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The Economic Adjustment Programme for Greece
Third Review - Winter 2011

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EXECUTIVE SUMMARY

A joint Commission/ECB/IMF mission met with the Greek authorities in Athens on 27 January–11 February 2011. The mission assessed compliance with the terms and conditions of the Third Review under the economic adjustment programme and updated conditionality for the next reviews. Completion of the review will release the fourth tranche of financial assistance from euro-area Member States to Greece (EUR 10.9 billion) according to the pooled-loan agreement. Completion of the IMF review under the stand-by arrangement is expected to release an additional EUR 4.1 billion.

The programme's objectives remain intact. The objectives of the adjustment programme are to preserve financial stability and adequate liquidity in the banking sector, a front-loaded reduction in fiscal deficit to restore public debt sustainability, and a change to a growth model based on exports and investment, to ensure growth and jobs and the sustainability of the external accounts. As this Compliance Report documents, these objectives remain intact. The programme is broadly on track and has made further progress towards its objectives.

Going forward, there are major challenges. A number of important hurdles have emerged. They include a tense financial situation, contagion from other peripheral economies, persistent deficiencies in tax collection, some delays and capacity problems in delivering complex and far reaching structural reforms. Delivering on programme targets will require much stronger resolve to implement the agreed policies than in the past two quarters.

The main features of the macroeconomic scenario remain unchanged, but growth composition needs reshaping. Economic activity contracted by 4.5 percent in 2010, broadly as expected when the adjustment programme was designed in May 2010. However, available data suggest that the downturn in domestic demand, mainly private consumption, was deeper than expected, while exports and non-domestic orders were strong at the end of 2010. The inflexion point of activity is estimated to sit in the last quarter of2010, while positive growth is expected to be recorded in the second half of 2011. Underlying inflation, wage settlements and unit labour costs are moderating, leading to improved competitiveness. The progressive rebalancing of the economy, supportive external demand and growth-friendly reforms are expected to move the economy back to its potential. Growth rates for 2012–14, which underlie the programme, are prudent.

Most fiscal criteria for 2010 have been met. A severe contraction in payments towards the end of the year offset large shortfalls in tax collection, thus resulting in the compliance with the cash-based quantitative criteria. The ESA fiscal deficit – which has a wider coverage and refers to underlying expenditure commitments rather than cash outflows – is estimated to have exceeded its ceiling by 1½ percent of GDP, as already projected at the time of the previous review in November. This slippage was in part due to the revision of historical statistics in autumn.

Fiscal policy in 2011 aims to further reduce the deficit-to-GDP ratio to EUR 17 billion (7½ percent of GDP). However, there are significant negative risks: current projections indicate a gap of ¾ of a percent of GDP, due to base effects, as tax revenues at the end of 2010 were below previous estimates, and a downward revision for the yield of some fiscal measures. The government is committed to offset this gap. It will specify permanent fiscal measures once it finalises its medium-term fiscal strategy in end-March (adoption in early May). In the interim, to ensure to ensure compliance with the fiscal targets, it will compress expenditure – the same strategy of last year, which showed increased strains through the year as arrears built up.

The government is preparing its medium-term fiscal strategy. The medium-term strategy document will set annual spending ceilings for individual line ministries and fiscal balance targets for all general government entities. Greece is still swimming against the recession and the tide of increasing interest payments. As a result, to bring the deficit below 3 percent of GDP in 2014, some 8 percent of GDP in permanent measures will be needed over the period 2012-14, of which 2 percent has already been identified in the May 2010 programme. This additional fiscal consolidation effort will require structural reforms in several key areas, tackling the root causes of Greece's fiscal imbalances. These reforms will need to cover public enterprises, healthcare, tax policy, public employment, extrabudgetary funds, investment and military spending.

The foreseen very ambitious privatisation and real estate development programme will be of great support to the fiscal consolidation efforts. The government has committed to considerably scale up its privatisation and real estate development programme, and the objective is to realise EUR 50 billion in privatisation proceeds from now to 2015. This has the potential of cutting the debt ratio by more than twenty percentage points of GDP over the next five years. Furthermore, the privatisation programme is likely to increase economic efficiency and support higher investment and exports. The government's commitment to this process, including determination to tackle privileges and vested interests, will be critical. If successful, this new initiative has the potential of substantially improving the market sentiment vis-à-vis Greece.

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

The programme has been effective in safeguarding financial sector stability. However, tight liquidity and rising non-performing loans are putting strains on the banking system. In line with the slowdown of economic activity and continuing deposit outflow, the annual growth rate of credit to private sector has recently turned negative. Encouragingly, some private banks have recently enjoyed some success in raising capital, but efforts need to be further intensified. Several initiatives are under way. Firstly, the government will adopt a new tranche of government guarantees in an amount of EUR 30 billion. Secondly, the Bank of Greece has asked banks to devise and implement medium-term funding plans. The plans will aim at reducing banks' reliance on Eurosystem refinancing operations and state guarantees over a medium-term horizon, at a pace consistent with the program's macroeconomic and fiscal framework. Finally, the restructuring of state banks is moving forward whilst the authorities encourage private banks to raise capital and restructure as needed. It is essential that the government address without delay the stability and efficiency of the banks under its control.

There is an intense debate on debt management operations to reduce the stock of sovereign debt. These operations could cover buy-backs, the roll-over of debt or the voluntary extension of maturities. Irrespective of the merit of those actions – which this report does not discuss – they would only provide a modest and one-off contribution to debt sustainability in Greece. Therefore, this debate and those actions, if implemented, must not reduce the political determination to, or distract the public opinion from, fiscal consolidation, privatisation and growth-enhancing structural reforms.

Subject to approval by the Eurogroup, the positive assessment of compliance with programme conditionality will release the fourth tranche of the loan from euro-area Member States (EUR 10.9 billion). Overall, the mission concluded that the conditions for the fourth disbursement were broadly met. The fiscal target for 2011 is within the interval of credible outcomes, and a wave of structural reforms is being prepared. The swift elaboration and approval of a medium-term fiscal strategy is imperative. There is no guarantee of success. More than ever, the next steps in the implementation of the programme will require the government's determination, political coordination and the consensus of the Greek society.

