achieved.	**Partly observed**. Fiscal measures for 2010 previously agreed were implemented, though the yields of several tax measures are now estimated to be less than planned. The QPC on general government cash primary balance and the state cash primary spending for Q3 have been met. The ESA deficit and debt targets for 2010 are now estimated to be missed partially in relation to the upward revision of fiscal statistics for 2009. Commitments given in August (see MEFP of August) in relation to the under-execution of spending may not be fully met.
The 2011 budget will provide information and reliable projections on the entire general government sector and target a further reduction of the general government deficit in line with the original MEFP. It includes a detailed presentation of fiscal consolidation measures amounting to at least 3.2% of GDP (4.3% of GDP, if carryovers from measures implemented in 2010 are considered), and detailed information on the situation of public enterprises. The budget will include the following measures, as planned in the original version of this Memorandum (in exceptional circumstances, measures yielding comparable savings could be considered in close consultation with European Commission, IMF and ECB staffs):	**Observed.** Budget contains fiscal consolidation measures of 4.9% of GDP. Carryovers from the 2010 measures agreed in May, are estimated at 0.9% of GDP, reflecting the slow evolution of some of the revenue enhancing measures in the course of 2010.

- Implement the rule of replacing only 20 percent of retiring employees in the public sector (central government, public companies, local governments, state agencies and other public institutions);	**Observed.** The principle of partial replacement of civil servants is in the 2011 budget. Available data for the time being do not allow yet a strict monitoring of whether the rule is respected.
- Reduction in intermediate consumption of the general government by at least EUR 300 million compared to the 2010 level, on top of savings envisaged in the context of reforming public administration and the reorganisation of local government (see next measure);	**Observed**.
- Government starts implementing legislation reforming public administration and the reorganisation of local government with the aim of reducing costs by at least EUR 1500 million from 2011 to 2013, of which at least EUR 500 million in 2011;	**Observed**. The reform is put into effect on 1 January 2011. The effective reduction in costs in local government will have to be assessed in the course of 2011.
- Freeze in the indexation of pensions, with aim of saving EUR 100 million;	**Observed**.
- Reduction in domestically-financed investments by at least EUR 500 million, by giving priority to investment projects financed by EU structural and cohesion funds;	**Observed**.
- Temporary "crisis levies" on highly profitable firms, yielding at least EUR 600 million in additional revenue per year in 2011, 2012 and 2013;	**Observed**. The 2011 budget estimates the collection from this measure to reach EUR 1 000 million.
- Incentives to regularise land-use violations, yielding at least EUR 1500 million from 2011 to 2013, of which at least EUR 500 million in 2011;	**Partly observed**. The estimated yield of this measure in 2011 stands at around EUR 150 million, instead of an initial estimate of EUR 500 million.
- Enforce the presumptive taxation of professionals, with a yield of at least EUR 400 million in 2011 and increasing returns in 2012 and 2013;	**Observed**. The budget plans the collection of EUR 700 million.

- Broaden the VAT base by including services that are currently exempted and move a significant proportion (at least 30%) of the goods and services currently subject to the reduced rate to the normal rate, with a yield of at least EUR 1000 million, or a measure of the same yield to be agreed with the EC/IMF/ECB staffs;	**Observed.** This measure was not included in the budget. It is replaced by an increase in standard VAT rate from 11 to 13% and from 5.5% to 6.5%, a reduction in the VAT rate on drugs and hotels from 11 to 6.5% and a reform in the taxation of heating oil. Taken together these measures are expected to increase revenue by EUR 1 300 million.
- Start phasing in a "green tax" on CO2 emissions, with a yield of at least EUR 300 million in 2011;	**Partly observed**. Yield is expected to be lower: EUR 150 million.
- Collect revenue from the licensing of gaming: at least EUR 500 million in sales of licences and EUR 200 in annual royalties;	**Observed**.
- Expand the base of the real estate tax by updating asset values to yield at least EUR 400 million additional revenue;	**Partly observed**. Yield is expected to be lower: EUR 270 million.
- Increase taxation of wages in kind, including by taxing car lease payments (at least EUR 150 million);	**Observed**.
- Initiate the collection of a special tax on unauthorised establishments (at least EUR 800 million per year);	**Partly observed**. Yield is expected to be lower: EUR 300 million.
- Increase taxes on luxury goods by at least EUR 100 million;	**Observed in advance of deadline.** The increase in luxury tax was adopted in May 2010; other than the increase in revenue in 2010 (estimate: EUR 50 million) there is a carryover into 2011 of same amount.
- The budget will establish detailed expenditure ceilings for each line-ministry, local governments, and social security funds consistent with the general government deficit target. This also pertains to the medium-term fiscal framework for 2012-2013;	**Observed**.

- The budget will contain indicative information on monthly revenue per category, and expenditure per Ministry. Updated figures will be regularly made available online.	**Observed.**
Government implements the new organic budget law, and ensures that the draft budget law for 2011 onwards contains detailed information on outturn and plans of the entire general government sector – including local government, social security, hospitals and legal entities. An annex to the budget will present key figures on the financial performance of the largest public enterprises, concomitant budgetary and tax expenditures, and related fiscal risks.	**Observed**. The relevant law was adopted by Parliament in July 2010. The budget for 2011 includes a contingency reserve of 5% of expenditure (other than wages, pensions and interest), instead of 10% as established in the MoU. A slow release of budgetary appropriations, as committed by the government, would however contribute to strict monitoring of expenditure.

Table 2. Structural fiscal reforms

Measures in the MoU (by end-September 2010)	Comments
Tax administration:	
Parliament adopts legislation to improve the efficiency of the tax administration and controls, implementing recommendations provided by the European Commission and IMF staffs. In particular, they put in place an effective project management arrangement (including tight oversight by the Ministry of Finance and taskforces) to implement the anti-evasion plan to restore tax discipline through: - strengthened collection enforcement and recovery of tax arrears (coordinated with the social security funds) of the largest debtors;	**Partly observed**. Legal steps have been taken against largest debtors. However, there is evidence that tax evasion is still rampant. Moreover, the stock of assessed, yet uncollected taxes, has increased compared to 2009. Tax arrears by companies supplying medical goods to hospitals were to be deducted from hospital arrears to those companies.
- a reorganized large taxpayer unit focused on the compliance of the largest revenue contributors;	**Observed**. The unit is being implemented.

- a strong audit program to defeat pervasive evasion by high-wealth individuals and high income self-employed, including prosecution of the worst offenders;	**Observed**. Progress has been slow.
- a strengthened filing and payment control program.	
Accounting and control:	
Government implements the reform of the general accounting office (GAO), including the following elements:	
- Strengthening of the role of the GAO in budget planning and control;	**Partially observed.** The strengthening of the GAO is part of the new organic budget law. GAO staffing still needs to be reinforced, through transfer from other units of the Ministry of Finance.
- Provision of the necessary resources in terms of high-level personnel, infrastructure and equipment support, managerial organisation and information-sharing systems;	
- Provision of safeguards for GAO staff against political interference, and personal accountability in the provision of reliable data;	
- Strengthen the institutional mechanisms for providing reliable and plausible official budgetary forecasts that take into account available recent execution developments and trends; to this end, the official macroeconomic forecasts should be reviewed by external experts.	**Observed**. The pre budget (of October) for 2011 was built on optimistic macroeconomic projections and revenue projections that were not properly underpinned by concrete measures. The final draft of the 2011 budget is based on plausible assumptions similar to those prepared by Commission staff and takes into account the latest fiscal developments.
Government takes the following measures to ensure timely provision of reliable fiscal accounts and statistics:	
- GAO starts, in June 2010, the publication of timely monthly statistics (on a cash basis) on revenue, expenditure and financing and accounts payable for the "available general government" and its sub entities (state, social security, hospitals, local governments and legal entities);	**Observed.** Monthly data (on a cash basis) on revenue, expenditure and financing and accounts payable for the 'available general government' and its sub entities have been provided and partially made public. Data on accounts payable have been provided, up to September 2010.

- Government adopts a detailed time-bound action plan, agreed with Eurostat, to improve collection and processing of general government data required under the existing EU legal framework, in particular by enhancing the mechanisms that ensure the prompt and correct supply of these data, and ensure personal responsibility in cases of misreporting; and receive appropriate resident technical assistance to ensure rapid progress;	**Observed**. Ongoing cooperation with Eurostat under agreed action plan. Fiscal statistics for 2006-9 have been revised by ELSTAT and validated by Eurostat.
- Government starts to publish timely information on the financial situation in public enterprises (at least the 10 largest loss-making ones) and other public entities not classified in the general government (including detailed income statements, balance sheets and data on employment and the wage bill). To this end, a regular and timely reporting mechanism is introduced.	**Observed.** The first release was made in October 2010.
The Ministry of Finance establishes a comprehensive central registry for public enterprises.	**Observed**. Registry will be fully operational by end-December 2010

Table 3: Financial sector regulation and supervision

Measures in the MoU (by end-September 2010)	Comments
The Bank of Greece and the Government ensure that the Financial Stability Fund is fully operational.	**Partially observed**. The FSF had the first of its monthly board meetings on 11 October and the second on 10 November. FSF not yet fully staffed.
Government makes available an in-depth study on the strategic options for the banking sector as well as a preliminary due diligence analysis for those financial entities in which the state has a significant stake.	**Observed**.
Following up on the result of the July 2010 CEBS stress tests, the bank which did not pass the test implements interim restructuring measures under enhanced supervision by the Bank of Greece. Government provides its full support to this bank and ensures that it complies with the requirement of implementing a restructuring plan under the EU rules for state aid, including compliance with the 1 October 2010 deadline for submission.	**Partially observed**. The restructuring plan was submitted and the assessment is ongoing.

The Bank of Greece commits to reduce remuneration of its staff in light of the overall effort of fiscal consolidation.	**Partially observed**. According to the Bank of Greece, from January to September 2010, the Bank of Greece's wage bill fell by 3.6 percent as compared to 2009. The proposed cut by half of the seasonal bonus paid each year in March is part of a collective agreement (of 1984) applied to the entire banking sector and can only be eliminated or withdrawn by law.

Table 4: Other structural reforms

Measures in the MoU (by end-September 2010)	Comments
To strengthen labour market institutions:	
Following dialogue with social partners, Government adopts and implements legislation to reform wage bargaining system in the private sector, which should provide for a reduction in pay rates for overtime work and enhanced flexibility in the management of working time.	**Partially delayed**. Draft law submitted to the EC/IMF/ECB for review . Draft law to be revised before transmission to Parliament to ensure compliance with MoU Overtime work's pay rates have been reduced under Law 3863/2010.
Government ensures that firm level agreements take precedence over sectoral agreements which in turn take precedence over occupational agreements.	
Government removes the provision that allows the Ministry of Labour to extend all sectoral agreements to those not represented in negotiations.	
Government amends employment protection legislation to extend the probationary period for new jobs to one year, and to facilitate greater use of temporary contracts and part-time work.	
Government amends regulation of the arbitration system, (Law 1876/1990), so that each of the parties can resort to arbitration if they disagree with the proposal of the mediator without exceptions on subject or coverage, according to the provisions of Law 3863/2010. It should provide for an arbitration procedure that operates according to transparent objective criteria, and with an independent committee of arbitrators with decision making capacity free from government influence. The objectives of the arbitration should ensure that due attention is paid to cost competitiveness, thereby supporting job creation.	

***To modernise public administration*:**	
Government launches the process, including the principles and timetable, for establishing a simplified remuneration system covering basic wages and allowances. It shall apply to all public sector employees, and be part of an overall reform of Human Resource management. This should lead to a system where remuneration reflects productivity and tasks. As a general principle, it should avoid increases in remuneration for employees as a result of the transition process.	**Delayed**.
Government launches independent functional reviews of the public administration at central level and of existing social programmes. It is to be conducted by internationally renowned and external experts. The Terms of Reference for the reviews will be agreed with the European Commission, IMF and ECB staffs. To ensure ownership, participation shall *inter alia* include the office of the Prime Minister, the Ministry of Interior, the Ministry of Finance, the Ministry of Labour and Social Security and the Ministry of Health and Social Solidarity.	**Partially observed**. Technical meetings with the EC, IMF and ECB, and OECD (which will conduct the reviews) have started.
The objectives of the review on public administration at central level are:	
- To take stock of the use of resources, including human resources, to carry out government functions (e.g., employment, goods and services) in the central government and subordinated public institutions;	
- To identify actions to rationalize the organisation of public administration and generate productivity gains, and quantify possible fiscal savings from implementation of these actions. The review shall encompass horizontal issues related to planning, organisation, staffing and control functions (including internal audit), and shall include specific studies for all main ministries and key public bodies	
The objectives of the review on existing social programmes are:	
- To assess effectiveness and appropriateness of existing social programmes and make proposals for reform or cancellation of the least effective ones, while quantifying possible fiscal savings from implementation of these actions	
- To assess the options for reform of the overall health care system (both public and private) with the aim of securing more efficient use of public resources and delivery of better quality health care services	

Public procurement:	
Government agrees an action plan, with a timetable for concrete actions, leading to the creation of a central procurement authority, involving a swift implementation of the electronic platform for public procurement and introducing the use of an e-auctioning system. It should ensure a common approach across government authorities for tendering procedures, *ex ante* and *ex post* controls.	**Observed, after the deadline.** Action plan has been agreed with the Commission.
To strengthen competition in open markets:	
Under the Services Directive, the government finalizes the review (screening) of existing sectoral legislation, and provides a list of restrictions that are being abolished or amended as a result.	**Observed**.
The Government also ensures that the electronic point of single contact is operational with a user-friendly internet portal which:	**Not observed**.
- lists all relevant information for the specific service;	
- for each service activity provides an overview of procedures to be complied with, distinguishing between the requirements that apply in establishment cases and for cross-border service provision;	
allows common procedures (including for the most important regulated professions and in the areas of tourism, retail, education and construction) to be completed by electronic means with the necessary forms available on-line and recognising electronic signatures in accordance with Decision 2009/767/EC.	
Government adopts a law on road freight transport that removes restrictions not provided for in Directive 96/26/EC of 29 April 1996 on admission to the occupation of road haulage, including minimum fixed prices.	**Observed**. Law 3887/2010 adopted on September 30, 2010.

The government adopts legislation, proposed by the Ministry of Infrastructure, Transport and Networks, establishing the necessary enabling conditions for the development and the implementation of a business plan in the railway sector and submits it to Parliament for voting. The legislation should *inter alia*:	**Partially observed**. Law 3891/2010 adopted on November 4, 2010. Business plan prepared and transmitted for review to EC/IMF/ECB on 30 September 2010. Ongoing clarifications and negotiations are in process. Notification in the context of state aid screening had not yet taken place by end-November 2010.
- ensure compliance with all relevant EU legislation on the railway sector to effectively ensure market opening, employment and social policies, as well as competition and state aid policy;	
- establish an upper limit of EUR 50 million for the annual Public Service Obligation (PSO) contribution from the general government for the period 2011-2013 and establishes the principle that the State provides no additional explicit or implicit support to TRAINOSE;	
provide for any future changes to the level of PSO transfers to the railway operators to be approved only after an independent and transparent assessment by the Hellenic Competition Commission and to be fully in line with all legislation related to budgetary control and execution;	
provide certainty that the managing boards of TRAINOSE and OSE have the legal authority to negotiate new collective agreements covering remuneration and employment conditions and to take staffing decisions that assure a viable business;	
ensure that decisions on the transfer of debt to the State become effective only after the implementation of key actions in the approved business plan;	
The government adopts a business plan, proposed by the Ministry of Infrastructure, Transport and Networks, with a detailed timetable for concrete actions, which *inter alia*:	
- specifies how operational activities will be made profitable, including covering depreciation costs, as from 2011 including by closing loss-making lines, by increasing tariffs and by reducing wages and staffing;	
- provides a detailed sensitivity analysis on the implications for wage costs of various scenarios for the outcome of collective agreement. This provides information on several options concerning staff;	
- ensures the effective implementation of EU Directives, including EU Directives 2007/59/EC and 20078/57/EC on the Train Driver Certificate and on the Interoperability of the Rail System, respectively, allowing for competition amongst providers of railway services;	
- provides for the restructuring of the holding company, including the sale of land and other assets.	

To promote investments and exports:	
Government takes measures, in line with EU competition rules, to facilitate FDI and investment in innovation in strategic sectors (green industries, ICT, etc...), the adoption of measures to facilitate public private partnerships (PPPs), action to fast-track large FDI projects and measures to strengthen export promotion policy. These actions focus on removing rigidities and administrative constraints and must be fully in line with the fiscal requirements of the Memorandum of Understanding.	**Observed**. A draft law on fast track large FDI has been adopted by the Government in November 2010.