1. INTRODUCTION

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

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

3. **Three instalments have already been disbursed under the programme.** After the fourth disbursement, which, if approved by the Eurogroup and IMF board, is expected to take place by mid-March 2011, four tenths of the full package will have been disbursed. Two euro-area Member States – Ireland and Slovakia – are currently not participating in the disbursement of bilateral loans to Greece. Given the conditions of the loan facility agreement between Greece and the euro-area partners, this has no material impact on amounts that have already been paid or that are planned to be paid to Greece in 2011, as the relatively small shares of those two countries to the total euro-area loan to Greece are being redistributed among other partners. Following the Eurogroup's statement of 28 November 2010, technical work is ongoing to align the maturities of the financing for Greece to that of Ireland.

[*] This Compliance Report is released together with the Commission Communication "Follow-up to the Council Decision of 10 May 2010 addressed to Greece" (COM (2011) 85, of 24 February 2011).
The quarterly report submitted on 12 February 2011 (revised 23 February), by the Greek Ministry of Finance is available for download at: http://ec.europa.eu/economy_finance/sgp/deficit/ countries/greece_en.htm.
During the review mission in Athens, the Commission/ECB/IMF staff teams met with the ministers of Finance; Regional Development and Competitiveness; National Defence; Environment, Energy and Climate Change; Labour and Social Security; Health and Social Solidarity; Interior, Decentralisation and e-Government, as well as with the governor of the Bank of Greece. Moreover the teams met with staff of these ministries and the central bank, as well as of the ministries of Infrastructure, Transport and Networks; Culture and Tourism; Education, Lifelong Learning and Religion; Public Debt Management Agency, Hellenic Financial Stability Fund, Hellenic Statistical Authority, Hellenic Capital Markets Committee and Hellenic Competition Commission. Meetings also took place with social partners, think-tanks and several banks.

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

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

Source: Commission services and IMF.

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

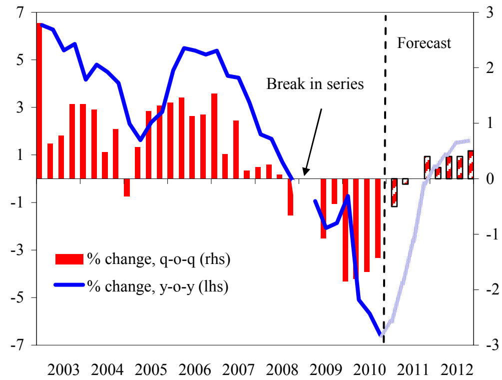
	BE	**DE**	**IE**	**ES**	**FR**	**IT**	**CY**	**LU**
May 2010	0.0	4427.9	0.0	1941.6	3325.2	2921.9	32.0	40.8
September 2010	758.8	1495.9	347.4	656.0	1123.4	987.2	10.8	13.8
January 2011	238.8	1864.4	0.0	817.5	1400.1	1230.3	13.5	17.2
	MT	**NL**	**AT**	**PT**	**SI**	**SK**	**FI**	**Total**
May 2010	14.8	932.5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

Source: Commission services.

2. MACROECONOMIC DEVELOPMENTS

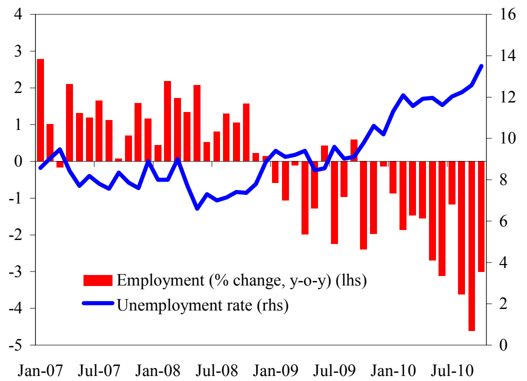
4. **The economy is contracting as expected and the quarter of deeper contraction should be already behind us.** After an average contraction of 5½ percent (year-on-year) in the second and third quarters of 2010, economic activity is estimated to have declined by 6½ percent in the last quarter of the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

Graph 1. Real GDP growth



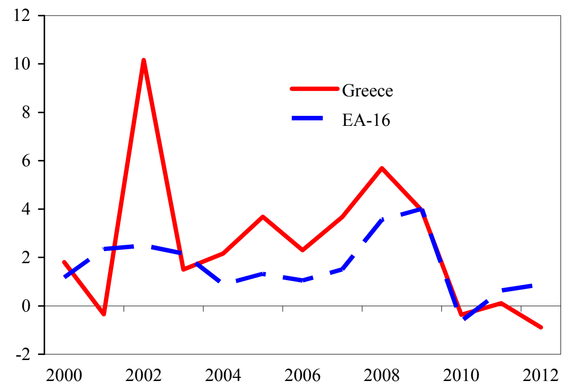
Source: EL.STAT (flash estimate of 15 February 2011) and Commission services (forecasts).
Note: According to EL.STAT, the quarterly figures for 2009-10 are not comparable with the figures up to 2008.

Graph 2. Employment and unemployment rate



Source : EL.STAT.

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

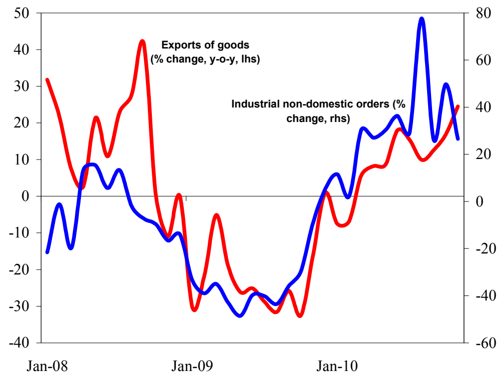


Source : EL.STAT.

5. **The strength of external demand at the end of 2010 is encouraging.** Although complete data on the composition of demand are not yet available, high frequency indicators – such as monthly data on exports of goods and non-domestic orders – suggest a rebound in exports in autumn. This reflects an improvement in the economic climate of Greece's main trading partners and gains in Greece's price and cost competitiveness. Moreover, asymmetric developments in the domestic and global markets

are prompting a diversion of Greek firms to foreign markets. This bodes well for the change in the economy's growth model, with a shift of resources from the sheltered to tradable sectors.

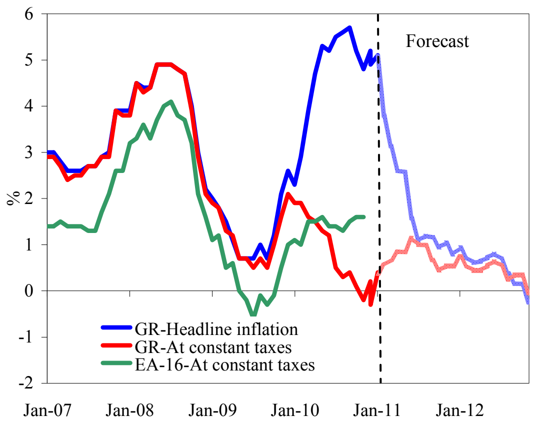
Graph 4. Exports and non-domestic industrial orders



Sources: EL.STAT and Bank of Greece.

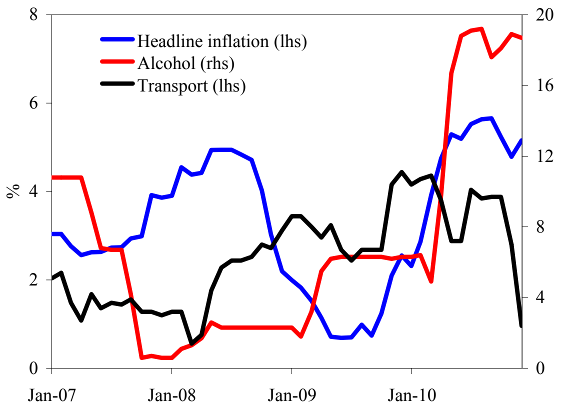
6. **Inflation has surprised again on the high side**. Whilst inflation seems having passed its peak in September 2010 (when the annual growth rate reached 5.7 percent) it has remained stubbornly high. For 2010, average consumer price inflation was 4.7 percent. In January 2011, the HICP increased by 4.9 percent (year-on-year). Persistently high headline inflation is driven by increases in indirect taxes, adopted in several waves over the last twelve months. For 2010 as a whole, the tax component of the inflation rate was in excess of 3½ percentage points. Constant-tax inflation touched negative territory in November, and this indicator is expected to be moderate in the near future, in spite of high commodity prices.

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

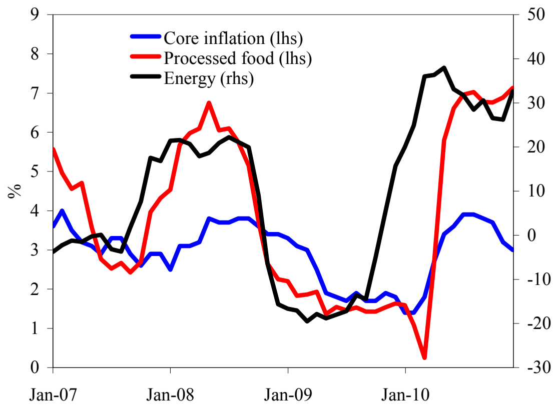


Source: EL.STAT.

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



Source: EL.STAT.



Source: EL.STAT.

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

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

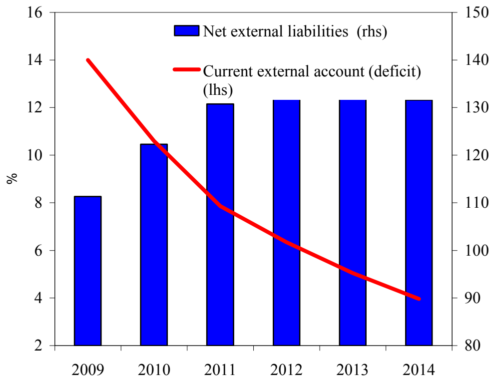
- **The inflation outlook has been revised upwards.** HICP inflation is projected to moderate from 4.7 percent in 2010 to 2.4 percent in 2011, despite a VAT increase in January 2011, plans to increase excises on heating oil in autumn and the cost recovery in the tariff policy of state-owned enterprises.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

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

- **The external deficit is narrowing, but remains high.** The current account deficit was marginally below 11 percent of GDP in 2010, three points below 2009. The improvement in 2010 resulted mainly from a contraction in imports (by more than 6 percent in real terms), while the strong exports in the last months of 2010 have only partially offset anaemic external demand in the first half of the year. The current account deficit is estimated to decline to about 8 percent in 2011 and to fall to 6¼ percent of GDP in 2012 and 5 percent in 2013. The net external debt-to-GDP ratio is projected to increase to 134 percent in 2012 and to stabilise thereafter.

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

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



Source: EL.STAT and Commission services.

Table 3. Macroeconomic scenario: main features

	2010	2011	2012	2013	2014
Real GDP (growth rate)	-4.5	-3.0	1.1	2.1	2.1
Domestic demand contribution*	-8.0	-6.2	-1.0	0.8	1.0
Net trade contribution	3.9	3.1	1.8	1.4	1.1
Employment (growth rate)	-2.8	-2.7	0.1	0.9	1.2
Unemployment rate (percent of labour force)	12.1	14.6	14.8	14.2	13.5
Unit labour cost (growth rate)	-1.1	-0.5	0.2	-0.3	0.0
HICP inflation	4.7	2.4	0.5	0.7	1.0
Current account balance (percent of GDP)	-10.6	-7.9	-6.3	-5.0	-4.0
Net borrowing vis-à-vis RoW (percent of GDP)	-9.5	-6.6	-5.0	-3.6	-2.4

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

Source : Commission services.