Annex 2: List of fiscal consolidation measures to be implemented in 2011

Greece - Fiscal consolidation measures to be implemented in 2011

	May 2010	Nov 2010	% GDP
Carry overs from measures agreed in May 2010 *	**2500**	**2300**	**1.0**
Increase the VAT rates	1000	750	0.3
Increase in excise tax on fuel	250	250	0.1
Increase in excise tax on cigarettes	300	250	0.1
Increase in excise tax on alcohol	50	50	0.0
Wage bill - partial reduction 13th 14th month wage, allowances	400	400	0.2
Pensions cut by partial reduction of 13th 14th monthly payment	500	500	0.2
Tax settlement (initiated in Q4 2010)		100	0.0
Revenue measures	**5000**	**6580**	**2.9**
Reduction of the corporate tax rate (from 24% to 20%)		-320	-0.1
Taxation on unauthorised establishments	800	300	0.1
Luxury goods tax	100	50	0.0
Book specification of income	50	50	0.0
Gaming royalties	200	200	0.1
Gaming licenses (one-off)	500	500	0.2
Special levy on profitable firms	600	1000	0.4
Levies on illegal buildings	500	150	0.1
Increase in VAT rates from 11% to 13% and from 5.5% to 6.5%		880	0.4
VAT - changes in the sub-categories and broadening base	1000	120	0.1
Green tax	300	150	0.1
Presumptive taxation	400	700	0.3
Increase of legal values of real estate	400	270	0.1
Taxation of wage in kind (cars)	150	150	0.1
Increase in SOE's tarrifs and tickets		350	0.2
Equalization of excise taxed on fuel		400	0.2
Fuel smuggling fight		190	0.1
Increase in court trials fees		100	0.0
Collect tax arrears		200	0.1
Speeding up penalty collection		400	0.2
Tax disputes and trials		300	0.1
Reduction in VAT (drugs and hotels)		-250	-0.1
One-off measures		690	0.3
Expenditure measures	**1650**	**4200**	**1.8**
Intermediate consumption	300	300	0.1
Savings from introduction of unified public sector wages bill	100	100	0.0
Pension freeze	100	100	0.0
Kalikrates savings	500	500	0.2
Pension cuts (highest pensions)	150	150	0.1
Public investment reduction	500	500	0.2
Public enterprises wage bill cut by 10% (13 reclassified companies)		250	0.1
Transportation companies restructuring		200	0.1
Implications on taxes & SSC from measure on SOE's wage bill		*-100*	0.0
Cut in s/t contacts in public sector		100	0.0
Lower drugs prices (only COM)		500	0.2
New procurement procedures in SSF		400	0.2
New procurement procedures in Hospitals		350	0.2
Means tested family benefits		150	0.1
Reduction in operational expenditure		200	0.1
Defence procurement postponement		500	0.2
Total	**9150**	**13080**	**5.7**

* Carry over of measures enacted before May 2010 : EUR 1.7 billion

Source: European Commission staff

Annex 3: Provision of data

To be provided by the Ministry of Finance

Preliminary monthly data on the state budget execution (including functional breakdown by main categories of revenue and expenditure and by line ministry)	Monthly, 15 days after the end of each month; these data should also be included in subsequent transmissions in case of revision	Provided
Updated monthly plans for the state budget execution for the remainder of the year, including functional breakdown by main categories of revenue and expenditure and by line ministry	Monthly, 30 days after the end of each month	Provided
Preliminary monthly cash data on general government entities other than the State	Monthly, 30 days after the end of each month, these data should also be included in subsequent transmissions in case of revision	Provided
Monthly data on the public wage bill (of general government, including a functional breakdown in nominal wage and allowances paid to government employees per line ministry and public entity), number of employees (including a functional breakdown per ministry and public entities outside the central government) and average wage (including the relative shares of the base wage, allowances and bonuses). A functional breakdown of these data into the main public entities will be added.	Monthly, 30 days after the end of each month (starting in June 2010)	Not yet provided
Quarterly data on general government accounts, and general government debt as per the relevant EU regulations on statistics	Quarterly accrual data, 90 days after the end of each quarter	Provided
Weekly information on the Government's cash position with indication of sources and uses as well of number of days covered as well as information on the main government spending and receipt items	Weekly on Friday, reporting on the previous Thursday	Provided
Data on below-the-line financing for the general government	Monthly, no later than 15 days after the end of each month, ; these data should also be included in subsequent transmissions in case of revision	Provided

Data on expenditure pending payment (including arrears) of the general government, including the State, local government, social security, and legal entities	Quarterly, within 55 days after the end of each quarter	Provided
Data on expenditure pending payment (arrears) of the State and hospitals	Monthly, 30 days after the end of each month	Provided (up to end-September 2010)
Public debt, and new guarantees issued by the general government to public enterprises and the private sector	Monthly, within one month	Provided
Income and expenditure statement and balance sheets of 30 largest public enterprises by total expenditures	Quarterly, three months after the end of the quarter	Provided
Data on EU project grants (reimbursements and advances), capital expenditures and subsidies covered by EU advances or eligible for EU reimbursement on EU supported projects specifically agreed with the EU	Monthly, within three weeks of the end of each month	Data available in the respective Commission departments
Monthly statement of the transactions through off-budget accounts	Monthly, at the end of each month	Partly provided
Monthly statements of the operations on the special account	Monthly, at the end of each month	Partly provided

To be provided by the Bank of Greece		
Assets and liabilities of the Bank of Greece	Weekly, next working day	Provided
Assets and liabilities of the Greek banking system - aggregate monetary balance sheet of credit institutions	Monthly, 30 days after the end of each month	Provided
Evolution of the external funding provided by Greek banks to their subsidiaries abroad	Monthly, 15 days after the end of each month	Not provided (last available data for Q1 2010)
External funding flows for the banking, corporate and government sector, including also expected developments in the 12 months ahead	Monthly, 30 days after the end of each month	Partially provided (without forward-looking component)
Report on banking sector liquidity situation	Weekly, next working day	Provided
Report on the evolution of financial stability indicators	Quarterly, 15 days after the end of each quarter depending on data availability	Provided
Report on results from the regular quarterly solvency stress tests	Quarterly, 15 days after the end of each quarter depending on data availability	Not provided (last available data for Q1 2010)
Detailed report on the balance sheet of the Financial Stability Fund with indication and explanation of changes in the accounts	Weekly, next working day	Not provided

Annex 4: Macroeconomic forecast

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

Annual % change	2009	2010	2011	2012	2013	2014
1. Private consumption expenditure	-1.8	-4.1	-4.3	0.5	1.1	1.2
2. Government consumption expenditure	7.6	-9.0	-8.5	-6.0	-1.0	-0.3
3. Gross fixed capital formation	-10.4	-17.4	-7.5	-2.6	1.1	1.2
4. Final domestic demand (1+2+3)	**-2.0**	**-7.1**	**-5.5**	**-1.0**	**0.8**	**1.0**
5. Change in inventories + net acquisitions of valuables	-0.5	-0.5	-0.5	-0.2	-0.2	-0.2
6. Domestic demand (4+5)	**-4.1**	**-7.2**	**-5.4**	**-0.7**	**0.7**	**1.0**
7. Exports of goods and services	-20.1	0.6	5.1	6.0	7.4	6.7
7a. - of which goods	*-18.0*	*2.0*	*5.5*	*6.4*	*6.5*	*6.1*
7b. - of which services	*-21.6*	*-0.5*	*4.9*	*5.6*	*8.1*	*7.2*
8. Final demand (6+7)	**-6.9**	**-6.1**	**-3.7**	**0.5**	**2.0**	**2.1**
9. Imports of goods and services	-18.6	-12.0	-6.4	-1.5	1.5	2.1
9a. - of which goods	*-18.5*	*-15.8*	*-7.9*	*-1.5*	*1.5*	*2.1*
9b. - of which services	*-18.9*	*4.4*	*-1.2*	*-1.5*	*1.3*	*2.0*
10. Gross domestic product at market prices (8-9)	**-2.4**	**-4.2**	**-3.0**	**1.1**	**2.1**	**2.1**
Contribution to change in GDP						
11. Final domestic demand	-2.3	-8.0	-6.0	-1.0	0.8	1.0
12. Change in inventories + net acq. of valuables	-2.4	-0.1	0.1	0.3	0.0	0.0
13. External balance of goods and services	2.2	3.9	2.9	1.8	1.3	1.1

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

Annual % change	2009	2010	2011	2012	2013	2014
1. Private consumption expenditure	-0.7	0.4	-2.2	0.9	1.7	2.3
2. Government consumption expenditure	9.8	-12.9	-8.9	-5.7	0.0	0.9
3. Gross fixed capital formation	-11.4	-15.2	-6.5	-1.1	0.2	2.9
4. Final domestic demand (1+2+3)	**-0.9**	**-4.3**	**-3.9**	**-0.4**	**0.0**	**2.2**
5. Change in inventories + net acquisition of valuables						
6. Domestic demand (4+5)	**-2.9**	**-4.5**	**-4.0**	**0.0**	**1.6**	**2.3**
7. Exports of goods and services	-20.2	5.7	6.5	7.1	9.3	8.7
7a. - of which, goods	*-18.9*	*7.6*	*6.7*	*7.7*	*8.2*	*7.8*
7a. - of which, services	*-21.2*	*4.3*	*6.3*	*6.6*	*10.1*	*9.3*
8. Final demand (6+7)	**-5.9**	**-3.0**	**-2.3**	**1.2**	**3.0**	**3.5**
9. Imports of goods and services	-19.1	-8.4	-5.4	0.3	3.5	4.2
9a. - of which goods	*-20.2*	*-12.1*	*-6.9*	*0.3*	*3.6*	*4.2*
9a. - of which, services	*-13.9*	*7.8*	*0.2*	*0.2*	*3.2*	*4.0*
10. Gross domestic product at market prices (8-9)	**-1.1**	**-1.3**	**-1.5**	**1.5**	**2.9**	**3.3**
11. - of wich, external balance of goods and services	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*
12. Balance of primary income with rest of the world	0.0	0.0	0.0	0.0	0.0	0.0
13. Gross national income (10+12)	**-0.6**	**-1.4**	**-1.6**	**1.5**	**2.9**	**3.3**
14. Compensation of employees	1.3	-4.7	-3.2	0.2	0.4	0.5
15. Gross operating surplus and mixed income	-0.9	-3.3	-3.2	1.4	5.3	5.9
16. Gross value added at basic prices (14 + 15)	**0.0**	**-3.9**	**-3.2**	**0.9**	**3.3**	**3.7**
16a. - of which, labour costs, including self-employed	*1.6*	*-4.5*	*-2.8*	*0.2*	*1.0*	*1.0*
17. Taxes net of subsidies (18-19)	-9.3	19.4	9.5	4.7	0.6	0.6
18. - taxes on products	*-9.0*	*19.0*	*9.4*	*4.7*	*0.7*	*0.6*
19. - subsidies on products	*14.0*	*-15.7*	*2.6*	*2.6*	*2.6*	*2.6*
20. Gross domestic product at market prices (16 + 17)	**-1.1**	**-1.3**	**-1.5**	**1.5**	**2.9**	**3.3**

Table A3: COSTS AND PRICES

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

Table A4: LABOUR MARKET AND LABOUR COST

Annual % change	**2009**	**2010**	**2011**	**2012**	**2013**	**2014**
1. Gross value added at 1995 basic prices	-1.8	-3.7	-2.2	0.0	1.3	1.5
2. Employment ('000)	-0.7	-2.8	-2.6	0.1	0.9	0.7
3. GVA per occupied person (1:2)	-1.1	-1.0	0.5	-0.1	0.4	0.8
4. Compensation of employees (per employee)	2.3	-1.8	-0.2	0.1	0.1	0.3
5. Unit labour costs (4:3) (1995=100)	3.4	-0.8	-0.7	0.2	-0.3	-0.5
6. Total population	0.2	1.1	0.2	0.2	0.2	0.2
7. Population of working age (15-64 years)	0.4	1.4	0.4	0.4	0.4	0.4
8. Total labour force	1.1	0.6	0.2	0.2	0.2	0.2
9. Calculated activity rate (%) (3:2)	0.0	0.0	0.0	0.0	0.0	0.0
10. Total employment	-0.7	-2.8	-2.6	0.1	0.9	0.7
11. Total employment	**-0.7**	**-2.8**	**-2.6**	**0.1**	**0.9**	**0.7**
11a. - of which, employees	-0.9	-3.0	-3.0	0.1	0.2	0.2
11b. - of which, self-employed	-0.3	-2.3	-2.0	0.0	2.0	1.8
12. Calculated employment rate (6:2)	0.0	0.0	0.0	0.0	0.0	0.0
13. Unemployment (3 - 6)	**24.4**	**34.0**	**21.2**	**1.3**	**-3.3**	**-2.7**

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

levels	**2009**	**2010**	**2011**	**2012**	**2013**	**2014**
1. Private consumption expenditure	174.4	175.1	171.1	172.6	175.5	179.5
2. Government consumption expenditure	45.4	39.6	36.1	34.0	34.1	34.4
3. Gross fixed capital formation	40.1	34.0	31.8	31.4	32.3	33.2
4. Final domestic demand (1+2+3)	**259.9**	**248.7**	**239.0**	**238.1**	**241.9**	**247.2**
5. Change in inventories + net acquisition of valuables as % of GDP	0.0	0.0	0.0	0.0	0.0	0.0
6. Domestic demand (4+5)	**258.3**	**246.8**	**236.9**	**236.9**	**240.8**	**246.3**
7. Exports of goods and services	44.3	46.8	49.8	53.4	58.3	63.3
7a. - of which, goods	*18.5*	*19.9*	*21.3*	*22.9*	*24.8*	*26.7*
7a. - of which, services	*25.8*	*26.9*	*28.6*	*30.5*	*33.5*	*36.6*
8. Final demand (6+7)	**302.6**	**293.6**	**286.7**	**290.3**	**299.1**	**309.6**
9. Imports of goods and services	69.5	63.6	60.2	60.4	62.5	65.1
9a. - of which goods	*56.8*	*50.0*	*46.5*	*46.6*	*48.3*	*50.4*
9a. - of which, services	*12.7*	*13.7*	*13.7*	*13.7*	*14.1*	*14.7*
10. Gross domestic product at market prices (8-9)	**233.1**	**230.0**	**226.5**	**229.9**	**236.6**	**244.5**
11. - of wich, external balance of goods and services	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*
12. Balance of primary income with rest of the world	-6.4	-6.5	-6.7	-6.9	-7.1	-7.3
13. Gross national income at market prices (10+12)	**226.7**	**223.4**	**219.8**	**223.0**	**229.5**	**237.2**
14. Compensation of employees	87.3	83.1	80.5	80.6	80.9	81.3
15. Gross operating surplus and mixed income	122.6	118.6	114.8	116.4	122.5	129.7
16. Gross value added at basic prices (14 + 15)	**209.9**	**201.7**	**195.3**	**197.0**	**203.5**	**211.0**
16a. - of which, labour costs, including self-employed	*134.2*	*128.2*	*124.6*	*124.8*	*126.0*	*127.3*
17. Taxes net of subsidies (18-19)	25.7	30.7	33.6	35.2	35.4	35.7
18. - taxes on products	*26.1*	*31.0*	*33.9*	*35.5*	*35.8*	*36.0*
19. - subsidies on products	*0.3*	*0.3*	*0.3*	*0.3*	*0.3*	*0.3*
20. Gross domestic product at market prices (16 + 17)	**233.1**	**230.0**	**226.5**	**229.9**	**236.6**	**244.5**

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

levels	**2009**	**2010**	**2011**	**2012**	**2013**	**2014**
1. Gross value added at 1995 basic prices	159.1	153.2	149.9	149.9	151.8	154.1
2. Employment ('000)	4762.7	4631.5	4509.1	4512.0	4551.2	4584.9
3. GVA per occupied person (1:2)	33.4	33.1	33.2	33.2	33.4	33.6
4. Compensation of employees (per employee)	28.2	27.7	27.6	27.7	27.7	27.8
5. Unit labour costs (4:3) (1995=100)	84.4	83.7	83.1	83.2	83.0	82.6
6. Total population	11265.4	11383.7	11406.5	11429.3	11452.1	11475.0
7. Population of working age (15-64 years)	7560.5	7666.6	7693.5	7720.5	7747.5	7774.6
8. Total labour force	5238.8	5269.3	5282.5	5295.7	5308.9	5322.2
9. Calculated activity rate (%) (3:2)	*69.3*	*68.7*	*68.7*	*68.6*	*68.5*	*68.5*
10. Total employment	4762.7	4631.5	4509.1	4512.0	4551.2	4584.9
11. Total employment	**4762.7**	**4631.5**	**4509.1**	**4512.0**	**4551.2**	**4584.9**
11a. - of which, employees	*3096.0*	*3003.1*	*2913.3*	*2916.2*	*2923.5*	*2927.9*
11b. - of which, self-employed	*1666.7*	*1628.3*	*1595.8*	*1595.7*	*1627.7*	*1657.0*
12. Calculated employment rate (6:2)	*63.0*	*60.4*	*58.6*	*58.4*	*58.7*	*59.0*
13. Unemployment (3 - 6)	**476.1**	**637.9**	**773.4**	**783.7**	**757.7**	**737.3**

Table B3: EXTERNAL BALANCE

levels	2009	2010	2011	2012	2013	2014
1. Exports of goods (fob)	18.5	19.9	21.3	22.9	24.8	26.7
2. Imports of goods (fob)	56.8	50.0	46.5	46.6	48.3	50.4
3. Trade balance (goods, fob/fob) (1-2)	**-38.3**	**-30.0**	**-25.2**	**-23.7**	**-23.6**	**-23.7**
3a. p.m. (3) as % of GDP	***-16.4***	***-13.1***	***-11.1***	***-10.3***	***-10.0***	***-9.7***
4. Exports of services (a)	25.8	26.9	28.6	30.5	33.5	36.6
5. Imports of services (a)	12.7	13.7	13.7	13.7	14.1	14.7
6. Services balance (a) (4-5)	**13.1**	**13.2**	**14.9**	**16.7**	**19.4**	**21.9**
6a. p.m. 6 as % of GDP	***5.6***	***5.7***	***6.6***	***7.3***	***8.2***	***9.0***
7. External balance of goods & services (3+6)	**-25.2**	**-16.8**	**-10.4**	**-7.0**	**-4.2**	**-1.7**
7a. p.m. 7 as % of GDP	***-10.8***	***-7.3***	***-4.6***	***-3.0***	***-1.8***	***-0.7***
8. Balance of primary incomes and current Transfers	-7.4	-7.5	-7.7	-7.9	-8.1	-8.3
8a. - of which, balance of primary income	*-6.4*	*-6.5*	*-6.7*	*-6.9*	*-7.1*	*-7.3*
8b. - of which, net current Transfers	*-1.0*	*-1.0*	*-1.0*	*-1.0*	*-0.9*	*-0.9*
8c. p.m. 8 as % of GDP	*-3.2*	*-3.3*	*-3.4*	*-3.4*	*-3.4*	*-3.4*
9. Current external balance (7+8)	**-32.6**	**-24.4**	**-18.1**	**-14.9**	**-12.3**	**-10.0**
9a. p.m. 9 as % of GDP	***-14.0***	***-10.6***	***-8.0***	***-6.5***	***-5.2***	***-4.1***
10. Net capital transactions	2.5	2.6	2.9	3.2	3.5	3.9
11. Net lending (+)/ net borrowing (-) (9+10)	**-30.2**	**-21.8**	**-15.2**	**-11.7**	**-8.7**	**-6.1**
11a. p.m. 11 as % of GDP	***-12.9***	***-9.5***	***-6.7***	***-5.1***	***-3.7***	***-2.5***