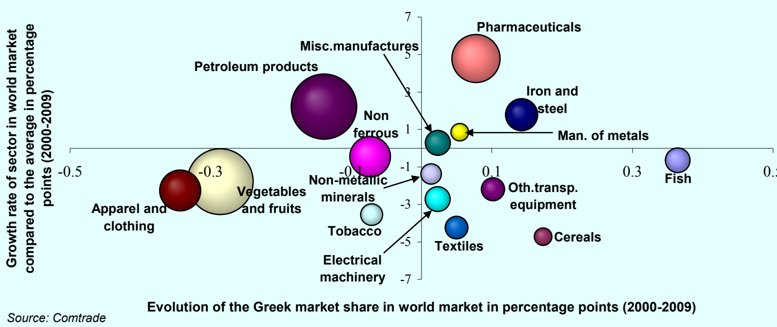
Box 1: **Export growth drivers**

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

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

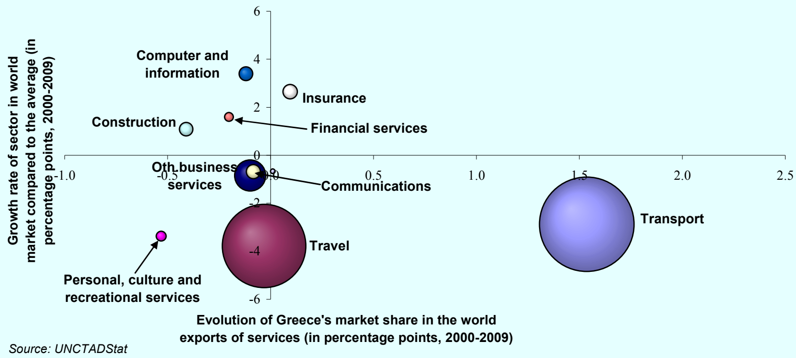
Mapping the sectoral market shares and global export demand helps in identifying the opportunities and shortcomings of the Greek export sectors. Graphs 1 and 2 show Greece's major export sectors in goods and services, in perspective of market shares and global export dynamics. Sectors with above-average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

Graph 1. Mapping of opportunities for Greek exports of goods



Source: Comtrade

Graph 2. Mapping of opportunities for Greek exports of services



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

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

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

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

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

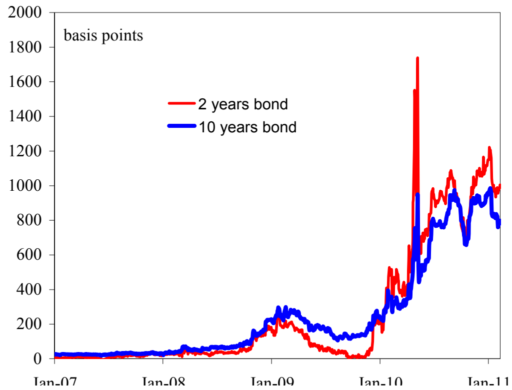
The Greek clothing industry has been facing structural challenges, most notably resulting from low-cost competitors, such as China and other Asian countries. Graph 1 shows that both apparel and textile have been growing below-average on world markets. In 2010, Greek textile exports grew by around 12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

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

3. FINANCIAL MARKETS AND FINANCIAL SECTOR DEVELOPMENTS

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

Graph 8. Yield spreads



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

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

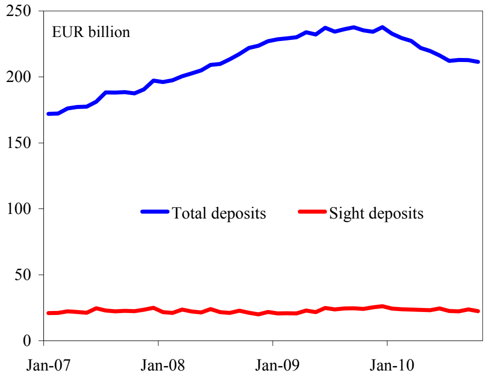
11. **Responding to the need to strengthen balance sheets, some modest deleveraging is ongoing. A** number of banks have expanded their balance sheets in the course of 2010, however**,** despite the contracting economy. The banks increased their exposure to the Government while they modestly deleveraged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

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

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

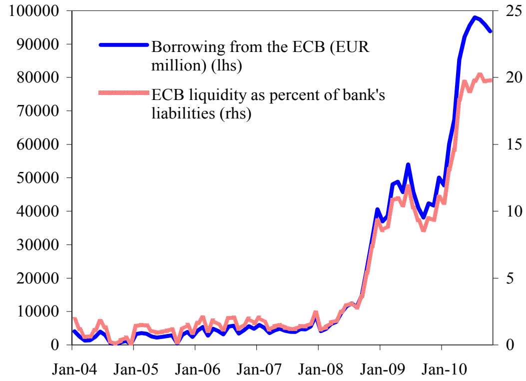
opportunities for improving capital adequacy include reduction of risk-weighted assets, including sales of subsidiaries. The latter refers to the sale by NBG of a minority stake in Finansbank (Turkey) and the Eurobank sale of a majority stake in Polbank (Poland). Moreover, the Hellenic Financial Stability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

Graph 9. Bank deposits



Source: Bank of Greece

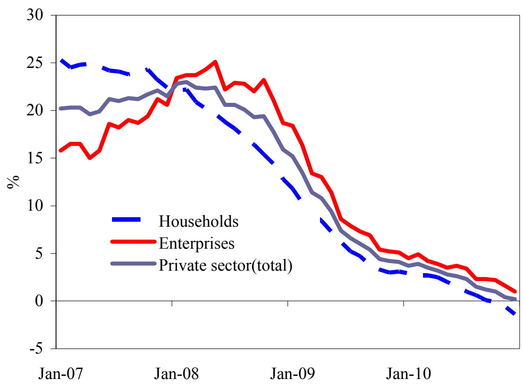
Graph 10. Greek banks' borrowing from the Eurosystem



Source: IMF, FIS

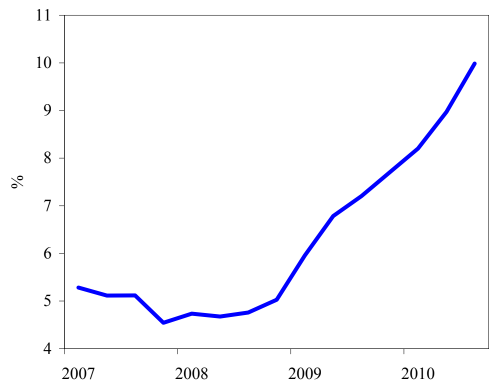
14. The Greek financial system has benefited from various Eurosystem policies in 2010 and 2011. The fixed-rate full-allotment tender procedures in the Eurosystem monetary policy operations have eased the funding activity of all banks in the euro area, including Greek banks. Furthermore, the already very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

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



Source: Bank of Greece

Graph 12. Non-performing loans



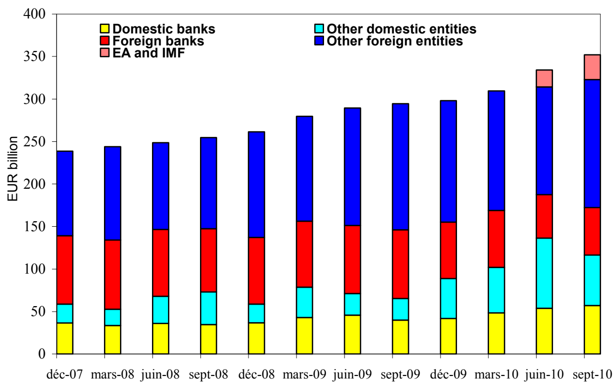
Source: Bank of Greece

Table 4. Banking sector soundness indicators

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

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

Graph 13. Holding of Greek government debt



Source : ECB and Commission services.

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

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

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

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

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

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

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

4. PROGRAMME IMPLEMENTATION AND POLICY DISCUSSIONS

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

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

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

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

Source: European Commission.

4.1. FISCAL POLICY

4.1.1. Fiscal developments in 2010

17. **The ESA-based government deficit for 2010 is estimated at 9½ percent of GDP** or EUR 22 billion. This is in excess of the target of EUR 18.5 billion (8 percent of GDP). There is still some uncertainty about the 2010 outcome as data on the financial performance of state-owned enterprises, extra-budgetary funds, social security and hospitals, and local government are not yet complete. There are also uncertainties about the differences between cash and accrual accounting. For Greece, as for all other EU Member States, the first complete set of ESA-based annual data will be available by end-March, and validated by Eurostat in April.

18. **The quarterly quantitative performance criteria on a cash basis for the Q4- 2010 were met.** While the criterion on state primary spending (cash) for the fourth quarter of 2010 was met with a large margin reflecting an under execution of payments compared to plans, the criterion on government primary balance (cash) was respected by a very thin margin. The outcome for both criteria was better than projected in the previous Compliance Report. However, it may have been distorted by the accumulation of arrears and other payables. The central government debt criterion has also been respected.

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

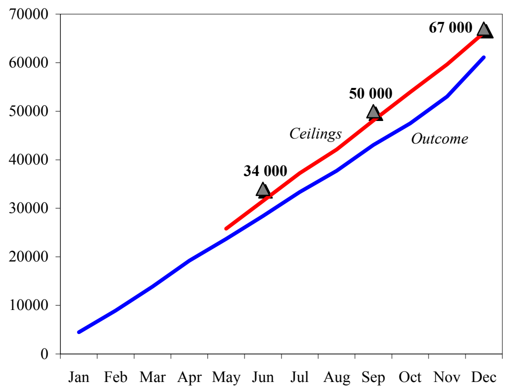
	end June 2010		end September 2010		end December 2010	
	Actual data	QPC	Actual data	QPC	Actual data	QPC
General government primary cash balance[1]	-3,9	-5.0 (floor)	-3,6	-4.0 (floor)	-5,5	-5.7 (floor)
State budget primary spending	28,4	34 (ceiling)	43	50 (ceiling)	61.1	67 (ceiling)
Overall stock of central government debt	317	342	328	342	340	366*
New guarantees granted by the central government	0,3	2,0	1,2	2,0	1,3	2,0
Accumulation of external payment arrears on external debt contracted or guaranteed by general government	0	0	0	0	0	0
Accumulation of domestic arrears (indicative)	1	0,0	0,8	0	3,0 (estimate)	0,0

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

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

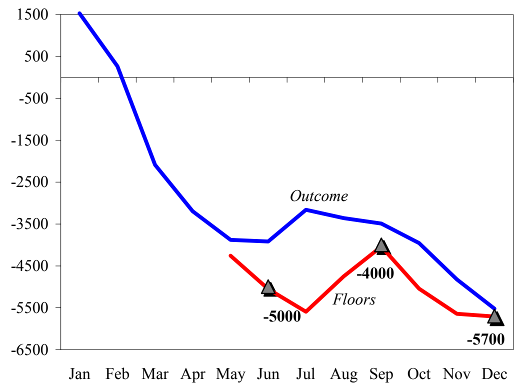
Source: Commission services.

Graph 14. State primary payments - 2010 (cumulative balance, EUR million)



Sources : GAO and Commission services

Graph 15. (Available) government primary balance - 2010 (cash basis, cumulative balance, EUR million)



Sources : GAO and Commission services

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

- **The implementation of several waves of deficit-reducing measures.** The full-year impact of total measures implemented in 2010 reached EUR 22 billion (or 10 percent of GDP), of which EUR 19.5 billion were reflected in the 2010 accounts, and EUR 2.5 billion carry over into 2011. Out of the measures with an impact on 2010 accounts EUR 10.4 billion (or 4.4 percent of GDP) were on expenditure and 9.2 billion (or 4 percent of GDP) on the revenue side of the budget. The reduction in the deficit fell short of the total amount of measures, given the underlying upward pressure on expenditure (e.g. interest, old-age pensions) and the impact of the recession on taxes and social spending.

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

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

4.1.2. Fiscal policy in 2011

20. **The implementation of fiscal policy in 2011 will be challenging.** In the budget for 2011 voted by Parliament in December, the Government confirmed its commitment to meet the ESA-based fiscal deficit target below EUR 17 billion (or 7½ percent of GDP), fully recouping the slippage of 2010. The reduction in the government deficit-to-GDP ratio in 2011 will, therefore, amount to 2 percentage points of GDP, instead of 0.4 points planned at the inception of the adjustment programme. Most of the fiscal measures underpinning the 2011 deficit target have been legislated and are being implemented.

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

22. **The government is committed to offset this fiscal gap.** The additional budgetary savings are expected to come from structural measures to be prepared in the context of the medium-term fiscal strategy. In the meantime, the government will continue the strategy of compressing ordinary spending – a strategy that was not fully successful in 2010.

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

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

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

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

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

Table 1 shows estimates for 2010, and forecasts for 2011, of the several variables that establish the link between the cash figures that are monitored monthly under the programme and the ESA accounts.

To be continued next page

Table 1 : From cash to ESA accounts -- 2010 and 2011 (EUR million)

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

Source: Commission services

24. **Fiscal management on the expenditure side of the budget also needs to be improved.** While cash payments were comfortably below the ceiling in 2010, the accumulation of arrears in other-than-the-state sectors was only marginally restrained, reflecting shortcomings in the expenditure monitoring and control. The commitment registers in each government department are still not fully operational, with progress having been limited to the state entities. The registry needs to be made operational shortly, and include the commitments taken by local governments, social security funds, hospitals, state-owned enterprises and other extra-budgetary entities.