C1: FISCAL ACCOUNTS AND FORECAST

	2009	2010	2011	2012	2013	2014
			% GDP			
Total revenue	**37.79**	**39.85**	**42.55**	**41.56**	**40.95**	**39.79**
Indirect taxes	11.10	12.91	13.87	14.33	14.12	13.94
Direct taxes	8.17	7.37	8.11	8.10	8.12	7.35
Social contributions	13.10	12.99	12.87	12.40	11.96	11.63
Sales	1.72	1.87	1.92	1.89	1.84	1.78
Other current resources	2.37	2.66	3.85	2.98	3.08	3.28
Capital transfers received	1.33	2.04	1.92	1.86	1.83	1.81
Total expenditure	**53.16**	**49.48**	**49.94**	**49.11**	**48.75**	**47.56**
Intermediate consumption	7.11	5.24	4.64	4.65	4.82	4.90
Compensation of employees	13.51	12.32	12.10	12.00	11.20	10.64
Social transfers other than in kind	20.85	20.18	21.01	20.71	20.53	19.18
Interest	5.28	6.42	6.57	7.36	7.93	8.09
Subsidies	0.15	0.10	0.13	0.13	0.13	0.12
Other current expenditure	1.73	1.59	1.64	1.82	1.47	1.63
Gross fixed capital formation	3.38	2.69	2.63	2.34	2.46	2.44
Other capital expenditure	1.14	0.94	1.22	0.10	0.23	0.57
General Government balance	**-15.4**	**-9.6**	**-7.4**	**-7.5**	**-7.8**	**-7.8**
Unidentified fiscal consolidation measures (cumulative)				**1.1**	**3.0**	**5.2**
General Government balance (Targets)				**-6.4**	**-4.8**	**-2.6**
			Levels (in EUR billion)			
Total revenue	**88.82**	**92.40**	**97.19**	**96.36**	**97.72**	**98.10**
Indirect taxes	26.09	29.93	31.69	33.22	33.70	34.37
Direct taxes	19.20	17.10	18.53	18.79	19.37	18.11
Social contributions	30.79	30.13	29.39	28.75	28.55	28.68
Sales	4.03	4.33	4.38	4.39	4.39	4.39
Other current resources	5.58	6.17	8.80	6.90	7.35	8.08
Capital transfers received	3.13	4.74	4.39	4.31	4.36	4.47
Total expenditure	**124.94**	**114.73**	**114.07**	**113.86**	**116.33**	**117.26**
Intermediate consumption	16.71	12.15	10.59	10.78	11.50	12.08
Compensation of employees	31.76	28.58	27.63	27.83	26.71	26.24
Social transfers other than in kind	49.01	46.79	47.99	48.01	48.99	47.28
Interest	12.42	14.89	15.01	17.07	18.92	19.94
Subsidies	0.34	0.23	0.30	0.30	0.30	0.29
Other current expenditure	4.07	3.69	3.76	4.22	3.50	4.01
Gross fixed capital formation	7.94	6.23	6.01	5.43	5.86	6.02
Other capital expenditure	2.69	2.18	2.78	0.22	0.55	1.40
General Government balance	**-36.15**	**-22.33**	**-16.88**	**-17.50**	**-18.61**	**-19.16**
Unidentified fiscal consolidation measures (cumulative)				**2.584**	**7.212**	**12.773**
General Government balance (Targets)				**-14.92**	**-11.40**	**-6.39**

C2: GROSS DEBT

	2009	2010	2011	2012	2013	2014
		levels (EUR billion)				
Government deficit (level)	**-36.2**	**-22.3**	**-16.9**	**-14.9**	**-11.4**	**-6.4**
Gross debt (level)	**298.0**	**327.4**	**348.4**	**363.8**	**375.4**	**381.9**
Change in gross debt	36.6	29.3	21.1	15.3	11.6	6.6
Stock-flow adjustment	**0.5**	**7.0**	**4.2**	**0.4**	**0.2**	**0.2**
		% GDP				
Gross debt ratio	**126.8**	**141.2**	**152.6**	**156.9**	**157.3**	**154.9**
Change in the ratio	16.5	14.4	11.4	4.3	0.4	-2.4
Contributions:						
Primary balance (+ is a deficit)	**10.1**	**3.2**	**0.8**	**-0.9**	**-3.2**	**-5.5**
“Snow-ball” effect	**6.2**	**8.1**	**8.7**	**5.1**	**3.5**	**3.0**
Of which:						
Interest expenditure	5.3	6.4	6.6	7.4	7.9	8.1
Real growth effect	2.7	5.4	4.2	-1.6	-3.2	-3.2
Inflation effect	-1.8	-3.6	-2.1	-0.7	-1.2	-1.8
Stock-flow adjustment	**0.2**	**3.0**	**1.8**	**0.2**	**0.1**	**0.1**

Annex 5: Quantitative Performance Criteria

Quantitative performance criteria and outcomes (as of September 2010)

	Actual data June 2010	QPC June 2010	Actual data Sept. 2010	QPC Sept. 2010
	(in EUR billions)			
General government primary cash balance[1]	-4.0	-5.0 (floor)	-3.6	-4.0 (floor)
State budget primary spending	28.4	34 (ceiling)	43	50 (ceiling)
Overall stock of central government debt	317	342	328	342
New guarantees granted by the central government	0.3	2.0	1.1	2.0
Accumulation of external payment arrears on external debt contracted or guaranteed by general government from official creditors	0	0	0	0

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

Source: Commission services.

Annex 6: Financing needs and sources

Greece - financing gap, quarterly profile, bn euro [1]

	SUM	2010			2011				2012				2013
	10Q2-13Q2	May-Jun	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1
GG deficit adjusted to cash basis and PE borrowing	57.9	3.6	6.6	5.6	4.6	5.7	7.1	3.7	3.7	3.9	5.1	2.1	3.1
GVT debt amortization (bonds & T-bills)	173.4	11.4	4.1	5.2	16.3	12.1	18.9	14.4	24.0	13.4	17.5	10.8	9.8
of which short-term debt	88.9	2.1	3.3	5.0	6.6	2.9	12.0	12.0	9.0	4.0	9.0	10.0	9.0
of which long-term debt	89.5	9.3	0.8	0.1	9.8	9.1	6.9	2.4	15.0	9.4	8.5	0.8	5.8
Public sector financing need	**231.3**	**15.0**	**10.7**	**10.7**	**21.0**	**17.8**	**26.0**	**18.0**	**27.7**	**17.3**	**22.6**	**12.8**	**12.9**
Rollover of short-term debt	105%	0%	198%	79%	61%	443%	75%	75%	56%	275%	89%	90%	100%
Rollover of long-term debt	48%	0%	0%	0%	0%	0%	0%	0%	75%	75%	75%	75%	100%
Gross GVT debt issuance	**131.2**	**2.0**	**6.5**	**4.0**	**4.0**	**13.0**	**9.0**	**9.0**	**16.3**	**18.1**	**14.4**	**9.6**	**9.8**
of which short-term borrowing [2]	93.5	2.0	6.5	4.0	4.0	13.0	9.0	9.0	5.0	11.0	8.0	9.0	9.0
of which long-term borrowing	42.7	0.0	0.0	0.0	0.0	0.0	0.0	0.0	11.3	7.1	6.4	0.6	5.8
Privatisation receipts [3]	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
PE net borrowing	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Bank support scheme [4]	10.0	0.0	0.0	1.5	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	0.5
Financial Stability Fund	1.5	0.0	0.0	1.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Special account with the Bank of Greece	8.5	0.0	0.0	0.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	0.5
Financing gap	**105.6**	**13.0**	**4.2**	**8.3**	**18.0**	**5.8**	**18.0**	**10.0**	**11.5**	**-0.7**	**8.2**	**3.3**	**3.1**
Loan disbursements	**110.0**	**20.0**	**9.0**	**2.5**	**21.5**	**12.0**	**8.0**	**5.0**	**10.0**	**6.0**	**6.0**	**2.0**	**6.0**
of which IMF	30.0	5.5	2.5	2.5	4.1	3.3	2.2	1.4	2.7	1.6	1.6	0.5	1.6
of which EU	80.0	14.5	6.5	0.0	17.5	8.7	5.8	3.6	7.3	4.4	4.4	1.5	4.4

Source: GAO, Commission Services estimates

1. Data in this table are subject to revision.
2. Tentative schedule is based under conservative assumptions that only 3 and 6 months securities will be issued in 2011 - 2012, which increases the roll-over needs.
3. Proceeds from privatizations will be included after the plan for 2011-2013 has been announced (December 2010)
4. Disbursements to Bank support scheme are subject to developments in financial sector.

Annex 7: Statement by the European Commission, the ECB and IMF on the Second Review Mission to Greece

November 23, 2010

Staff teams from the European Commission (EC), European Central Bank (ECB), and International Monetary Fund (IMF) visited Athens during November 14-23 for the second review of the government's economic program, which is being supported by a EUR 80 billion loan from Euro area countries and a EUR 30 billion Stand-By Arrangement with the Fund.

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

Our overall assessment is that the program remains broadly on track. The end-September quantitative criteria have all been met. While challenges remain, significant progress has been made, particularly in reducing the fiscal deficit.

Regarding **the outlook,** the economy is expected to begin turning around in 2011. Wage and price inflation is beginning to moderate, setting the stage for improvements in competitiveness.

In **the fiscal area,** the deficit reduction by 6 percent of GDP in 2010 is larger than the initially targeted change. At the same time, weaker-than-projected revenue collection and data revisions for 2009 mean that an extra effort will be needed to meet the deficit target of 7.5 percent of GDP in 2011, which the government has reaffirmed. New measures have been agreed to broaden tax bases and eliminate wasteful spending, particularly in the areas of:

- Health spending—which is inefficient relative to other euro zone countries;
- State enterprises—which are a heavy burden on the economy with perennial losses for Greek taxpayers; and
- Tax administration—which has instruments now coming into place to strengthen compliance.

The government's fiscal policy remains anchored in reducing the deficit to below 3 percent of GDP by 2014. The government's medium-term budget strategy paper, to be discussed in the next review, will specify time-bound action plans for crucial structural reforms needed to achieve the remaining fiscal adjustment, and to do so in a socially balanced way.

In **the financial sector,** the program has been effective in supporting stability. The activation of the EUR 25 billion expansion of the government program to guarantee bank bonds, which was adopted in August, will contribute to support the liquidity position of Greek banks. Some private banks have had some success recently in raising funding as well as capital in the markets. While the banking system remains under some pressure, capital is adequate and, as envisaged under the program, the Financial Stability Fund is now available to provide support, if needed. The government has analyzed options for banks under its control and devised a program to address their stability and efficiency. Banking and insurance supervision are also being strengthened.

Structural reforms are needed to secure Greece's competitiveness, reinvigorate output, and increase employment. While significant progress has been made, with some landmark reforms—including pension reform—the program has now reached a critical juncture. Many of the reforms that are necessary to transform Greece into a dynamic and export-driven economy require skillful design and political resolve to overcome entrenched interests. The challenge now is to implement an ambitious schedule for these next-stage reforms, including:

- Aligning wages more closely with firm-level productivity, including through reform of arbitration and collective bargaining systems.

- Opening up access to services, trades, and professions.

- Unlocking the potential of Greek industries by cutting red tape and barriers to entry, and privatizing state assets.

In summary: the reforms needed to return Greece to robust economic growth are underway, but developments to date also reveal that structural issues must be dealt with to make the adjustment sustainable.

Annex 8: Updated programme documents

I. Letter of Intent

Athens, November 22, 2010

Mr. Jean- Claude Juncker
President
Eurogroup
Brussels

Mr. Olli Rehn
Commissioner for Economic and Monetary Affairs
European Commission
Brussels

Mr. Jean-Claude Trichet
President
European Central Bank
Frankfurt am Main

Dear Messers. Juncker, Rehn and Trichet,

In the attached update to the Memoranda of Economic and Financial Policies (MEFP) and Memoranda of Understanding on Specific Economic Policy Conditionality (MoU) from May 3 and August 6, 2010, we describe progress and policy steps towards meeting the objectives of the economic programme of the Greek government which is being supported by financial assistance provided by the euro-area Member States in the context of the loan facility agreement. The policies of the government remain fully oriented toward securing fiscal sustainability, safeguarding the stability of the financial system, and boosting potential growth and competitiveness, while ensuring that the adjustment effort is fair and equitable.

We continue to make progress with our economic program:

- The end-September quantitative performance criteria have all been met. The fiscal program has continued to meet deficit and expenditure targets through the adoption of measures as foreseen in the program, and through a strategy of state budget under execution. This has addressed weak revenue collections, although there have been other problems with the implementation of our fiscal program, including arrears in non-central government agencies (deviating from the program indicative target). We believe that by reinforcing this approach we can meet the end-December deficit and spending targets, although the indicative target on arrears may continue to be missed. This and the revision of fiscal data by Eurostat, means that the headline ESA95 deficit target will almost certainly be missed. In the memorandum we focus on laying out a strong 2011 budget to support the delivery of our fiscal adjustment program, and achievement of our 2011 target.

- Underlying fiscal institutional reforms are broadly on track. Benchmarks have been met covering the establishment of revenue administration task forces (charged with formulating anti-evasion plans); the legal establishment of commitment controls (done with delay via a Presidential decree); the publication of general government reports on cash spending and arrears; and the publication of public enterprise financial data. Still, budget execution problems in 2010 underscore the challenges we face in these areas, and we have set out an ambitious schedule of next stage actions in the memorandum.

- The financial system remains stable, with our August legislation approving additional state guarantees supporting liquidity, and the FSF serving as a backstop to any capital needs that may arise. Our policies remain focused on preserving banking system liquidity and to addressing known weaknesses in banking entities in which the state has significant stakes, as discussed in the memorandum.

Progress continues with structural reforms to improve the efficiency of the Greek economy. Of late, our focus has been on the transportation sector, and successes have included reforms to liberalize the trucking industry, and passage of the Greek Railways Law to restructure the railway system. With a first stage of reforms now behind us, we are working on an ambitious schedule of next stage reforms, as set out in the memorandum.

On this basis, we request the disbursement of the third installment of financial assistance by the euro-area Member States, pooled by the European Commission in the amount of EUR 6 500 million, in line with the loan facility agreement. We are committed to respect the nominal deficit ceilings for 2011-2014 established by Article 1(2) of Council Decision 2010/320/EU, while we request that ceilings established in Article 1(3) for government debt are revised to reflect the recent revision of fiscal statistics on the occasion of the validation of our data by Eurostat. Moreover as set out in Table 1, we request that ceilings and floors for the quarterly quantitative performance criteria under the arrangement be established for March 31, 2011 and June 30, 2011. Completion of the fourth and fifth reviews, scheduled for May 2011 and August 2011 will require observance of the quantitative performance criteria for end-March 2011 and end-June 2011 respectively.

We believe that the policies set forth in the May 3, 2010 Letter of Intent, MEFP and MoU and subsequent update (including the one now attached), are adequate to achieve the objectives under the program. We stand ready to take any corrective actions that may become appropriate for this purpose as circumstances change. We will consult with the

European Commission and the ECB, as well as with the IMF on the adoption of any such actions and in advance of revisions to the policies contained in this letter.

This letter is being copied to Mr. Strauss-Khan.

George Papaconstantinou	George Provopoulos
Minister of Finance	Governor of the Bank of Greece

GREECE—MEMORANDUM OF ECONOMIC AND FINANCIAL POLICIES

The Outlook

1. **The government continues to expect the economy to begin to turn around in 2011**. Economic performance in 2010 has been slightly weaker than expected, and GDP is now projected to decline by 4.2 percent. In 2011, we expect a full year GDP decline of 3 percent, but the economy should bottom out during the first half of the year, with improvements in net exports supporting a gradual recovery, and an accelerated current account improvement.

2. **Wage and price inflation are beginning to moderate, setting the stage for improvements in competitiveness**. Since the second quarter of 2010, inflation at constant tax rates has fallen below the euro area average, for the first time since Euro adoption. For the year as a whole inflation is expected to reach 4¾ percent on average, declining further to 2¼ percent in 2011. Meanwhile, moderate collective wage agreements and arbitration decisions in recent months have slowed unit labor cost growth in the business sector, and this should translate into stronger competitiveness vis-à-vis our major trading partners.

3. **Revisions to historical Greek fiscal data have been completed, and debt dynamics remain broadly as projected.** Eurostat has published revised general government debt and deficit data for 2006-09, and has lifted all its reservations on the published statistics. The revisions have increased Greece's 2009 deficit to 15.4 percent of GDP, and debt to about 127 percent of GDP (compared to the earlier estimates of 13.6 and about 115 percent). To a large degree they reflect a broadening of the definition of general government to include consistently loss-making state enterprises. In this sense, the public sector balance sheet has been less affected, and we continue to expect debt to reach a firmly declining path by 2014 as projected in the program.

4. **The objectives underpinning the government's program remain unchanged, and the present memorandum focuses on fleshing out the policies for 2011**. The key priorities remain restoring fiscal sustainability, safeguarding financial sector stability, and boosting competitiveness, to create conditions for sustained growth and reducing unemployment.

Fiscal Policies

5. **While there are challenges to surmount, the government's fiscal policy remains anchored on reducing the general government deficit to below 3 percent of GDP by 2014**. More total adjustment will be needed to reach our medium-term general government deficit target, in light of revisions to 2009 fiscal data.

6. **For 2010, the government intends to meet the program's cash fiscal targets**. We do expect a revenue shortfall of some €4 billion, due to the recession and lingering weakness in tax collection. However, we expect to be able to fully offset this by under executing spending relative to the May program ceiling, while being able to reduce the

stock of arrears that has accumulated within year. Still, this will not secure achievement of our ESA95 deficit target, which unlike the cash target, now incorporates the deficits of state enterprises, arrears and a variety of other cash-to-accrual adjustments. Thus, on an ESA95 basis we expect the deficit to decline to 9½ percent of GDP. However, the overall change in the deficit of 6 percent of GDP in 2010 remains unprecedented in Greece, and larger than the initially targeted change.

7. **For 2011, the government's fiscal policy has been set to deliver the program target of a €17 billion general government deficit**. This would imply a deficit of about 7½ percent of GDP. Achieving this target will help to minimize our financing needs, support confidence in Greece's adjustment program, and facilitate a resumption of market access. To offset negative cyclical and structural effects on revenue and expenditure from the recession, and reduce the deficit, some 6¼ percent of GDP in adjustment will be needed, to be delivered by the carry-over from measures implemented in 2010, the measures coming into effect for 2011 specified in the May program, and the effect of newly specified measures (2½ percent of GDP, discussed below). The state budget would deliver a primary cash deficit excluding guarantees of 1¾ percent of GDP, with revenues expected to amount to 26 percent of GDP. Transfers to the social security sector have been set consistent with the need to fully fund health and social benefits and reduce accounts payable. Stronger financial management arrangements (discussed below) should help prevent new arrears, and we will also stay current on our tax refunds. Arrears on lump sum payments to retiring civil servants will be gradually reduced in a manner consistent with our financing plan.