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

4.1.3. Fiscal policy in 2012 and beyond

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

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

	EUR million			% of GDP		
		cumulative measures			cumulative measures	
		2010-2014	2012-2014		2010-2014	2012-2014
2009 deficit	**36150**			**15,4**		
Nominal deficit drift in 2010	3880			1,7		
Identified measures	18000	18000		7,8	7,8	
Impact on ratio of nominal GDP growth	--			0,4		
2010 deficit	**22030**			**9,6**		
Nominal deficit drift in 2011	11626			5,1		
Identified measures /1	14850	32850		6,6	14,5	
Unidentified measures	1741	1741		0,7	0,7	
Impact on ratio of nominal GDP growth	--			0,1		
2011 deficit (target)	**17065**			**7,6**		
Nominal deficit drift in 2012	5455			2,4		
Identified measures*	5575	38425	5575	2,4	16,8	2,4
Unidentified measures	2029	3770	3770	0,9	1,6	1,6
Impact on ratio of nominal GDP growth	--			-0,1		
2012 deficit (target)	**14916**			**6,5**		
Nominal deficit drift in 2013	2218			0,9		
Identified measures*	575	39000	6150	0,2	16,5	2,6
Unidentified measures	5160	8931	8931	2,2	3,8	3,8
Impact on ratio of nominal GDP growth	--			-0,2		
2013 deficit (target)	**11399**			**4,8**		
Nominal deficit drift in 2014	491			0,2		
Identified measures*	-1050	37950	5100	-0,4	15,6	2,1
Unidentified measures	5573	14504	14504	2,3	5,9	5,9
Impact on ratio of nominal GDP growth	--			-0,6		
2014 deficit (target)	**6385**			**2,6**		

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

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

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

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

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

- **Tax policy reform.** It will aim at simplifying the tax system, broadening tax bases and facilitating more effective tax administration to fight tax evaders, while supporting growth and investment. Business tax code, corporate taxation, tax exemption, tax incentives and capital income tax are expected to be the principal areas of focus. Implementing legislation is expected to be tabled in Parliament by end-September.

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

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

- **Public employment and public wages**. The system of wages and benefits in the Greek administration is inordinately complex and inequitable. It also provides remunerations above the private sector for similar tasks, as revealed by a recent government report. The government will adopt by end-June 2011 a plan which will identify ways to simplify the wage grid, including allowances. Furthermore, the government expects that through the strict implementation of the rule of not more than 1 recruitment for 5 exits, public employment will be reduced by more than 20 thousand per annum until 2013. The implementation of this rule requires a substantial improvement in the government’s capacity to monitor staff movements in real time. The mission welcomed the government's recent initiative of aligning working hours in the public sector with those prevailing in the private sector.

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

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

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

- **Military spending.** Greece is one of the EU countries with the highest per capita spending on defence. The medium-term military programming should durably contribute to the fiscal consolidation needs, whilst preserving national defence capability.

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

28. **The government has decided to substantially scale up its privatisation programme.** The government aims at collecting EUR 50 billion in privatisation and real estate development receipts. Such a plan will contribute to reduce the debt-to-GDP ratio by almost 20 percentage points of GDP by 2015, and may help in regain investor confidence. Such an ambitious privatisation plan should be able to put the debt ratio on a declining trend much faster than it could be achieved solely via accumulation of primary surpluses. Although privatisation proceeds themselves do not substitute for fiscal

consolidation efforts, they contribute to fiscal sustainability, as the reduction in debt will lead to a reduction in interest expenditure. Moreover, an ambitious privatisation plan will contribute to increase the overall productivity and competition of the economy and attracting foreign capital. Privatisation should also contribute to reduce corruption potential.

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

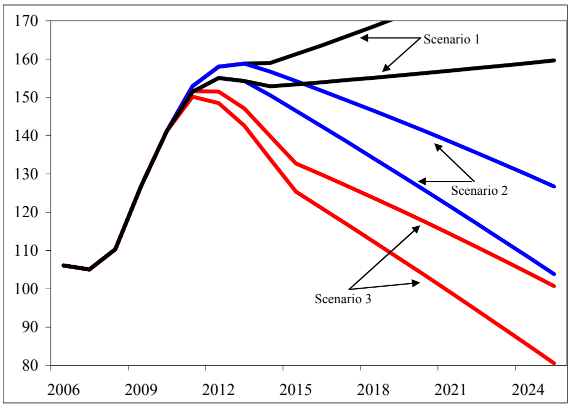
30. **High primary surpluses and privatisation ensure sustainability.** The chart below shows three pairs of long-term debt scenarios, until 2025. For each pair there are two assumptions on nominal interest rates 4.5 percent and 5.5 percent. Both assumptions are much below market yields, but not unrealistic if financial markets stabilise and the determination of Greece to keep fiscal accounts in order beyond the programme horizon is credible.

- In **scenario 1**, growth remains anaemic not exceeding 2 percent, and the primary surplus does not exceed 3¼ percent of GDP (level projected for 2013): it is a scenario of insufficient and unfinished fiscal consolidation and structural reforms. In this case, debt developments are not sustainable. This scenario suggests that, to ensure sustainability, consolidation needs to continue in coming years and structural reforms should be implemented with ambition to contribute to potential growth.

- In **scenario 2**, nominal growth beyond 2014 is 3½ percent, practically the same as the prudent one currently projected for 2014, while the primary surplus from 2014 onwards is 5.5 percent: a high value, but not higher than some other high-debt EU countries managed to keep for relatively long periods. The primary surplus is the one that is currently projected for 2014. In scenario 2, government debt is sustainable and declines, though it will remain above 100 percent o GDP by 2025.

- **Scenario 3** is the most favourable scenario: it is a derivation of scenario 2, talking into account the government plans of privatising EUR 50 billion of assets in 2011-15. In order to reach the same debt ratio by 2025 without privatisation, the primary surpluses would have to be above 7.5 percent of GDP, from 2014 on, a level that does not seem realistic.