8. **The design of the 2011 fiscal adjustment program has been guided by the need to preserve fairness, support the economy, and improve government efficiency**. To preserve fairness, adjustment measures have been targeted at those best able to share the burden, and specific initiatives have been introduced to support the unemployed and the most vulnerable. To support the economy, reliance on new tax measures has been minimized in favor of base broadening initiatives (although there have been some refinements of earlier tax measures), and we have focused primarily on eliminating wasteful public sector spending:

- **Our primary emphasis has been on tackling two key structural problems, health spending and state enterprises**. These reforms will yield large benefits over the medium term, but will already deliver dividends in 2011:

  - *Health sector reforms (projected savings in 2011 of ½ percent of GDP).* Greece for too long has paid a higher than necessary price for the health services it receives. To rectify this, reforms were introduced in 2010, and these have already begun to yield noticeable dividends, particularly in the area of drug spending. The near-term reform initiatives, to be phased in during the first half of 2011, follow three directions: (i) in the area of drug spending, extending electronic prescriptions to the main social security funds (by March 2011), and expanding the negative list of prescribed drugs; (ii) administrative reforms, including introducing electronic archiving of medical referrals to private centers (by March 2011), unifying packages of provisions across different funds (June 2011), and centralizing procurement in some of the largest funds; and (iii) reductions in net hospital operating expenses, realized through full applications and increases in co-pays, whole day operation, and reductions in utilities and supplies of services.

- *State enterprise reforms (projected savings in 2011 of ⅓ percent of GDP).* The government recently published state enterprise accounts, showing that costs, in particular wages, are well out of line with private sector and international norms. Low cost recovery from users of their services and over-employment further contribute to their losses. We have already made progress towards improving their balance sheets in 2010, in particular through the use of attrition to reduce over-employment and by reductions in wages. In 2011 we will continue to tackle excessive wages and cost recovery. Legislation will be enacted by end-February 2011 to on average reduce wages by 10 percent and limit allowances to 10 percent of basic pay. Tariffs will be increased in the public transportation area by at least 30 percent to improve cost recovery. We will also finalize the restructuring plan for loss-making railway enterprises to help them reach the breakeven point in 2011. But these actions are only a beginning, and further work will be needed, as discussed below.

- **Beyond these two significant reforms, there are a number of other initiatives towards realizing our intended adjustment objective and design**:

  - *Elimination of unproductive and untargeted spending (projected savings in 2011 of ⅓ percent of GDP).* Line ministries and public entities have been asked to cut spending by 5 percent on the basis of guidance from the Ministry of Finance. In the area of public employment we will further reduce short term contracts in the public sector by at least 15 percent (with monitoring by the Ministry of Interior and Ministry of Finance). Two costly universal household subsidies are to be better targeted to the needy, the fuel subsidy (which is also a source of tax fraud) and the family allowance.

  - *Better management and use of state assets, particularly in the collection of tax claims (projected gains in 2011 of ¾ percent of GDP).* Special task forces are in place for the collection of fees, penalties, and arrears. Procedures for settling tax disputes will be accelerated, supported by our plan for tax administration reform (below) as well as reform of judicial processes. We will also realize some resources through renewal of telecommunication licenses and through airport concessions.

- **Previously identified policy reforms for 2011 are on track for implementation.** Most prominently, by end-year we will table legislation to reform the VAT (increasing the reduced and low rates and broadening the base as planned, and with some other adjustments to VAT rates for hotel accommodation and pharmaceuticals). We will reduce net local government transfers to secure the savings realized by the Kallikratis reforms. And we will also continue implementing the 1:5 hiring rule for the public sector, with intra-public sector employee transfers accounted for within this envelope.

9. **The government will identify the remaining measures necessary to realize the 2014 deficit target in the March medium-term budget strategy paper.** Present estimates suggest a need to identify about 5 percent of GDP in additional structural measures to be implemented over 2012-14. The strategy paper will be accompanied by a plan to be discussed during the third review that will lay out a time bound action plan to realize the necessary fiscal reforms to close the medium-term fiscal gap (publication in April of the budget strategy paper and plan will be supported by a new program structural benchmark). The plan will address:

- Restructuring plans for large and/or loss-making state enterprises. Implementation of these plans will be targeted to commence in the second quarter of 2011.

- The closure of unnecessary public sector entities, for instance, extrabudgetary funds that have outlived their original purpose. Implementation of the plan will commence in the second quarter of 2011.

- Tax reform to improve the simplicity, efficiency and administration of the system. The necessary legislation will be enacted by end-2011.

- Reforms to public administration. The functional review which will inform this aspect of the plan is well underway. The reforms themselves will be implemented beginning in the context of the 2012 budget.

- The public wage bill, including the right-sizing of employment by cost efficient means and simplification of public sector remuneration schemes. Implementation of the plan will commence by mid-2011.

- Military spending, in particular to contain procurement expenses. Implementation of the plan will begin with the 2012 budget, without prejudice to national defense capabilities.

10. **To support fiscal adjustment, the government is intensifying the work towards strengthening fiscal institutions**:

- **Revenue administration reforms**. Improving tax administration and distributing the tax burden more equitably remains essential for fairness in the adjustment program. Task forces have been established (meeting an end-September structural benchmark) and these have drawn up an anti-evasion plan. Beyond the arrears collection measures noted above, the near-term institutional reform priorities are to implement the anti-evasion plan, address barriers to effective tax collection, and design medium-term reforms.

    - *Anti evasion plan.* Based on the work of the task forces, the government will launch the anti-evasion plan by January 2011, including with a public communications campaign. The plan will include quantitative performance indicators to hold the revenue administration accountable. Information about the achievements of the plan will be regularly published.

- *Barriers to reform.* Legislation will be enacted to remove barriers by end-February 2011, and we propose that this be supported by a new program structural benchmark. The legislation will: (i) streamline the administrative tax dispute and judicial appeal processes; (ii) remove impediments to the exercise of core tax administration functions (e.g. centralized filing enforcement and debt collection, indirect audit methods, and tax returns processing); and (iii) introduce a more flexible human resource management system (including the acceleration of procedures for dismissals and the prosecution of cases of breach of duty)..

- *Designing medium-term reforms*. As a first step, the government will broaden the role of the anti-evasion steering committee to overview medium term reforms and will set up special taskforces for each key reform topic with the objective of articulating a plan by end-March 2011.

- **Public financial management reforms**. Improving PFM remains essential to strengthen budget implementation and to eliminate wasteful spending. Commitment registers have been introduced in all general government units in November; and the government has started to publish monthly reports on cash spending and arrears for general government entities (in both cases meeting program structural benchmarks). The next steps in the three pillars of our reform program include:

  - *Strengthening spending controls.* We will appoint financial accounting officers in all line ministries and major general government entities, with the responsibility to ensure sound financial controls (by end-March 2011). We propose that this be supported by a new program structural benchmark.

  - *Increasing transparency.* We will publish on a monthly basis consolidated general government reports with revenue, expenditure, and intra-governmental transfers for each sub-sector of the general government (beginning in March 2011);

  - *Enhancing budgeting.* Informed by the March budget strategy paper, we will prepare a full medium-term fiscal strategy for 2012-14, to be submitted to parliament in May. The strategy will include targets for the deficits of the general government and its subsectors, and will provide estimates for underlying measures.

11. **We anticipate completion of the pension reform in 2011, with full realization of projected savings.** The National Actuarial Authority will complete an assessment of the effect of the 2010 pension reform on the main pension funds by end-December and of the largest auxiliary pension funds by end-March (and we propose that the program structural benchmark be shifted to end-March). To ensure that both the main and auxiliary pension

funds are sustainable (with the increase in total pension spending limited to 2½ percentage points of GDP over the period 2009-2060) we have already committed to adjust the parameters of the main pension system as necessary, and will separately reform the auxiliary pension and welfare funds. Any needed adjustments will be completed by end-June 2011, and implemented not later than end-2011, in consultation with pension experts from the Fund, the European Commission, and the ECB, as foreseen in Law 3863.

12. **Program financing remains in line with our needs, and we are taking steps to secure additional resources**. We have successfully conducted monthly auctions of 3 and 6 month T-bills, with yields improving from levels seen before the program, and renewed interest from foreign investors. We intend to gradually increase the size and maturity of our T-bill issuance program, as market conditions warrant, and introduce a bond targeted to expatriate Greeks. In addition, we are developing a comprehensive plan to divest some government assets (discussed below). With these resources we intend to build up our Treasury balance to €[10] billion over time, with these resources to serve as a reserve buffer.

Financial sector policies

13. **The program has to date been successful in maintaining the stability of the financial sector, and the focus remains on fully securing the system's liquidity and solvency**. Private banks have had some success recently in raising capital in the markets. While the system remains under pressure from rising NPLs and ongoing losses, capital remains fully adequate. The challenge is to help the banks deleverage in an orderly fashion, and at a pace that will not exacerbate the recession, and to make sure capital support mechanisms are fully operative.

14. **The Bank of Greece will continue to safeguard banking system liquidity**. The legislation enabling a new tranche of government guaranteed bank bonds in the amount of EUR 25 billion was voted at the end of August, and Greek banks are now able to issue, if needed, those additional securities. The Bank of Greece, in close cooperation with the ECB will continue close monitoring of the liquidity situation of the banking system and stands ready to take the appropriate measures to maintain sufficient system liquidity.

15. **The FSF is available to support bank capital as necessary**. The institution will be adequately staffed by end-January 2011, and to facilitate this, adjustments will be made to the terms and conditions of employment. The overall size of the FSF amounting to **€**10 billion is adequate to support the stability of the financial system. On current projections, banks are not expected to turn to the FSF in the near future. Concerning funding of the FSF, an account at the Bank of Greece has been opened into which **€**1.5 billion has already been disbursed. An additional **€**1 billion will be transferred by end-January to a dedicated government account opened by the General Accounting Office, available to be released to the FSF if program reviews of bank capital suggest that the resources are necessary.

16. **The government has devised a program to address the stability and efficiency of the banking entities under its control**. The strategic review and due diligences for these entities was completed in November. During implementation of the program, in depth

restructuring plans for the banks will be finalized with the European Commission. These will, *inter alia*, mitigate the distortion of competition stemming from the receipt of state aid with a view to preserve financial stability and increase efficiency.

- **ATE Bank will be thoroughly restructured as a stand-alone institution.** Our priority for this bank is to transform it into a more efficient, leaner and well capitalized financial institution with reduced lending to public entities, and enhanced corporate governance. In parallel, the management will announce a rights issue by end November 2010. Without prejudice to the opinion of the supervisor, and in compliance with capital market regulations, an updated assessment of the capital needs of the bank will take place by the end of January 2011. This will be based on an additional review of the loan portfolio by an audit firm. The recapitalization of the bank will take place shortly thereafter. If necessary, the restructuring plan will be strengthened, so as to safeguard capital adequacy without increasing the need for further recapitalization. The government intends to keep this capital increase fiscally neutral, potentially by drawing from the resources available from the surplus of reserves within the Hellenic Loan and Consignment Fund (HLCF).

- **The HLCF will be unbundled.** Legislation, to be passed by end-March 2011, will separate the core consignment activity from the commercial activities (we propose this to be a new program structural benchmark).

- **The government will consider the disposal of its direct holding in Hellenic Postbank and its indirect holdings in Attica Bank**. These holdings would be sold when the government sees the conditions as appropriate, also taking into account prudential supervisory requirements in the selection of prospective buyers.

17. **The authorities will provide all banks with the flexibility needed for unavoidable reductions in their cost base**. By end-February 2011, the authorities will table legislative changes that will place all registered bank employees under the same private sector status, regardless of the bank ownership type. Broader reform of the system of collective bargaining (discussed below in paragraph 20) is expected to increase flexibility in setting wages and employment conditions in the financial sector as well. .

18. **Banking supervision and insurance supervision are being strengthened.** Prudential supervision has performed well since the beginning of the global financial crisis, contributing to the preservation of financial stability in Greece. The Bank of Greece has now made preparations for a smooth take-over of responsibilities for the supervision of the insurance sector as of 1 December, 2010. The process of recruitment of additional supervisory staff has also been launched with a view to ensure full staffing by end-March. Meanwhile the Bank of Greece convened the Colleges of Supervisors for the four major domestic banks during October 2010. The understanding of the risk and liquidity situation of the banks involved and their branches or subsidiaries improved, and discussions are continuing on the sharing of confidential bank information.

Structural reform policies

19. **Securing Greece's competitiveness and reinvigorating growth remain key to our program strategy, and to this end the next wave of structural reforms is advancing**. We have successfully adopted some reforms recently, most notably with the deregulation of the trucking industry. However, much more remains to be done to encourage entrepreneurship, move away from regulation towards market principles, make the country a more attractive destination for investors, improve capacity to sell goods and services abroad, and create wealth for Greece's citizens. To these ends the government is determined to embed more flexible wage formation, ensure ease of access to markets, promote price competition, and facilitate investment.

20. **Labor market reforms are now reaching their completion stage**. The government will finalize and pass legislation to reform the arbitration system, in particular to introduce symmetric access to arbitration services and to secure the independence of the arbitration committee (OMED). At the same time draft legislation has been prepared to reform the system of collective bargaining, including to eliminate the automatic extension of sectoral agreements to those not represented in negotiations, and guarantee that firm level agreements take precedence over sectoral agreements without undue restrictions. The tabling of this legislation in parliament, targeted for end-2010, will be supported by a new program structural benchmark. Once these changes have been made, we expect that wages will more closely align with firm level productivity, underpinning more robust competitiveness in the future.

21. **Deregulation of restricted professions and the wider service sector will be complete soon**. The government will prepare legislation, taking into account the opinion of the competition authority, to remove restrictions to competition, business and trade in restricted professions and comply with the European Union's services directive. The legislation, to be adopted by end-February 2011, will focus on high economic impact professions (including lawyers, notaries, engineers, architects, auditors, pharmacists, and other high economic impact services as appropriate). For other professions, the government will remove unnecessary restrictions in a legally robust manner. When making a determination about necessity, economic justifications will be favored and advocacy from the competition authority will be sought. The overall goal of the reform will be to move to EU best practice.

22. **The government remains committed to actions to unlock the potential in key industries:**

- **Tourism and retail trade**. The government has commissioned reports, due by year-end, analyzing the potential contribution of reforms in the tourism and retail trade sectors to GDP and employment growth, and to disinflation (that is, to the extent that the factor underlying wide price margins can be addressed). The government stands ready to follow up on the recommendations in the studies.

- **Privatization of state assets** The government has prepared a draft privatization plan for the divestment of state assets and enterprises. The plan, which will be adopted by end-year, identifies a number of state assets targeted for partial and full privatization, including real estate, with a view to raise at least €7 billion over the next three years with at least €1 billion in 2011. A full inventory of state property will be completed by mid-2011 to assess the potential for higher medium-term targets. The Special Secretariat for Privatization within the Ministry of Finance will be instructed to proceed using different methods, as justified by the type of asset involved, including direct sales, auctions and concession agreements.

23. **The government also remains committed to improvements in the business environment to unlock the potential for investment in Greece**. We expect to have these reforms in place by early 2011. In November, parliament approved fast-track investment legislation, which we expect to be an effective tool to accelerate procedures for large scale projects, and in particular FDI. To support investment more generally, we are amending legislation to accelerate licensing procedures for enterprises' physical establishments (in particular, by setting binding deadlines, and defining clear standards for applications). The government is also taking steps to eliminate key legal and technical hurdles to the full operation of one-stop-shops by end-March 2011, including adapting IT systems and ensuring compatibility of legislation across the government entities involved. Finally, to promote more competitive markets and help prevent future barriers to entry, the government will table by end-year legislation aimed at reinforcing the independence and effectiveness of the competition authority.

Table 1. Greece: Quantitative Performance Criteria
(Billions of Euro, unless otherwise indicated)

	2010					2011			
	Jun-10		Sep-10		Dec-10	Mar-11	Jun-11	Sep-11	Dec-11
	Progr. 1/	Act. 6/	Progr. 1/	Act.	Progr. 1/	Progr. 2/	Progr. 2/	Progr. 2/ 7/	Progr. 2/ 7/
Performance Criteria (unless otherwise indicated)									
1. Floor on the modified general government primary cash balance	-5.0	-3.9	-4.0	-3.5	-5.7	-2.0	-4.3	-3.7	-3.2
2. Ceiling on State Budget primary spending	34	28	50	42	67	15	30	45	63
3. Ceiling on the overall stock of central government debt	342	317	342	328	342	394	394	394	394
4. Ceiling on the new guarantees granted by the central government	2.0	0.3	2.0	1.2	2.0	1.0	1.0	1.0	1.0
5. Ceiling on the accumulation of new external payments arrears on external debt contracted or guaranteed by general government 5/	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Indicative Targets									
6. Ceiling on the accumulation of new domestic arrears by the general government 5/	0.0	1.0	0.0	0.8	0.0	0.0	0.0	0.0	0.0

1/ Cumulatively from January 1, 2010 (unless otherwise indicated).
2/ Cumulatively from January 1, 2011 (unless otherwise indicated).
3/ Cumulatively from January 1, 2012 (unless otherwise indicated).
4/ Cumulatively from January 1, 2013 (unless otherwise indicated).
5/ Applies on a continuous basis from January 1, 2010 onward.
6/ Includes updated data on non-state balances, following reclassification of entities between non-state sectors, including reclassification between entities included and excluded in the program cash monitoring.
7/ Indicative targets.

Table 2. Greece: Structural Conditionality for 2010 and Proposed New Structural Conditionality

Measures	Macrocritical relevance	Status
End-September structural benchmarks		
1. Adopt a comprehensive pension reform that reduces the projected increase in public spending on pensions over the period 2010-60 to 2½ percent of GDP.	Improves fiscal sustainability.	Legislation has been approved by parliament. An actuarial assessment including supplementary plans will evaluate the need for further adjustments to pensions to secure the full reduction in public pension spending, in order to deliver the full reduction to 2½ percent of GDP .
2. Establish a commitment register in all line ministries and public law entities. Begin publishing monthly data on general government in-year fiscal developments (including arrears).	Reduces budget overruns.	Commitment register established in some public sector entities. publishing of monthly data begun with delay
3. Publish 2009 financial statements of the ten largest loss-making public enterprises, audited by chartered accountants, on the official website of the Ministry of Finance.	Increases transparency of fiscal risks to fiscal sustainability.	Done with small delay
4. Put in place an effective project management arrangement (including tight MOF oversight and five specialist taskforces) to implement the anti-evasion plan to restore tax discipline through: strengthened collection enforcement and recovery of tax arrears—coordinated with the social security funds—of the largest debtors; a reorganized large taxpayer unit focused on the compliance of the largest revenue contributors; a strong audit program to defeat pervasive evasion by high-wealth individuals and high income self-employed, including prosecution of the worst offenders; and a strengthened filing and payment control program.	Achieves revenue targets and enhances sustainability of the consolidation by increasing burden sharing of the adjustment.	Done
End-December structural benchmarks		
1. Publish a detailed report by the ministry of finance in cooperation with the single payment authority on the structure and levels of compensation and the volume and dynamics of employment in the general government.	Reduces wage escalation. Improves transparency of public sector employment.	Census of civil servants started in July. Report expected to be published in January
2. Adopt new Regulation of Statistical Obligations for the agencies participating in the Greek Statistical System.	Enhance confidence in fiscal reporting and support the formulation of fiscal policy.	MoUs between data-providing institutions and ELSTAT have been drafted and most are signed. These will form the basis for the regulation.
3. Prepare a privatization plan for the divestment of state assets and enterprises with the aim to raise at least €1 billion a year during the period 2011-2013.	Reduces state intervention in the real economy; improves market efficiency; and cuts fiscal contingencies.	Privatization plan publicly announced. Authorities have decided to target a higher amount of €7 billion over three years, with at least €1 billion in 2011.
4. The National Actuarial Authority to produce a report to assess whether the parameters of the new system significantly strengthen long-term actuarial balance.	Reduces budgetary costs of ageing and improves long-term fiscal sustainability. Increases labor force participation.	Rescheduled from end-June 2010 to end-December for main social security funds, and end-March 2011 for remaining supplementary funds, in recognition of size of task and to allow more data collection.
Proposed structural conditionality for the upcoming 6 months		
1. Table legislation to reform the system of collective bargaining, including to eliminate the automatic extension of sectoral agreements to those not represented in negotiations, and guarantee that firm level agreements take precedence over sectoral agreements without undue restrictions (by end-December).	Increases the flexibility of the labor market.	
2. Pass legislation to: (i) streamline the administrative tax dispute and judicial appeal processes; (ii) remove impediments to the exercise of core tax administration functions (e.g. centralized filing enforcement and debt collection, indirect audit methods, and tax returns processing); and (iii) introduce a more flexible human resource management system (including the acceleration of procedures for dismissals and of prosecution of cases of breach of duty) (by end-February)	Removes legal and administrative impediments to tax collection.	
3. Appointment of financial accounting officers in all line ministries and major general government entities (with the responsibility to ensure sound financial controls). (by end-March)	Improves control and transparency of budget expenditures.	
4. Pass legislation to separate the core consignment activity from the commercial activities of the HCLF (by end-March)	Fosters banking sector stability.	
5. The National Actuarial Authority to produce a report to assess whether the parameters of the new system significantly strengthen long-term actuarial balance. (by end-March)	Reduces budgetary costs of ageing and improves long-term fiscal sustainability. Increases labor force	Shifted from end-December
6. Publish the medium-term budget strategy paper, laying out time-bound plans to address: (i) restructuring plans for large and/or loss making state enterprises; (ii) the closure of unnecessary public entities; (iii) tax reform; (iv) reforms ot public administration; (v) the public wage bill; and (vi) military spending. (by end-April)	Supports fiscal consolidation	

GREECE

Memorandum of Understanding
on
Specific Economic Policy Conditionality
(second update)

22 November 2010

The quarterly disbursements of bilateral financial assistance from euro area Member States are subject to quarterly reviews of conditionality for the duration of the arrangement. The release of the tranches will be based on observance of quantitative performance criteria and a positive evaluation of progress made with respect to policy criteria in the MEFP and in this Memorandum. These criteria have been updated and further specified during the November 2010 review.

Annex 1 on data provision is part of the Memorandum and its respect will be considered in the assessment of compliance.

The authorities commit to consult with the European Commission, the ECB and the IMF staff on adoption of policies falling within the scope of this Memorandum allowing sufficient time for review and in accordance with the government's established practices. They will also provide them with all requested information for monitoring progress during program implementation (Annex 1). Government provides quarterly a report in line with Article 4 of Council Decision 2010/320/EU.

1. Actions for the third review (actions to be completed by end Q4-2010)

i. Fiscal consolidation

Government achieves the quantitative performance criteria for 2010 (see Table 1 in MEFP) and endeavours to reach the government deficit target on an ESA95 basis.[1]

Parliament adopts the final budget for 2011 targeting a further reduction in the general government deficit, which in ESA95-based terms will not exceed EUR 17 065 million.

The final 2011 budget provides information and projections on the entire general government sector.

The final budget includes the following measures:

[1] See Article 1 of Council Decision 2010/320/EU.

Carryovers into 2011 of measures adopted in May 2010:

Expenditure cuts

- Wage bill (seasonal bonuses and allowances): at least EUR 400 million;[2]
- Pensions (seasonal bonuses): EUR 500 million;
- Specific reduction in highest pensions: EUR 150 million;

Revenue increases

- VAT: at least EUR 750 million;
- Excises on fuel: at least EUR 250 million;
- Excises on tobacco: at least EUR 250 million;
- Excises on alcohol: at least EUR 50 million;
- Luxury good tax: at least EUR 50 million;
- Incentives to regularise land-use violations (Ημι-υπαίθριοι), yielding at least EUR 150 million and increased amounts in 2012 and 2013;

Measures previously agreed and legislated

Expenditure cuts

- Reduction in intermediate consumption by at least EUR 300 million compared to the actual 2010 level, on top of savings envisaged in the context of reforming public administration and the reorganisation of local government (see the next measure);
- Implement legislation reforming public administration and reorganising local government with the aim of reducing costs in comparison to current levels by at least EUR 1 500 million in 2013, of which at least EUR 500 million in 2011;
- Reduction in domestically-financed spending in investment by at least EUR 500 million compared to the actual 2010 level, while increasing revenue by giving priority to investment projects financed by EU structural and cohesion funds;
- Freeze in the indexation of pensions, with the aim of saving at least EUR 100 million;
- Reduction in the wage bill through fraud-reducing measures and the establishment of the single payment authority by at least EUR 100 million;
- Reduction in pharmaceutical expenditure by social security funds by EUR 500 million owing to a reduction in pre-tax drug prices; and by hospitals by at least EUR 350 million (see also below).

Revenue increases

- Temporary crisis levies on highly profitable firms, yielding at least EUR 1 000 million per year in 2011, 2012 and 2013;
- Enforce the presumptive taxation of professionals, with a yield of at least EUR 700 million in 2011 and increasing returns in 2012 and 2013;

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2 This figure does not include carryovers from 2010 related to wage cuts in public enterprises.

- Start phasing in a green tax, with a yield of at least EUR 150 million in 2011;
- Expand the base of the real estate tax by updating asset values to yield at least EUR 270 million additional revenue;
- Collect revenue from the licensing of gaming: at least EUR 500 million in sales of licences and EUR 200 in annual royalties;
- Increase taxation of wages in kind, including by taxing car lease payments: at least EUR 150 million;
- Introduce book specification of income for tax purposes yielding at least EUR 50 million;
- Initiate the collection of a special tax on unauthorised establishments (Αυθαίρετα) (at least EUR 300 million per year);

New measures

Expenditure cuts

- Further reduction in operational expenditure by at least 5 percent yielding savings of at least EUR 100 million;
- Further reduction in transfers yielding savings for the government as a whole of at least EUR 100 million. The beneficiary public entities will ensure the concomitant reduction in expenditure so that there is no accumulation of arrears;
- Means-testing of family allowances from January 2011 on yielding savings of at least EUR 150 million (after deduction of the respective administrative costs) ;
- Reduction in deliveries of military equipment by at least EUR 500 million compared to the actual 2010 level;
- Further reduction in pharmaceutical expenditure by social security funds by EUR 900 million owing to a further reduction in drug prices and new procurement procedures; and by hospitals (also including expenditure in equipment) by at least EUR 350 million;
- Changes in the management, pricing and wages of public enterprises yielding savings of at least EUR 800 million (see below);

Revenue increases

- Equalisation of taxation on heating oil and diesel oil from 15 October 2011 on, with the aim of fighting fraud and yielding at least EUR 400 million in 2011 net of specific measures to protect the less prosperous population strata;
- Increase in the reduced rates of VAT from 5.5 to 6.5 percent and 11 to 13 percent, yielding at least EUR 880 million; and reduction in the VAT rate applicable to medicines and hotel accommodation from 11 to 6.5 percent with a cost not exceeding EUR 250 million;[3]
- Intensification of the fight against smuggling on fuel (at least EUR 190 million);
- Increase in court trial fees (at least EUR 100 million);
- The implementation of an action plan to accelerate the collection of tax arrears (at least EUR 200 million);
- Speeding up tax penalty collection (at least EUR 400 million);

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[3] Net of savings for social security funds and hospitals that result from lower VAT rate on medicines.

- Collection of revenue that results from the new framework of tax disputes and trials (at least EUR 300 million);
- Revenue from the renewal of telecommunication licences that are about to expire (at least EUR 350 million);
- Revenue from concession licences (at least EUR 250 million).

The final budget contains:

- Detailed expenditure ceilings for each line ministry, local governments, and social security funds consistent with the general government deficit target. For the medium-term fiscal framework for 2012-14, this will be specified in the March 2011 strategy paper;
- Information on monthly revenue per category, and expenditure per Ministry. Updated figures will be regularly made available online.

ii. Structural fiscal reforms

Fighting waste in public enterprises

Government adopts a restructuring plan for the Athens transport network (OASA). The objective of the plan is to reduce operational losses of the company and make it economically viable. State subsidies shall not exceed 40 percent of operational cost in conformity with EU practices. The plan includes cuts in operational expenditure of the company and tariffs increases. The required actions are implemented by end March 2011.

Government adopts an act that limits recruitment in the whole general government to a rule of not more than 1 recruitment for 5 exits, without sectoral exceptions.[4] Government prepares a human resource plan in line with this rule. The rule also applies to staff transferred from public enterprises under restructuring to government entities.

Government prepares a detailed privatization plan for the divestment of state assets and enterprises with the aim of raising at least EUR 7 billion during the period 2011-2013, of which at least EUR 1 billion in 2011. The restructuring and privatization programme will span the state's holdings in rail, road transport, airports, ports, utilities, the gaming industry and real estate. Proceeds from privatisation are to be used to redeem debt and do not substitute fiscal consolidation efforts.

Accounting and control

Government ensures that the central registry for public enterprises is operational, and that public enterprises' financial statements are available on the website of the Ministry of Finance.

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[4] This rule is monitored by the Ministries of Interior and Finance.

Government centralises the financial supervision of public enterprises at the Ministry of Finance – Special Secretariat for Public Enterprises. Operational supervision of public enterprises is ensured by the relevant ministries.

Military spending

The new EMPAE (National Medium-Term Military Procurement Programme), to be adopted by Government, plans for a reduction in expenditure in the medium term that durably contributes to fiscal consolidation, without prejudice to national defence capability.

To improve the fiscal framework

Government implements legislation to strengthen the fiscal framework. The following elements should be part of the reform:

- Introduce a medium-term fiscal framework based on rolling three-year expenditure ceilings for central government, social security and local governments;
- Strengthen the position of the Finance Minister vis-à-vis line ministries in both budget preparation and execution phases (giving him/her veto power on spending decisions and execution);
- Introduce a compulsory contingency reserve in the budget, corresponding to 5 percent of total appropriations of government departments other than wages, pensions and interest; the use of the contingency reserve will be decided by the Finance Minister;
- Parliament does not modify the overall size of the budget at the approval stage, and focuses on the composition of public expenditure and revenue, and reliability of projections for expenditure and revenue;
- Introduce stronger expenditure monitoring mechanisms, particularly by implementing an appropriate control of spending commitments, through which spending entities (line ministries, local authorities, social security funds, hospitals and other legal entities,) will report on a monthly basis to the Treasury on their outstanding expenditure commitments against their authorised appropriations in the budget law. To this end, the General Secretariat of Information Systems starts developing a special information system, to be complete by June 2011, interconnecting all public entities with the General Accounting Office (GAO), to provide real-time data;
- Introduce a revenue rule for the general government, according to which the allocation of higher-than-expected revenues should be specified *ex ante* in the budget;
- Creation of a budget office attached to Parliament providing independent advice and expert scrutiny on fiscal issues, and reporting publicly on the budgetary plans and execution of the spending entities of the general government, and on macroeconomic assumptions used in the budget.

To complete the pension reform

The National Actuarial Authority provides by 15 December 2010 interim long-term projections of pension expenditure up to 2060 under the July 2010 legislation covering the main pension schemes (IKA, OGA, OAEE and OPAD).

To modernise the health care system

Government adopts a comprehensive reform of the health care system and modifies the allocation of health-related tasks among ministries.

The overarching objective is to keep public health expenditure at or below 6 percent of GDP, while maintaining universal access and improving the quality of care delivery. In the short-term, the main focus should be on macro-level discipline and cost-control.

Regarding pharmaceuticals, the government implements measures yielding savings of at least EUR 2 billion relative to the 2010 level, at least EUR 1 billion of which would materialise already in 2011. This would bring average public spending on outpatient pharmaceuticals to about 1 percent of GDP (in line with the EU average) by the end of 2012. More specifically, the following measures are implemented by end of 2010:

- Ensure full implementation of a uniform e-prescribing system, by extending the system currently used by OAEE to all the social security funds providing health insurance;
- Define (through EOF) and publish prescription guidelines for physicians on the basis of international prescription guidelines;
- Social security funds establish a process to regularly assess the information obtained through the e-prescribing system and vis-à-vis prescription guidelines. Assessment will be done through a common dedicated unit under the authority of Health Benefit Coordination Council (SYSPY) with support of IDIKA. Relevant sanctions and penalties will be enforced as a follow up to the assessment and as foreseen by existing rules and legislation;
- A yearly report on medicine prescription is published and feedback is provided to each physician on a regular basis (at least annually). The report and feedback analysis look at prescription behaviour with reference to the most costly and mostly used medicines.
- Publish the complete price list for the medicines in the market, using the new pricing mechanism. This list will be published by December 2010 and replace the partial list introduced in September. It will be updated quarterly.
- Announce that caps to the price reductions used when the price list was first introduced in September 2010 will be lifted by March 2011.
- Apply the negative list of non-reimbursed medicines and the list of over-the-counter medicines prepared by the EOF.
- Finalise the new positive list of reimbursed medicines using the new reference price system.
- Using the information made available through e-prescribing and scanning, Government collect the agreed rebate from pharmaceutical companies.
- Introduces a monitoring mechanism allowing for developments in pharmaceutical expenditure to be assessed on a monthly basis.

If the implementation of the above measures is insufficient to achieve the targeted savings, both in 2011 and for the medium term, the government will implement additional measures, following discussions with the European Commission, the ECB and the IMF staff. An assessment of the impact of measures will be made in the context of programme reviews.

Government enforces the payment of existing co-payments for regular outpatient services in all public hospitals and health centres and extends the 'all day' functioning of hospitals (afternoon shift) in order to develop and improve health care services and increase revenue. Government increases and enforces the co-payment of outpatient services from EUR 3 to EUR 5 and extends co-payments to unwarranted visits to emergency departments.

Government ensures greater budgetary and operational oversight of health care spending by the Finance Minister, and the publication of audited accounts for hospitals and health centres.

Task force

Government creates an independent task force of health policy experts whose task is to produce, by end May 2011, a detailed report (*blue print*) for an overall reform of the health system to improve efficiency and effectiveness in the health system (both public and private). This task force has access to all available information and receives adequate administrative support. It will produce an interim report by March 2011.

iii. Financial sector regulation and supervision

The Hellenic Financial Stability Fund is fully operational and adequately staffed (by end January 2011). Staff is recruited under the fastest and most flexible existing recruitment procedure.

Government ensures that the EUR 25-billion extension of the government-guarantees on bank bonds is available by the end of November 2010.

ATE announces a rights issue before end-November 2010.

The Bank of Greece commits to reduce remuneration of its staff in light of the overall effort of fiscal consolidation.

iv. Structural reforms

To strengthen labour market institutions

Government reforms the mechanism for collective bargaining at the firm level in close cooperation with social partners. The new law establishes that firm-level agreements prevail over those under sector and occupational agreements without undue restrictions (for this purpose, Law 1876/1990, Article 10 is amended). The conclusion of firm-level collective agreements should not be restricted by law, notably by requirements regarding the minimum size of firms entitled to engage in collective bargaining (for this purpose Law 1876/1990, Article 6.1.b is amended).

Government amends Law 1876/1990 (Articles 11.2 and 11.3) to eliminate the extension of sector and occupational agreements to parties not represented in negotiations.

Government adopts an act, in line with Article 73 of Law 3863/2010, revising the mediation and arbitration system and introducing symmetric access to arbitration if parties disagree with the proposal of the mediator without exceptions. The Mediation and Arbitration Organisation (OMED) shall be free from government influence; this shall be reflected in the composition of the board of directors. Its Chairman is elected by unanimity by the employers and employees representatives. The new act indicates that mediators and arbitrators pay due attention to cost competitiveness.

Government amends legislation to extend the probationary period for new jobs to one year (Law 3863/2010, Article 74.2).

Government eliminates temporal limits in the use of temporary working agencies. For this purpose, relevant laws are amended.

Government adopts legislation to remove impediments for greater use of fixed-term contracts.

Government eliminates the provision that establishes higher hourly remuneration to part-time workers. For this purpose Law 1892/1990, Article 38 is further amended.

Government amends current legislation (Law 3846/2010, Article 7) to allow for a more flexible working-time management, including part-time shift work (Article 2.3).

To reform and modernise public administration

Functional reviews

Government proceeds with two independent functional reviews of the public administration at central level and of all existing social programmes, which will be conducted by the OECD. The first review on public administration will be coordinated by the Ministry of Interior. The second review on social programmes will be coordinated by the Ministry of Labour. The review of the central administration involves all ministries (first phase) and key subordinated public entities (second phase). The review of all existing social programmes will be comprehensive and will affect all relevant ministries. The terms of reference of both reviews, and a precise time schedule for the second phase of the central administration review, will be agreed between both ministries and the OECD after consultation with the European Commission, IMF and ECB staff.

The review on central administration will be merged with the Ministry of Interior's own reorganisation programme.[5] The review will:

- take stock of the resource use (human resources and procurement) to carry out government functions;

[5] This is done in the framework of the Administrative Reform Operational Programme, and more specifically the subproject II 'Mapping and Assessing Current Situation'. The OECD will guide the Ministry of Interior on the methodology and tools of the review. The second review on social programmes will be financed by the Human Resources Development Operational Programme.