**Graph 16. Public debt sustainability scenarios
(% of GDP)**



Common assumptions:
The chart shows three pairs of debt scenarios. For each pair, there are two interest rate assumptions (4.5 and 5.5 percent).
Specific assumptions:
Scenario 1: nominal growth rate: 2 percent; primary surplus stable at 3.2 percent of GDP from 2013 on; privatisation: nil.
Scenario 2: nominal growth rate: 3.5 percent; primary surplus stable at 5.5 percent from 2014 on; privatisation: nil.
Scenario 3: nominal growth rate: 3.5 percent; primary surplus stable at 5.5 percent from 2014 on; privatisation: EUR 50 billion in 2011-15.

4.2. STRUCTURAL FISCAL REFORMS

4.2.1. Public administration

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

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

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

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

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

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

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

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

4.2.2. Pension and healthcare reforms

33. **The National Actuarial Authority (NAA) pursues its efforts to quantify the impact of the pension reform.** The NAA has completed the long-term projections (2009-60) on pension expenditure by the largest pension schemes, and continues its work to extend the projections to other schemes. These projections will be subject to a peer review by the EU Economic Policy Committee. The currently available data suggest, as expected, that the pension reform of July 2010 has gone a long way towards moderating pension expenditure. Other than the completion of the projections, the next phase of the reform concerns the supplementary pension schemes, which should become notionally-defined benefit schemes. If after the supplementary pension scheme reform, projections indicate that the projected increase in the total public pension expenditure exceeds 2.5 percentage

points of GDP over 2009-60, the government is committed to adjust the main parameter of the pension system, so as to ensure that the benchmark is not exceeded. The government will also revise the list of heavy and arduous professions, which enjoy specific retirement conditions, to reduce it to less than 10 percent of employment.

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

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

Important steps have recently been taken to reform the health sector in order to increase the efficiency and quality of health services delivery. The reform aims to ensure a more rational use of services and medical goods, reduce waste and corruption and increase productivity. Actions planned for 2011 are expected to generate at least about ½ percent of GDP in savings, including savings of more than EUR 2.2 billion in pharmaceutical expenditure.

Several measures have been implemented so far:

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

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

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

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

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

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

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

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

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

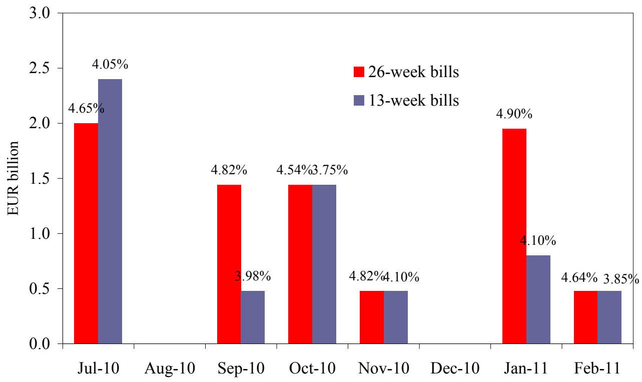
Significant efforts have been taken to improve hospital computerisation including modern accounting and billing systems, bookkeeping of medical supplies in NHS hospitals, monitoring activity of NHS facilities, timely invoicing and hospital spending control.

4.3. FISCAL FINANCING AND TREASURY MANAGEMENT

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

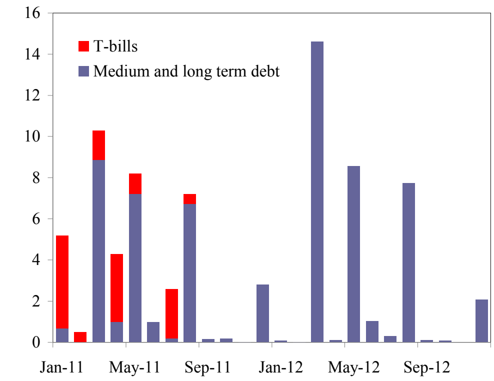
36. **Yields on short-term securities in the primary market remained stable.** Since May 2010, the three-month T-bills have been sold at around 4 percent yield, while six-month papers were placed at an average yield of 4.7 percent. The fall in yields in the two October 2010 auctions was short-lived. The upward revision in the Greek government debt and contagion from other peripheral EU countries led to downbeat market sentiment again in late autumn. As a result, the shift from shortest maturities to longer (six-month) paper was slower than expected. PDMA intends to continue shifting to six-month maturities in the course of 2011 and move to one-year bill issuance when market conditions permit.

Graph 17. T-bill auctions since May 2010
(amounts and yields)



Source : PDMA

Graph 18. Maturing debt, EUR billion



Source : GAO

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

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

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

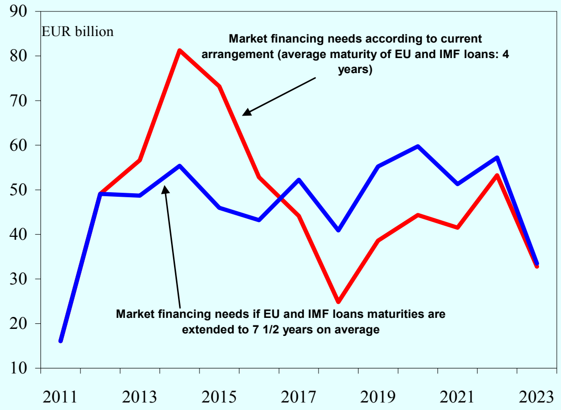
Both the euro-area and the IMF loans have an average maturity of around 4 years. The reimbursement of each tranche of the euro-area loans starts three years after the disbursement and is spread in eight quarterly instalments over two years. The repayment of each tranche of the IMF loan starts slightly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

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

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

Graph 1. Refinancing profile for the Greek government debt

(current conditions and extension of loan maturities)



Source: Commission services

4.4. FINANCIAL SECTOR POLICIES

38. **A strategy was adopted by the Bank of Greece in cooperation with the ECB to reduce banks' reliance on Eurosystem credit.** Borrowing from the ECB now represents nearly 20 percent of banks' liabilities. The last tranche of the government guarantee scheme under which banks can issue repo-eligible bonds was allocated to banks in December, increasing their pools of available collateral. However, potential higher refinancing needs, on account of deposit outflows and the non-renewal of maturing wholesale market transactions, as well as the erosion of collateral due to market volatility, changes to the ECB's collateral framework and possible further downgrades of the sovereign debt call for a further enhancement of the liquidity cushion in the system. To this extent, enhancing the existing guarantee scheme by additional EUR 30 billion appears to be necessary. Banks' access to the new tranche should be made conditional on the adoption of medium-term funding plans. The plans should outline the bank-specific targets and measures to reduce reliance on the Eurosystem liquidity over 2-3 year time span. At the same time, these plans have to be consistent with the macroeconomic and fiscal frameworks under the programme and the restructuring plans requested under the EU state aid rules.