- identify actions to rationalise the several departments, ensure efficiency and generate productivity gains, and
- quantify savings.

The review of existing social programmes will:

- assess the effectiveness and appropriateness of existing social and welfare programmes;
- identify the least effective programmes, and
- quantify savings.

Local administration

Government adopts the required decrees for the entry into force of the local administration reform (*Kallikrates* reform). The reform yields savings of EUR 500 million in 2011 and additional EUR 500 million per year in 2012 and 2013 for the general government as a whole.

Government adopts a decree disallowing local governments to run deficits at least until 2014. To ensure that savings contribute to the reduction in the government deficit. Government reduces transfers to local government in line with planned savings and transfers of competences to local government.

Public sector wages and human resource management

The Ministry of Finance together with the Ministry of Interior complete the establishment of a Single Payment Authority for the payment of wages in the public sector. The Ministry of Finance prepares a report (to be published by end January 2011), in collaboration with the Single Payment Authority, on the structure and levels of remuneration and the volume and dynamics of employment in the general government. The report presents plans for the allocation of human resources in the public sector for the period up to 2013. It specifies plans to reallocate qualified staff to the tax administration, GAO, the labour inspectorate, regulators and Hellenic Competition Commission.

Government establishes a process to simplify the remuneration system in the public sector. It shall apply to all public sector employees. This should lead to a system where remuneration reflects productivity and tasks. Government ensures that there is no increase in the wage bill in the public sector as a result of the reform.

ASEP accelerates staff selection-related procedures for the areas which are a priority in the implementation of this memorandum.

Public procurement

Government provides timetable and details for the development of *e-procurement* and signs the respective contract for the provision of IT platform.

To strengthen competition in open markets

Services directive

Government ensures that the point of single contact (PSC):

- provides relevant information on all sector-specific and cross-cutting formalities and procedures (such as company/trade registration and permits relating to the providers' premises);
- distinguishes between procedures applicable to service providers established in Greece and those applicable to cross-border providers (in particular for the regulated professions).[6]

Government:

- ensures adequate links between the PSC and other relevant authorities (including professional associations);
- allows the online completion of procedures covering at least, the procedures in the distribution services, tourism, education and construction sectors;
- allows for payment of administrative fees at a distance.[7]

Government carries out a risk assessment of procedures focusing on priority service sectors with a view to adopting solutions for electronic identification, electronic signature and electronic documents in conformity with Commission Decision 2009/767/EC.

Government presents a progress report outlining available online procedures, steps to be taken over the next two quarters to finalise the electronic completion of procedures, setting clear deadlines by service sector and procedure.

Government adopts changes to existing (sectoral) legislation in key services sectors such as tourism, retail and private education services. New legislation should:

- facilitate establishment by
  - abolishing or amending requirements which are prohibited by the Services Directive; and
  - significantly reducing requirements, including those relating to quantitative and territorial restrictions, legal form requirements, shareholding requirements, fixed minimum and/or maximum tariffs and restrictions to multidisciplinary activities.
- facilitate the provision of cross-border services, so that providers of cross-border services are required to comply with specific requirements of the Greek legislation only in exceptional cases (when admitted by Articles 16 or 17 of the Services Directive).
- provide legal certainty for providers of cross-border services by setting out in the respective (sectoral) legislation which requirements can and which requirements cannot be applied to cross-border services.

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6 This will be done by the Ministry of Interior based on information provided by the relevant ministries.

7 The PSC indicates an account to which the relevant fees can be transferred at a distance by any applicant.

Government specifies, for priority service sectors that are key for growth, a timetable for adopting sectoral legislation by end Q2 2011 that ensures compliance with the requirements of the Services Directive.

Restricted professions

Government proposes legislation to remove restrictions to competition, business and trade in restricted professions including:

- the legal profession, to remove unnecessary restrictions on fixed minimum tariffs, the effective ban on advertising, territorial restrictions on where lawyers can practice;
- the pharmacy profession, to promote more flexible opening hours and reduce minimum profit margins (see also measures to modernise the health care system);
- the notary profession, to reduce fixed tariffs and increase the number of notaries;
- architects, covering fixed minimum tariffs;
- engineers, covering fixed minimum tariffs;
- auditing services, covering fixed tariffs.

Government requests the Hellenic Competition Commission to issue an opinion on the proposed legislation.

Government ensures the effective implementation of EU rules on recognition of professional qualifications and compliance with ECJ rulings (including those related to franchised diplomas). It presents to the European Commission a list of pending applications and a timetable for dealing with these applications. In particular, pending applications for recognition of professional qualifications (in particular those related to franchised diplomas) should be immediately processed, with the first decisions on those applications to be submitted to the European Commission by the end of 2010.

Transport

Building on the recently adopted railway reform law (Law 3891/2010), Government adopts a business plan on the restructuring of the railways sector in a viable manner. By implementing the business plan, the train operator (TRAINOSE) and infrastructure manager (OSE) break even.
The restructuring measures envisaged in the business plan imply state aid in favour of OSE Group and TRAINOSE, which will be notified to the Commission by the end of 2010. The business plan will be adapted to ensure compliance with State aid rules. The next review will report on adaptations brought to the business plan to ensure its compatibility with State aid rules.
The business plan

- provides an overall fiscal impact analysis, including investment and debt;
- establishes monitoring and enforcement mechanisms that ensure prompt correction of deviations vis-à-vis the plan.

Sectoral growth drivers

Government presents a report analysing the potential contribution of the tourism sector to growth and jobs. It should identify legislative, administrative and other obstacles hindering competition and market entry to the realisation of sector potential.

Government presents a report analysing the potential contribution of the retail sector to price flexibility, growth and jobs. It should identify legislative, administrative and other obstacles hindering competition and market entry to the realisation of sector potential.

Business environment

Government adopts legislation to simplify and accelerate the process of licensing enterprises, industrial activities and professions. For this purpose, it revises *inter alia* Law 3325/2005, and makes the spatial plan and Law 3333/05 for business areas operational, with the subsequent issuance of the required ministerial decisions and presidential decrees in Q1-2011.

Government adopts an action plan for a business-friendly Greece with a timetable for the removal of 30 of the most important remaining restrictions to business activity, investment and innovation.

Government adopts a law modifying the existing institutional framework of the Hellenic Competition Commission (HCC) with the aim of abolishing the notification system for all agreements falling within the scope of Article 1 of Law 703/1977, to give the HCC the power to reject complaints, to increase the independence of HCC members, and to establish reasonable deadlines for the investigation and issuance of decisions.

Government makes the General Commercial Registry (GEMI) operational.[8]

Government accelerates the land registry and prepares a progress report and an action plan.

Energy

Government presents its detailed plans for the liberalisation of the energy market, including opening up lignite-fired electricity generation to third parties in line with EU law.

Government adopts a plan for phased transitory cost-based access to lignite-fired generation, taking into account the decommissioning of the power plants scheduled under the Government's Energy Plan to meet the 20-20-20 target. This access will remain in place until effective implementation of the liberalisation has taken place.

Government adopts a plan to either award the hydro reserves management to an independent body or to assign this role to the independent system operator.

Government adopts a mechanism to ensure that the energy component of regulated tariffs reflects, gradually and at the latest by June 2013, wholesale market prices, except for vulnerable consumers.

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[8] By end December 2010: the data migration from the chambers' registries to the GEMI database is finalised; the joint ministerial decisions on procedures, conditions and technical modalities are adopted; the one-stop-shop services are provided by KEP's chambers of commerce and notaries. Any other required steps, including the automatisation of one-stop-shop services, are finalised by March 2011.

Government adopts a revised definition of vulnerable consumers and a tariff for this category of consumers.

To ensure that network activities are unbundled from supply activities, as foreseen in the second and third energy liberalisation packages, Government identifies the assets and personnel associated with the electricity transmission system and the electricity distribution system.

To promote investments and exports

Government carries out an in-depth evaluation of all R&D and innovation actions, including in various operational programmes, in order to adjust the national strategy and limit the use of government subsidies and guarantees.

Government creates an external advisory council, to consider how to foster innovation, strengthen links between public research and Greek industries and the development of regional industrial clusters.

Government takes measures to facilitate FDI and investment in innovation in strategic sectors (green industries, ICT, etc.) as well as measures to promote exports. These actions focus on removing rigidities and administrative constraints and must be in line with the fiscal consolidation requirements.

To raise the absorption rates of structural and cohesion funds

Government meets targets for payment claims in the absorption of structural and cohesion funds set down in the table below. Compliance with the targets shall be measured by certified data. In addition, Government achieves an annual target of submitting 10 major projects applications to the Commission. In meeting absorption rate targets, recourse to non-targeted *de minimis* state aid measures should be gradually reduced.

Government presents a report on the activities of the task force assessing progress in ensuring the rapid implementation and absorption of structural funds, and proposing improvements when necessary.

Table 1: Targets for payment claims in the absorption of Structural and Cohesion Funds (programming period 2007-2013) to be submitted between 2010 and 2013 (in EUR million)

	2010	**2011**	**2012**	**2013**
European Regional Fund and Cohesion Fund	2 330	2 600	2 850	3 000
European Social Fund	420	750	880	890
Target of first half of the year		1 105	1 231	1 284
Target of second half of the year		2 245	2 499	2 606
Total annual target	2 750	3 350	3 730	3 890

Without prejudice to the Greek Constitution, Government adopts legislation to tackle delays in the implementation of public works and investment projects in general. Legislation should:

- shorten and simplify judicial procedures challenging contract awards or land expropriation decisions;
- shorten deadlines to get permits by the Central Archaeological Council in Athens;
- simplify and shorten procedures to complete studies on environmental impact and to get the approval of environmental terms for infrastructure projects.

2. Actions for the fourth review (actions to be completed by end Q1-2011)

i. Fiscal consolidation

Government rigorously implements the budget for 2011 in line with this Memorandum.

The Ministry of Finance ensures tight supervision of expenditure commitments by the government departments, including state entities, the Public Investment Budget, social security funds, local governments and public enterprises, and effective tax collection, to secure the attainment of the programme deficit targets (see respectively Table 2 of the MEFP and Article 1 of Council Decision 2010/320/EU).

The Ministry of Finance releases 1/14 of the budgetary appropriation (excluding wages, pensions and interest) per month to the several departments. The remaining budgetary appropriations will not be released before September 2011, and may be cancelled by the Ministry of Finance, according to the need to respect the government deficit ceiling.

Government clears arrears accumulated in previous years.

Government prepares a budgetary strategy paper which identifies structural fiscal consolidation measures of at least 5 percent of GDP that will ensure the deficit targets up to 2014 are achieved. The strategy paper will be accompanied by a plan to be discussed during the review currently planned for February 2010. Relevant acts are adopted by May.

ii. Structural fiscal reforms

Revenue administration and public financial administration reforms

Government launches an anti-evasion plan. The plan includes quantitative performance indicators to hold revenue administration accountable.

Government adopts legislation to streamline the administrative tax dispute and judicial appeal processes; centralises filing enforcement and debt collection indirect audit methods and tax return processing, and adopts the required acts and procedures to better address misconduct, corruption and poor performance of tax officials, including prosecution in cases of breach of duty and a more flexible recruitment process to appoint and promote good performers (based on principles of meritocracy, objectivity and transparency).

Government appoints financial accounting officers, in accordance to Ministry of Finance rules, in all line ministries and major government entities with the responsibility to ensure sound financial controls.

Public sector wages and human resource management

Government presents a detailed action plan (by end February 2011) with a timeline to complete and implement the simplified remuneration system.

To complete the pension reform

The National Actuarial Authority submits comprehensive long-term projections of pension expenditure up to 2060 under the adopted reform; the projection will be peer-reviewed and validated by the EU Economic Policy Committee and the European Commission, IMF and ECB. The projections shall encompass the supplementary (auxiliary) schemes, based on comprehensive set of data collected and elaborated by the National Actuarial Authority.

Fighting waste in public enterprises

With the aim of fighting waste and mismanagement in state-owned companies, Government adopts an act by end February 2011 that:

- Cuts primary remuneration in public enterprises by at least 10 percent at company level;
- Limits secondary remuneration to 10 percent of primary remuneration at company level;
- Establishes a ceiling of EUR 4 000 per month for gross earnings (12 payments per year);
- Increases urban transport tariffs by at least 30 percent;
- Increases other tariffs;
- Establishes actions that reduce operating expenditure in public companies between 15 to 25 percent (according to the specific needs of enterprises).

These measures should be effective from January 2011 and yield fiscal savings of at least EUR 800 million.[9]

Government adopts an act for OASA (the Athens urban transport network) restructuring by the end of March 2011.

To modernise the health care system

Governance

Government implements the provisions of Article 31 and 32 of Law 3863/ 2010. In particular, the Health Benefit Coordination Council (SYSPY):

- establishes new criteria and terms for the conclusions of contracts by social security funds (including OPAD) with all healthcare providers, and all other actions envisaged in Article 32 with the aim of achieving the targeted reduction in spending;

[9] This yield will be assessed net of losses in social contribution and personal income tax that may result from those actions.

- initiates joint purchase of medical services and goods to achieve substantial expenditure reduction (of at least 25 percent compared to 2010) through price-volume agreements.

Comprehensive E-prescribing

Government ensures that the e-prescribing system for diagnostic tests currently piloted by OPAD is extended to all social security funds.

Government ensures that e-prescribing is extended to doctors' referrals to other doctors and to hospital care.

Each social security fund together with SYSPY establishes a process to regularly assess the information obtained through the e-prescribing system and produces regular reports (at least on a six-monthly basis) to be transmitted to the competent authorities in the Ministry of Labour, Ministry of Health and Ministry of Finance. Monitoring and assessment is done through a dedicated common unit under SYSPY. On the basis of the information available and the assessment conducted, a yearly report is published and feedback is provided to each physician. Sanctions and penalties will be enforced as a follow up to the assessment.

Hospital computerisation and monitoring system

The Ministry of Health completes the programme of hospital computerisation. In particular, it finalises the process of integration and consolidation of hospitals' IT systems and centralisation of information. The Ministry of Health creates a dedicated service/unit to collect data and produce regular quarterly reports and an annual report. A copy of these reports is transmitted to the competent authority in the Ministry of Finance.

Government takes measures to improve the accounting, book keeping (of medical supplies) and billing systems, through:

- finalising the introduction of double-entry accrual accounting systems in all hospitals;
- the use of the uniform coding system and a common registry for medical supplies developed by the Health Procurement Commission (EPY) and the National Centre for Medical Technology for the purpose of procuring medical supplies;
- the calculation of stocks and flows of medical supplies in all the hospitals using the uniform coding system for medical supplies;
- the collection of co-payments from patients in all NHS facilities;
- the timely invoicing of treatment costs (no later than 2 months) to Greek social security funds, other EU Member States and private health insurers for the treatment of non-nationals/ non-residents.
- the use of e-prescribing for all medical acts (medicines, referrals, diagnostics, surgery) in all NHS facilities

Increasing use of generic medicines

Government takes measures to ensure that at least 50 percent of the volume of medicines used by public hospitals by end of 2011 is composed of generics and off-patent medicines, in particular by making compulsory that all public hospitals procure pharmaceutical products by active substance.

Pricing of medicines

Government

- Moves the responsibility of pricing medicines to EOF and all other aspects of pharmaceutical policy to the Ministry of Health, to rationalise licensing, pricing and reimbursement systems for medicines;
- Reduce the profit margin of pharmacies on retail prices directly to 15-20 percent, or indirectly by establishing a system of rebates for pharmacies with sales above a designated threshold. Starting from 2012, pharmacies profit margins should be calculated as a flat amount or flat fee combined with a small profit margin.
- Reduce the profit margin of wholesale companies distributing pharmaceuticals by at least one third, from January 2011.

Task force

The independent task force of health policy experts created at the end of 2010 produces, in cooperation with the European Commission, the ECB and the IMF, an interim policy report by March 2011, with initial indications on the necessary revisions to the policies implemented so far and the improvements for the years to come.

Accounting and control

Internal controllers are assigned to all major hospitals by Q2-2011.

By the end of February, Government starts publishing monthly data on healthcare expenditure by the main social security funds (IKA, OAEE, OGA and OPAD) with a lag of three weeks after the end of the respective quarter (see annex 1).

To fight waste in public enterprises

Government adopts an action plan for restructuring public enterprises[10] and leading to the closure of non viable enterprises and extra-budgetary funds that have outlived their original purpose.

Government publishes monthly information on the accounts of public enterprises classified in general government with a lag of three weeks.

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[10] Priority will be given to public enterprises, which according to ESA95, are classified in general government.

Government revises the framework law (Law 3429/2005) on state-owned corporate governance, with the aim of adopting management in accordance with international best practices. The new framework law requires auditing of the companies accounts at least with semi annual frequency (quarterly frequency for at least the ten largest state-owned enterprises by turnover) and the strengthening of enterprises' internal controlling, strengthens rules on asset management and introduces more flexibility in working practices.

iii. Financial sector regulation and supervision

Government transfers, by end January, EUR 1 000 million to a dedicated government account opened by the General Accounting Office at the Bank of Greece. Funds from this account are released to the Hellenic Financial Stability Fund if programme reviews of bank capital suggest that the resources are necessary. The release of the funds is subject to agreement by the European Commission, ECB and IMF staffs.

Government legislates with the aim of unbundling the core consignment activity of the Loan and Consignment Fund from deposit-taking and loan distribution activities.

Government tables legislation that places all registered banks employees under the same private sector status, regardless of the bank ownership.

iv. Structural reforms

To reform and modernise public administration

Public procurement

Government adopts legislation establishing the Single Public Procurement Authority with the mandate, objectives, competences, powers and schedule for entry into force in line with the Action Plan agreed with the Commission in November 2010. Government transmits the draft law to the European Commission by 1 February 2011 for review and an assessment of compliance with the Action Plan.

Government undertakes a review identifying areas to increase the efficiency of the public procurement system outside the Single Public Procurement Authority as specified in the Action Plan. Government provides an update of progress regarding the development of the e-procurement system.

Better Regulation

Government adopts legislation and measures needed to implement the 'Better Regulation agenda', covering in particular the areas of codification, impact assessment, the reduction of administrative burdens and the 'Better Regulation' structure.

Reforms to improve the business environment

Restricted professions

Government adopts specific legislation on restricted professions including for the legal profession, the pharmacy profession, the notary profession, architects, engineers and auditing services.

Sectoral growth drivers

Government adopts legislation and takes other structural actions to implement the findings of the report analysing the potential contribution of the tourism sector to growth and jobs in the Greek economy.

Government adopts legislation and takes other structural actions to implement the findings of the report analysing the potential contribution of the retail sector to price flexibility, growth and jobs in the Greek economy.

To enhance competition in open markets

Services directive

Government adopts acts allowing the online completion of procedures covering other relevant sectors of the economy, such as food and beverage services, services of the regulated professions, real estate services, and business services.

As regards the cross-border provision of services, particular attention should be paid to declarations relating to the recognition of professional qualifications.

Energy

Government commences implementation of plan for opening up lignite-fired electricity generation to third parties.

Government implements its decision to either award the hydro reserves management to an independent body or to assign this role to the independent system operator.

Government starts to implement the mechanism to ensure that the energy component of regulated tariffs reflects, gradually and at the latest by June 2013, wholesale market prices, except for vulnerable consumers.

In order to ensure that network activities are unbundled from supply activities as foreseen in the second and third energy liberalisation packages, the following measures are implemented:

- Government adopts a Decision on the modalities of unbundling of the transmission system operator in line with the third energy liberalization package and adopts necessary legislation to ensure the creation of fully unbundled electricity and gas transmission system operators by March 2012.

- Government ensures the creation of an independent Distribution System Operator, in line with the third energy liberalisation package.

Government transfers to RAE (Regulatory Authority for Energy) all regulatory powers assigned to EU energy regulators in the third energy liberalisation package (licensing, network access, network charges, market monitoring, etc).

Government adopts measures to ensure the independence of RAE (impartial and transparent nomination of board, management authority with regard to budget and personnel, etc. in line with the third energy liberalisation package).

Transport

Government adopts a new regulatory framework to facilitate the conclusion of concession agreements for regional airports. The new regulatory framework should contribute to the development of the tourism sector and be mindful of preventing anticompetitive practices and foresee appropriate oversight of the allocation and operation of concessions, in full respect of state aid rules.

Government adopts a law that removes the current restrictions on the provision of services for occasional passenger transport by buses, coaches and limousines and which guarantees that any operator that meets clearly specified criteria related to professional capacity has unlimited access to the market. The cost for granting and renewing of licenses shall not exceed the administrative costs related to the licensing procedure and shall be levied in proportion to the number of vehicles licensed. The method for calculating the fees must be transparent and objective and shall not lead to over recovery of costs incurred.

To upgrade the education system

Government establishes, by end February 2011, an independent taskforce of education policy with purpose of increasing the efficiency of the public education system (primary, secondary and higher education) and reach a more efficient use of resources.[11]

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[11] This taskforce will be in contact with the already existing international advisory committee to the Greek government for higher education reform.

3. Actions for the fifth review (actions to be completed by end Q2-2011)

i. Fiscal consolidation

Government rigorously implements the budget for 2011 in line with this Memorandum, and the fiscal consolidation measures in the budget. Government stands ready to define and enact additional measures if needed to reach the budgetary targets.

ii. Structural fiscal reforms

To complete the pension reform

Government proceeds with an in-depth revision of the functioning of secondary/supplementary public pension funds. The aim of the revision is to stabilise pension expenditure, guarantee the budgetary neutrality of these schemes, and ensure medium- and long-term sustainability of the system. The revision should achieve:

- the stabilisation of the current spending, through appropriate adjustments to be made from 1 January 2012;
- the long-term sustainability of secondary schemes through a strict link between contributions and benefits.

This reform contributes to achieve the overarching target of reducing the overall (basic, contributory, supplementary and any other related scheme) increase of public sector pension spending, over the period 2009-2060, to under 2.5 percentage points of GDP.

The reform of the secondary (supplementary) schemes is designed in close consultation with European Commission, IMF and ECB staff, and its estimated impact on long-term sustainability is validated by the EU Economic Policy Committee. The parameters of the new secondary notional defined-contribution system ensure long-term actuarial balance, as assessed by the National Actuarial Authority.

If the projections by the National Actuarial Authority show that the projected increase in public pension expenditure would exceed the limit of 2.5 percentage points of GDP over 2009-60, Government revises also the main parameters of the pension system provided by Law 3863/2010. The revision is designed in close consultation with the European Commission, the IMF and the ECB staffs.

Government substantially revises the list of heavy and arduous professions, and reduces its coverage to no more than 10 percent of the labour force. The new list of Difficult and Hazardous Occupations shall apply with effect from 1 July 2011 to all current and future workers.

The Bank of Greece commits not to grant pension privileges to its staff and to revise the main parameters of its pension scheme to align them with those of IKA.

By the first quarter 2012, Government implements the reform of the secondary/supplementary pension schemes, by starting the calculation of benefits on the basis of the new notional defined-contribution system. Government freezes nominal supplementary pensions and reduces the replacement rates for accrued rights, based on the actuarial study prepared by the National Actuarial Authority. In case the actuarial study is not ready, replacement rates are reduced, starting from 1 January 2012, to avoid additional deficits.

Privatisation and better management of state assets

Government publishes a full inventory of commercial state-owned real-estate assets.

To modernise the health care system

Government takes additional measures to promote the use of generic medicines through:

- compulsory doctors' e-prescription by active substance;
- associating a lower cost-sharing rate to generic medicines that have a significantly lower price than the reference price (lower than 60 percent of the reference price) on the basis of the experience of other EU countries;
- setting the maximum price of generics to 60 percent of the branded medicine.

Government extends the use of capitation payment of physician, currently used by OAEE, to all contracts between social security funds and the doctors they contract. The new payment mechanism starts for each new contract renewed in 2011 and for all contracts from 2012. It defines a minimum number of patients per doctor, on the basis of the experience of other EU Member States.

Government moves towards greater equalisation across funds regarding contribution rates and minimum benefit packages, with the aim of full equalisation by 2012 building on Law 3655/2008.

To reduce costs and improve quality of care for patients, Government:

- adjusts public hospital provision by implementing joint management / joint operation between small scale hospitals and big hospitals within the same district and health region;
- revises the activity of small hospitals in a move towards specialisation in areas such as rehabilitation or cancer treatment where relevant;
- in districts with more than one hospital (excluding university hospitals) use a joint management / joint operation system;
- increases staff mobility within health regions.

The independent task force of health policy experts created at the end of 2010 produces, in cooperation with the European Commission, the ECB and the IMF, its final policy report by end May 2011, with specific recommendations on revisions to the policies implemented so far. The report and policies proposals will cover the following areas:

- Health system governance in order to reduce the fragmentation of the system;
- Financing: pooling, collection and distribution of funds;
- Harmonization of health packages across funds;
- Service provision and incentives for providers including:
    - integration between private and public provision;

    - primary care vis-à-vis specialist and hospital care;
    - efficiency in the provision of hospital services;
    - pharmaceutical consumption;
    - human resources;
- Public health priorities, health promotion and disease prevention;
- Data collection, health technology assessment and assessment of performance;
- Expenditure control mechanisms.

The report will provide quantitative targets in the fields above, in order to contribute to keep public expenditure on health as a proportion of GDP constant at, or below, 6 percent. On the basis of this report, the Government adopts an action plan by end June 2011, including a timetable for concrete actions.

Accounting and control

Government ensures that the programme of hospital computerisation allows for a measurement of hospital and health centres activity. To that end, the Government defines a core set of activity and expenditure indicators in line with Eurostat, OECD and WHO health databases.

Government ensures that the programme of hospital computerisation allows for the setting up of a basic system of patient electronic medical records.

By the end of May, Government starts publishing monthly data on healthcare expenditure by all social security funds with a lag of three weeks after the end of the respective quarter (see Annex 1).

iii. Structural reforms

To modernise public administration

Functional reviews

Government assesses the results of the first phase of the independent functional review of central administration, including operational policy recommendations. The functional review of existing social programmes is finalised.

Public sector wages and human resource management

Government adopts legislation establishing a simplified remuneration system covering basic wages and allowances that applies to all public sector employees ensuring that remuneration reflects productivity and tasks: this reform should be part of an overall reform of Human Resource management in the public sector.

Public procurement

Government undertakes a thorough review of the system of redress against award procedures and the role to confer to the Single Public Procurement Authority in agreement with the European Commission.

To upgrade the education system

The independent taskforce on education publishes a detailed blueprint for improvement of the efficiency in the use of resources in the public education system.

To strengthen labour market institutions

Government completes the reform to strengthen the Labour Inspectorate, which should be fully resourced with qualified staff. Quantitative targets on the number of controls to be executed should be set for the Labour Inspectorate.

Government adapts legislation on tackling undeclared work to require the registration of new employees before they start working.

To strengthen competition in open markets

Services Directive

Government adopts legislation on the priority service sectors. Government specifies, for these sectors, a timetable for adopting sectoral legislation by end Q4 2011 that ensures full compliance with the requirements of the Services Directive.

Business environment

Government presents an impact assessment evaluating Law 3853/2010 on simplification of procedures for the establishment of companies in terms of the savings in time and cost to set up a business.

Energy

Government removes regulated tariffs for customers except households and small enterprises (as defined in the second and third energy liberalisation packages).

To raise the absorption rates of Structural and Cohesion Funds

Government meets targets for payment claims in the absorption of EU structural and cohesion funds set down in Table 1. Compliance with the targets shall be measured by certified data.

4. Actions for the sixth review (to be completed by end Q3-2011)

i. Fiscal consolidation

Government rigorously implements the budget for 2011 in line with this Memorandum. Government stands ready to enact additional measures if needed to reach the budgetary targets.

Government adopts a draft budget for 2012 aiming at a further reduction of the general government deficit in line with the programme and including the detailed presentation of consolidation measures amounting to at least 2.2 percent of GDP, including the following measures (the yield of these measure will be reviewed in due course and, in exceptional circumstances, measures yielding comparable savings could be considered in close consultation with European Commission, IMF and ECB staffs):

- Reduce public employment on top of the rule of 1 recruitment for each 5 retirements in the public sector;[12] the reduction in public employment on top of the 1-to-5 rule should allow savings of at least EUR 600 million;
- Establish excises for non alcoholic beverages, for a total amount of at least EUR 300 million;
- Continue the expansion of the base of the real estate tax by updating asset values to yield at least EUR 200 million additional revenue;
- Continue the reorganisation of local government, to generate at least EUR 500 million in savings;
- Nominal freeze in pensions yielding savings of at least EUR 250 million;[13]
- Continue to increase the effectiveness of the presumptive taxation of professionals, with the aim of collecting at least additional EUR 100 million;
- Reduction of transfers to public enterprises by at least EUR 800 million following their restructuring;
- Make unemployment benefits means-tested (aiming at savings of EUR 500 million);
- Collect further revenue from the licensing of gaming of at least EUR 225 million in one-off sales of licences and increase the annual yield from royalties by an addition EUR 400 million;
- Further broadening of VAT base with the aim of collecting at least additional EUR 300 million;
- Fully implement the green tax and increase its annual yield by least EUR 150 million;
- Increase the collection of a special tax on unauthorised establishments by an additional EUR 100 million;
- Reduction in domestically-finance spending in investment by at least EUR 500 million compared to the actual 2011 level, while increasing revenue by giving priority to investment projects financed by EU structural and cohesion funds.

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12 The rule also applies to staff transferred from public enterprises under restructuring to government entities.

13 Adjustments may be needed in case of negative inflation.

ii. Fiscal structural reforms

To modernise the health care system

Government starts the implementation of the measures recommended by the independent task force on health care.

iii. Structural reforms

To modernise public administration

Government ensures full operation of the Better Regulation Agenda to reduce the administrative burden by 20 percent compared with 2008.

Government ensures that the e-procurement framework is fully operational, and creates a common website for the publishing of all procurement procedures and outcomes.

To improve the business environment

Government changes legislation to mitigate tax obstacles to mergers and acquisitions such as the non-transfer of accumulated losses, together with the company and the complex computation of 'excessive benefit' (Law 3522/2006, Article 11) in the transfer of private limited companies.

Government takes decisions to simplify the process to clear customs for exports and imports and give larger companies or industrial areas the possibility to be certified to clear cargo for the customs themselves; Government abolishes the requirement of registration with the exporter's registry of the chamber of commerce for obtaining a certificate of origin.

To strengthen competition in open markets

Services Directive

Government ensures that the PSC is fully operational and that the completion of procedures by electronic means is possible in *all* sectors covered by the Services Directive.

To upgrade the education system

Governments takes into account the measures recommended by the independent taskforce on education in the implementation of reforms.

5. Actions for the seventh review (actions to be completed by end Q4-2011)

i. Fiscal consolidation

Government achieves the target for the 2011 general government deficit of not more than EUR 17 065 million.

Parliament adopts the final budget for 2012 targeting a further reduction of the general government deficit which in ESA95-based terms, should not exceed EUR 14 916 million.

ii. Fiscal structural reforms

To modernise the health care system

Government defines a hospital case-based costing system to be used for budgeting purposes from 2013.

The independent task force of health policy experts produces an implementation report, revising the policies implemented so far.

iii. Structural reforms

To modernise public administration

Functional reviews

Government assesses the results of the second (final) phase of the independent functional review of central administration. Government adopts legislation and measures to implement the operational recommendations of the first phase of the functional review of public administration at central level and of the full review of existing social programmes.

Public procurement

Single Public Procurement Authority starts its operations with the necessary resources to fulfil its mandate, objectives, competences and powers as defined in the Action Plan.

To strengthen competition in open markets

Energy

Government removes regulated tariffs for customers except households and small enterprises (as defined in the second and third energy liberalisation packages).

Transport

Government privatises at least 49 percent of TRAINOSE equity and shares management with the new shareholders.

To raise the absorption rates of Structural and Cohesion Funds

Government meets targets for payment claims in the absorption of EU structural and cohesion funds set down in Table 1. Compliance with the targets shall be measured by certified data.

Government introduces web-based open-access monitoring tool of procedures for approval of project proposals and for implementation of public projects.

Government ensures that the managerial capacity of all Managing Authorities and Intermediate Bodies of operational programmes under the framework of the National Strategy Reference Framework 2007-2013 has been certified by the International Organization for Standardization according to the standard ISO 9001:2008 (quality management).

Government presents a report on the activities of the task force assessing progress in ensuring the rapid implementation absorption of structural funds, and proposing improvements when necessary.

Annex 1. Provision of data

During the programme, the following data shall be made available to the European Commission, the ECB and the IMF staffs on a regular basis.

To be provided by the Ministry of Finance

Preliminary monthly data on the state budget execution (including breakdown by main categories of revenue and expenditure and by line ministry). *(Data compiled by the Ministry of Finance)*	Monthly, 15 days after the end of each month; these data should also be included in subsequent transmissions in case of revision.
Updated monthly plans for the state budget execution for the remainder of the year, including breakdown by main categories of revenue and expenditure and by line ministry. *(Data compiled by the Ministry of Finance)*	Monthly, 30 days after the end of each month.
Preliminary monthly cash data on general government entities other than the state. *(Data compiled by the Ministry of Finance)*	Monthly, 30 days after the end of each month, these data should also be included in subsequent transmissions in case of revision.
Monthly data on the public wage bill (of general government, including a breakdown in nominal wage and allowances paid to government employees per line ministry and public entity), number of employees (including a breakdown per ministry and public entities outside the central government) and average wage (including the relative shares of the base wage, allowances and bonuses). *(Data compiled by the Ministries of Interior and Finance)*	Monthly, 30 days after the end of each month (starting in June 2010).
Weekly information on the Government's cash position with indication of sources and uses as well of number of days covered. *(Data compiled by the Ministry of Finance)*	Weekly on Friday, reporting on the previous Thursday.
Data on below-the-line financing for the general government. *(Data compiled by the Ministry of Finance on the basis of basic data from the Ministries of Interior, Health, Labour and Defence)*	Monthly, no later than 15 days after the end of each month; these data should also be included in subsequent transmissions in case of revision.

Data on expenditure pending payment (including arrears) of the general government, including the State, local government, social security, hospitals and legal entities. *(Data compiled by the Ministry of Finance on the basis of basic)*	Quarterly, within 55 days after the end of each quarter.
Data on public debt and new guarantees issued by the general government to public enterprises and the private sector. *(Data compiled by the Ministry of Finance)*	Monthly, within one month.
Data on public enterprises: revenue, costs, payroll, number of employees *(Data compiled by the Ministry of Finance)*	Monthly, within three weeks of the end of each month for the ten largest enterprises. Quarterly within three weeks of the end of each quarter for the other enterprises.
Monthly statement of the transactions through off-budget accounts. *(Data compiled by the Ministries of Finance and Education)*	Monthly, at the end of each month.
Monthly statements of the operations on the special account. *(Data compiled by the Ministry of Finance)*	Monthly, at the end of each month.
Report on progress with fulfilment of policy conditionality. *(Report prepared by the Ministry of Finance)*	Quarterly before the respective review starts.
Monthly data on healthcare expenditure by the social security funds with a lag of three weeks after the end of the respective quarter. *(Data compiled by the Ministries of Labour and Health)*	Monthly, within three weeks of the end of each month. Staring with data for January 2011 for IKA, OAEE, OGA and OPAD, and from April 2011 on for the other funds

To be provided by the Bank of Greece

Assets and liabilities of the Bank of Greece.	Weekly, next working day.
Assets and liabilities of the Greek banking system - aggregate	Monthly, 30 days after the end

monetary balance sheet of credit institutions.	of each month.
Evolution of the external funding provided by Greek banks to their subsidiaries abroad.[14]	Monthly, 15 days after the end of each month.
External funding flows for the banking, corporate and government sector, including also expected developments in the 12 months ahead.	Monthly, 30 days after the end of each month.
Report on banking sector liquidity situation.	Weekly, next working day.
Report on the evolution of financial stability indicators.	Quarterly, 15 days after the end of each quarter depending on data availability.
Report on results from the regular quarterly solvency stress tests.	Quarterly, 15 days after the end of each quarter depending on data availability.
Detailed report on the balance sheet of the Financial Stability Fund with indication and explanation of changes in the accounts.	Weekly, next working day.

[14] All forms of debt instruments and capital, as well as net deposits provided to subsidiaries abroad.

GREECE: TECHNICAL MEMORANDUM OF UNDERSTANDING

December 9, 2010

1. This Technical Memorandum of Understanding (TMU) sets out the understandings regarding the definitions of the indicators subject to quantitative targets (performance criteria and indicative targets), specified in the tables annexed to the Memorandum of Economic and Financial Policies. It also describes the methods to be used in assessing the program performance and the information requirements to ensure adequate monitoring of the targets. We will consult with the Fund, European Commission and ECB before modifying measures contained in this letter, or adopting new measures that would deviate from the goals of the program, and provide the European Commission, ECB and the Fund with the necessary information for program monitoring.

2. For program purposes, all foreign currency-related assets, liabilities, and flows will be evaluated at "program exchange rates" as defined below, with the exception of the items affecting government fiscal balances, which will be measured at current exchange rates. The program exchange rates are those that prevailed on April 30, 2010. In particular, the exchange rates for the purposes of the program are set €1 = 1.3315 U.S. dollar, €1 = 125.81 Japanese yen, €1.135 = 1 SDR.

General Government

3. **Definition**: For the purposes of the program, the general government includes**:**

- The central government. This includes:
    - The entities covered under the State Budget as defined in Chapter 2 of the Law 2362/1995 as being modified by Law 3871/2010 regarding "Public Accounting, Auditing of Government Expenditures and Other Regulations," and other entities belonging to the budgetary central government.
    - Other entities or extra-budgetary funds (EBFs) not part of the State budget, but which are, under European System of Accounts (ESA95) rules (*"ESA95 Manual on Government Deficit and Debt"*), classified under central government.
    - State enterprises included by the National Statistical Service (ELSTAT) under the definition of central government (ATTIKO METRO, ETHEL, ISAP, HLPAP, TRAM, ELGA, HELLENIC DEFENCE SYSTEMS S.A., OSE, TRAINOSE, ERT, ELECTROMECHANICA KYMI LTD, OPEKEPE, KEELPNO, EOT, ETERPS, INFORMATION SOCIETY IN GREECE, Unit for the Organization and Management of Development Projects S.A.).

References to individual companies are understood to include all of their subsidiaries which are to be consolidated under IFRS requirements.

- Local government comprising municipalities, prefectures, and regional governments including their basic and special budgets, including all agencies and institutions attached thereto, which are classified as local governments according to ESA 95.

- Social security funds comprising all funds that are established as social security funds in the registry of ELSTAT.

- Other extra budgetary entities included by ELSTAT under general government, which are not yet counted under central government.

- This definition of general (central) government also includes any new funds, or other special budgetary and extra budgetary programs that may be created during the program period to carry out operations of a fiscal nature. The government will inform IMF, European Commission and ECB staff of the creation of any such new funds, programs, or entities immediately. The general (central) government, as measured for purposes of the program monitoring in 2010, shall not include entities that are re-classified from outside general (central) government into general (central) government during the course of 2010. During the course of 2011, such reclassified entities will be included, as specified below. Entities that are reclassified during the course of 2011 from outside general (central) government into general (central) government will be excluded for the 2011 program monitoring.

4. **Supporting material:** The Ministry of Finance (MoF) will provide to the European Commission, ECB and IMF detailed information on monthly revenues and expenditures, domestic and foreign debt redemptions, new domestic and foreign debt issuance, change in the domestic and foreign cash balances of the central government at the central bank of Greece, all other sources of financing including capital transactions, and arrears of the general government. Data will be provided within four weeks after the closing of each month. The Bank of Greece will provide detailed monthly data on assets and liabilities of local authorities, social security funds, ETERPS (and other extra-budgetary funds), and state enterprises included in the definition of general government in line with monetary survey data.

II. Quantitative Performance Criteria, Indicative Ceilings, and Continuous Performance Criteria: Definitions and Reporting Standards

A. Floor on the Modified General Government Primary Cash Balance (Performance Criterion)

5. **Definition**: The modified general government primary cash balance (MGGPCB) is defined as the modified general government cash balance (MGGCB) minus interest payments by the state budget. The MGGCB is defined as the sum of the cash balances of the ordinary state budget, the cash balance of the public investment budget, minus the change in stock of arrears from line ministries, the change in net financial assets of local government, the change in net financial assets of social security funds, the change in net financial assets of ETERPS, the change in net financial assets of reclassified public enterprises (RPEs). Privatization receipts and the proceeds from the sale of land and buildings will be excluded from cash receipts. Net lending operations by the state budget will be recorded as cash expenditures.

- **The cash balance of the ordinary state budget.** The cash balance of the ordinary state budget will be measured from above the line, based on ordinary budget revenues (recurrent revenue plus non-recurrent revenue, including NATO revenues, minus tax refunds) minus ordinary budget expenditures (ordinary budget expenditures will exclude amortization payments but include salaries and pensions; grants to social security funds, medical care and social protection; operational and other expenditure; returned resources; payments in exchange of claims of insurance fund for the personnel working in the Public Electricity Company; interest payments; transfers for the settlement of past debt, payments for military equipment procurement on a cash basis; NATO expenses, capital transfers to social security funds or other entities by bonds; and called guarantees where the state or central government assumes payments on behalf of entities outside of the general government) of the ordinary state budget as published monthly on the official website of the General Accounting Office of the Ministry of Finance, and in line with the corresponding line items established in the ordinary state budget.

- **The cash balance of the public investment budget.** The cash balance of the public investment budget will be measured from above the line, based on investment budget revenues minus investment budget expenditures of the investment state budget as published monthly on the official website of the General Accounting Office of the Ministry of Finance, and in line with the corresponding line items established in the investment state budget.

- **The change in the stock of arrears from line ministries.** The change in stock will be measured on a cumulative basis, from January 1, 2011 onwards as the stock of arrears prevailing at the time of measurement of the PC minus the stock of arrears prevailing at end-December 2010. The stock at end-December 2010 will be adjusted for any arrears which were incurred before end-December 2010. The stock of arrears of line ministries or other spending bodies with a vote in the budget (including the Secretariat General of Information/Secretariat General of Communication, Secretariat General of Prefectures, Presidency of the Hellenic Presidency, and the Hellenic Parliament) will include any arrears (as defined under subsection C) related to the activities of the ordinary and investment budgets. Data will be in line with the monthly publications of state budget arrears, published on the Ministry of Finance website.

- **The change in net financial assets of local governments** is defined on a transactions basis, as the change in the total of financial assets minus financial liabilities of local authorities adjusted for valuation changes by the Bank of Greece.

    - Financial assets include (but are not limited to) deposits of local governments in the Bank of Greece and deposits of local governments in domestic credit institutions. Deposits will be measured at face value excluding accrued interest in line with recording for monetary survey data.

    - Financial liabilities include (but are not limited to) short and long term loans from domestic credit institutions to local governments, measured at face value, consistent with recording for monetary survey data.

- **The change in net financial assets of social security funds** is defined on a transactions basis, as the change in the total of financial assets minus financial liabilities of social security funds, adjusted for valuation changes by the Bank of Greece; minus the change in the stock of arrears of public hospitals (NHS hospitals) to entities outside of the general government.

    - Financial assets include

        - Deposits of social security funds in the Bank of Greece and deposits of social security funds in the domestic credit institutions and deposits held either directly or indirectly through the IKA mutual fund. Deposits are measured at face value excluding accrued interest, consistent with reporting requirements for monetary survey data.

        - Holdings of shares quoted on the Athens Stock Exchange held by social security funds either directly or indirectly through the IKA mutual fund).

        - Direct or indirect holdings of Mutual Fund units issued by Greek management companies (other than the IKA mutual fund).

        - Holdings of central government bonds, including short and long-term securities issued domestically, long-term securities issued abroad operated from Bank of Greece accounts, and indirect holdings through the IKA mutual fund. Holdings will be measured at nominal value.

        - Bank bonds issued abroad.

    - Financial liabilities include the short and long term loans from domestic credit institutions to the social security funds, measured consistently with monetary survey data.

    - The change in the stock of arrears of public hospitals (NHS hospitals) to entities outside of the general government. Data on arrears of hospitals should be available within four weeks of the end of each month. The change in stock of arrears will be measured on a cumulative basis, from January 1, 2011 onwards as the stock of arrears prevailing at the time of measurement of the PC minus the stock of arrears prevailing at end-December 2010, and will exclude the 5.6 billion hospital arrears to pharmaceutical companies which were incurred by end-2009. The stock of arrears of public hospitals will include any arrears (as defined under subsection C) related to the activities of the 135 NHS hospitals. Data will be in line with the monthly publications of hospital arrears, published on the Ministry of Finance website.

- **The change in net financial assets of ETERPS** is defined on a transactions basis, as the change in the total of financial assets minus financial liabilities of ETERPS, adjusted for valuation changes by the Bank of Greece.

    - Financial assets include

        - Deposits of ETERPS in the Bank of Greece and deposits of ETERPS in domestic credit institutions. Deposits will be measured at face value excluding accrued interest in line with recording for monetary survey data.

        - Holdings of shares, held by ETERPS, quoted on the Athens stock exchange.

        - Holdings of Mutual Fund units issued by Greek management companies.

        - Holdings of central government bonds.

        - Other bonds issued abroad.

- Financial liabilities include the short and long term loans from the domestic credit institutions to ETERPS, measured consistently with monetary survey data, or other lending from the Bank of Greece.

- **The change in net financial assets of reclassified public enterprises (RPEs)** is defined on a transactions basis, as the change in the total of financial assets minus financial liabilities of RPEs, adjusted for valuation, minus the amount of guarantees called from entities which are consolidated within the general government.

  - Financial assets include

    - Deposits of RPEs in the Bank of Greece and deposits of RPEs in the credit institutions (domestic and foreign). Deposits will be measured at face value excluding accrued interest.

    - Holdings of shares, held by RPEs quoted on the Athens Stock Exchange.

    - Holdings of Mutual Fund units issued by Greek management companies.

    - Holdings of central government bonds.

    - Other bonds issued abroad.

  - Financial liabilities include the short and long term loans from the domestic credit institutions to RPEs, measured consistently with monetary survey data, short and long term loans from the foreign banking system, as well as loans from the EIB or other official lenders.

6. **Other provisions.**

  - For the purpose of the program, the primary expenditure of the central government that is monitored excludes payments related to bank support, when carried out under the program's banking sector support and restructuring strategy. Transactions that may be excluded from the balance include loans to financial institutions and investments in equity of financial institutions (requited recapitalization); unrequited recapitalization; and purchases of troubled assets. However, any financial operation by central government to support banks, including the issuance of guarantees or provision of liquidity, will be immediately reported to IMF, European Commission and ECB staff.

  - For 2010, the change in the net financial assets of social security funds will be increased by the change in net financial assets of AKAGE (on a cumulative basis from January 1, 2010 onward, adjusted for valuation changes) in case these are not yet included in the net financial assets of social security funds.

- For 2010, the following items will be excluded from calculations:

    - Capital transfers to social security funds or other entities by bonds;
    - Settlement of past debt;
    - Called guarantees;
    - Changes in the stock of arrears of public hospitals (NHS hospitals) to entities outside of the general government;
    - Change in net financial assets of ETERPS; and
    - Changes in the stock of arrears to line ministries.

- The change in net financial assets of RPEs will be excluded during 2010, as well as for the end-March and end-June PCs in 2011. However, for the measurement of the end-September and end-December 2011 PCs, the change in net financial assets of RPEs will be included, measured on a cumulative basis from January 1, 2011 onward.

- Capital transfers to social security funds or other entities by bonds shall exclude bond issuance for settlement of end-2009 health related arrears, and the settlement related to the judiciary liabilities, and to the compensation for former Olympic Airways employees.

7. **Supporting material**.

- Data on cash balances of the ordinary and state budgets will be provided to the European Commission, ECB and IMF by the General Accounting Office in the Ministry of Finance within three weeks after the end of each month. Data will include detailed information on revenue and expenditure items, in line with monthly reports that are published since January 2010 on the official website of the Ministry of Finance. Data will also include data on capital transfers to social security funds or other entities in bonds, and called guarantees.

- Data on net financial assets of local authorities and social security funds, extra-budgetary funds including ETERPS, AKAGE, and reclassified public enterprises will be provided to the IMF, European Commission and ECB by the GAO in cooperation with the Statistics Department of the Bank of Greece within four weeks after the end of each month. Monthly data on arrears of public hospitals (NHS hospitals) will be provided by the Ministry of Health and arrears of line ministries by the Ministry of Finance within four weeks after the end of each month.

B. Ceiling of State Budget Primary Spending (Performance Criterion)

8. **Definition**: The state budget primary spending consists of state budget spending (spending of the ordinary state budget plus spending of the public investment budget) minus interest expenditures paid by the state budget plus the change in the stock of the arrears of line ministries to entities outside the general government, in line with the definitions provided above. Primary expenditure of the central government that is monitored for the Performance Criterion excludes any cash payments related to bank restructuring, when carried out under the program's banking sector restructuring strategy. Costs that may be excluded from the balance include loans to financial institutions and investments in equity of listed and non-listed financial institutions (requited recapitalization); unrequited recapitalization; and purchase of troubled assets. However, any financial operation by central or general government to support banks, including the issuance of guarantees or provision of liquidity, will be immediately reported to European Commission, ECB and IMF staff.

9. **Other provisions**. Capital transfers to social security funds by bonds and called guarantees from outside the general government will be excluded from primary spending during 2010. The change in the stock of arrears of line ministries will also be excluded during 2010 for the monitoring of the PC. However, for 2011 onward, such exclusion will no longer apply.

10. **Supporting material**. The General Accounting Office of the Ministry of Finance will provide monthly expenditure data of the ordinary and investment state budget, as defined above. The ministry of Finance will further provide monthly data on the stock of arrears of line ministries.

C. Non-Accumulation of Domestic Arrears by the General Government (Continuous Indicative Target)

11. **Definition**. For the purpose of the program, domestic arrears are defined as the unpaid invoices that have past the due date by 90 days. In case no due date is specified on the supplier contract, an unpaid commitment is considered to be in arrears 90 days after the initiation of the invoice. Data will be provided within four weeks after the end of each month. The continuous non-accumulation of domestic arrears is defined as no accumulation of arrears at the end of every month during which quarter the indicative target is being monitored for commitments that were entered into from January 1, 2010 onward. This does not include the arrears which are being accumulated by the Civil Servants' Welfare Fund.

12. **Supporting material.** The Ministry of Finance will provide consistent data on monthly expenditure arrears of the general government, as defined above. Data will be

provided within four weeks after the end of each month and will also include accounts payable overdue for more than 30 and 60 days.

D. Ceiling on the Overall Stock of Central Government Debt (Performance Criterion)

13. **Definition**. The overall stock of central government debt will refer to ESA95 central government debt, which includes the state debt, debts of extrabudgetary funds and public enterprises that are consolidated into the central government, and other ESA 95 adjustments (Goldman Sachs Swaps, etc.). It will be defined for the purposes of the program as total outstanding gross debt liabilities. It will include, but not be limited to, liabilities in the form of securities and loans. It will exclude accounts payable. Debt will be measured at nominal value. The program exchange rate will apply to all non-euro denominated debt. Inflation indexation will apply to inflation indexed debt, using the relevant index as specified in the debt instrument. For the purposes of the program, the ceiling on the stock of central government debt will exclude debt arising from payments for bank restructuring, when carried out under the program's banking sector restructuring strategy (this does not cover the debt related to the Financial Stability Fund). This includes loans to financial institutions and investments in equity of financial institutions (requited recapitalization); unrequited recapitalization; and purchase of troubled assets. However, any financial operation by the central government to support banks, including the issuance of guarantees or provision of liquidity, with the exception of Hellenic Republic intermediation in repos between foreign and domestic financial institutions will be immediately reported to IMF, European Commission and ECB staff.

14. **Other provisions**. For 2010, the definition of central government debt will exclude the reclassified public enterprises.

15. **Adjusters**. For 2010, the ceiling on the overall stock of central government debt will be adjusted upward (downward) by the amount of any upward (downward) revision to the stock of end-December 2009 central government debt of 298.9 billion. For 2011, the ceiling on the overall stock of ESA95 central government debt will be adjusted upward (downward) by the amount of any upward (downward) revision to the stock of end-December 2009 ESA95 central government debt of 322.9 billion.

16. **Supporting material**. Data on the total stock of central government debt will be provided to the European Commission, ECB and IMF staff by the General Accounting Office consistent with the ESA95 definition no later than 30 days after the end of each month**.**

E. Ceiling on New Central Government Guarantees (Performance Criterion)

17. **Definition**. The ceiling on the new central government guarantees shall include new guarantees granted by the state, as well as new guarantees granted by any other entity that is classified under ESA95 under central government, but exclude guarantees to entities whose

debt is covered under the ceiling on the stock of central government debt as defined in paragraph 13 and 14. The ceiling shall exclude guarantees to support banks and exclude guarantees related to EIB financed loans. New guarantees are guarantees extended during the current fiscal year. The latter shall include also guarantees for which the maturity is being extended beyond the initial contractual provisions.

18. **Other provisions**. The end-September 2010 PC on new central government guarantees shall exclude any new guarantees extended by entities (including TEMPME) other than the state. For the end-December 2010 PC on new central government guarantees, these factors shall be included on a cumulative basis starting October 1, 2010.

19. **Supporting material**. All new central government guarantees will be reported in detail, identifying amounts and beneficiaries. The General Accounting Office will provide the data on a monthly basis within three weeks after the end of each month. Non-state entities classified under the central government shall report the new guarantees they extended to the General Accounting Office on a monthly basis within three weeks after the end of each month.

F. Non-Accumulation of External Debt Payment Arrears by the General Government (Continuous Performance Criterion)

20. **Definition**. For the purposes of the program, an external debt payment arrear will be defined as a payment on debt to non-residents contracted or guaranteed by the general government, which has not been made within seven days after falling due. The performance criterion will apply on a continuous basis throughout the program period.

21. **Supporting material**. The stock of external arrears of the general government will be provided by the General Accounting Office with a lag of not more than seven days after the test date.

G. Overall Monitoring and Reporting Requirements

22. Performance under the program will be monitored from data supplied to the EC, ECB and IMF by the Ministry of Finance, the General Accounting Office, and Bank of Greece. The authorities will transmit to the IMF, EC and ECB staff any data revisions in a timely manner.

III. MONITORING OF STRUCTURAL BENCHMARKS

23. **Pension reform**. Parliament adopted separate laws reforming pensions for the public and private sector in mid-July, ahead of the end-September deadline under the program. An actuarial evaluation of this law is currently underway. The National Actuarial Authority will complete an assessment of the effects of the reform on the main pension funds by the end of December 2010, which will be expanded to include the largest auxiliary

pension funds (including ETEAM, TEADY, MTPY) by end of March 2011. This actuarial assessment will determine whether further adjustments to the pension system would be needed to contain the increase in pension spending 2010-2060 at 2.5 percentage points of GDP. Any needed adjustments to the parameters of the main pensions and the reform of the auxiliary and welfare funds will be completed by end of June 2011 in consultation with the EC/IMF/ECB; and enacted by end of December 2011.