39. **With an aggregate balance sheet at 210 percent of GDP, the size of the Greek banking system is not excessive compared to other countries.** Nevertheless, some downscaling seems appropriate given the tense situation at the funding side and the broadly overlapping branch networks and business models. In the context of the medium-term funding plans required by Bank of Greece and the ECB, the banks will have to indicate how they intend to reduce their borrowing from the ECB. Furthermore, to compensate for the state aid received the viability plans that the banks are expected to submit should contain measures that limit the banks' expansion. Deleveraging will need to be in line with the macroeconomic framework under the programme to avoid undue repercussions on the real economy.

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

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

4.5. GROWTH-ENHANCING STRUCTURAL REFORMS

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

43. Following a slowdown in momentum in autumn, a new wave of structural reforms is underway. After a landmark pension reform before the summer, the reform momentum weakened in autumn 2010, partially reflecting the shift in political focus in the run-up to the local elections in November, a cabinet reshuffle in September and limited administrative and operational capacity of the Greek government. This led to delays in the implementation of reforms that were originally agreed in May and then revised in August and November. However, a new wave of reforms is now being implemented, under preparation or at the point of being legislated in areas such as labour market, competition policy, access to and exercise of professions, reduction in red-tape, investment and export promotion and restructuring of state-owned companies. It is critical that the legislation passed is in all cases ambitious and of high quality, and that a determined and effective implementation follows without delay.

4.5.1. Labour market reforms

44. The new labour law adopted in December has been a positive step forward, but further adjustment may be necessary. The reform undertaken aims at enhancing the dynamism of the labour market and improving the firms' adaptability to market conditions with a view to enhancing competitiveness and attracting foreign investment. After a number of reforms adopted in July, the new labour law of December reforms the mediation and arbitration system and goes in the direction of moving the wage bargaining system towards the firm level, where the firm growth strategies are decided. The government tends to see the new law and the special firm-level collective agreements (SFLCAs, see box) as a tool for only limited wage decentralisation targeted to firms in difficulty, rather than promoting it as a powerful instrument to increase employment and improve competitiveness. The government has not legislated the elimination of the extension of sectoral collective agreements to all firms in each sector. Nevertheless, the government is committed to communicate to market players their rights as regards their access to SFLCAs, to follow up on implementation and to build the change in mindset favourable to the use of SFLCAs, including by reiterating the non-binding nature of the labour inspectorate report. The mission welcomed the government's intention in promoting and monitoring the implementation of these new SFLCAs, but insisted that the legal framework may require further adjustment to fully deliver the expected benefits.

Box 7: **Labour market reforms**

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

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

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

To be continued next page

Other features included in the December law refer to:

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

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

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

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

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

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

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

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

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

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

4.5.2 Closed professions

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

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

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

Box 8: **The reform of restricted professions**

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

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

To be continued next page

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

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

4.5.3 Energy and transport

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

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

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

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

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

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

4.5.4 Investment, export and R&D promotion

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

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

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

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

4.5.5 Other reforms to improve the business environment and strengthen competition

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

Box 9: **Reform priories for Greece using the 'Lisbon' assessment framework (LAF) methodology**

This box identifies a number of reform priorities based on a benchmarking exercise jointly developed by the Commission and the 'Lisbon agenda methodology working group' (LIME) of the Economic Policy Committee (EPC). The methodology evaluates EU Member State's performance in 18 growth-enhancing policy areas, based on indicators covering labour markets, product markets and, innovation and knowledge. (*)

Table 1 summarizes the results. Three benchmarks are used to assess relative performance: EU27, EU15 (the EU member states before the latest enlargements) and EU5 (the five best EU performing countries). It is assumed that Greece underperforms in any given policy area if the aggregate score is below -4 in at least two benchmarks. According to this convention, the following ten policy areas warrant attention: (i) active labour market policies, (ii) job protection and labour market segmentation, (iii) specific labour supply measures for women, (iv) sector-specific regulation, (v) regulatory barriers to entrepreneurship, (vi) start-up conditions, (vii) openness to trade and investment, (viii) R&D, (ix) ICT and (x) education and lifelong learning.

Table 1: Indicator-based assessment of underperforming policy areas – Greece

	Aggregate Scores						Overall assessment (indicator based)
	EU15		EU27		EU5		
	Level	Change	Level	Change	Level	Change	
Labour Market							
Active labour market policy area	-6	7	-5	10	-20	14	-
Making work pay: interplay of tax and benefits system	7	2	9	-2	9	8	+
Labour taxation to stimulate labour demand	7	-11	8	-11	4	-9	+
Job protection and labour market segmentation / dualisation	-6	7	-4	7	-23	1	-
Policies increasing working time	18	-1	13	-3	18	-9	+
Specific labour supply measures for women	-9	-4	-7	-2	-11	-11	-
Specific labour supply measures for older worker	7	-8	8	-6	7	-7	+
Wage bargaining and wage setting policies	2	-5	3	-7	-4	-6	=
Immigration and integration policies	9	-9	8	-6	13	-21	+
Labour market mismatch and mobility	14	12	8	7	18	10	+
Product and Capital market							
Competition policy framework	8	-5	5	-1	14	-1	+
Sector specific regulation (telecom, energy)	-9	-12	-10	-10	-8	-6	-
Business environment - Regulatory barriers to entrepreneurship	-8	4	-6	2	-10	6	-
Business Dynamics - Start-up conditions	-8	1	-7	0	-12	8	-
Market integration - Openness to trade and investment	-5	-1	-1	-3	-11	1	-
Innovation and knowledge							
R&D and innovation	-17	12	-13	8	-21	21	-
ICT	-12	-12	-8	-7	-12	-10	-
Education and life-long learning	-5	5	-5	5	-7	0	-

Source: Commission services (http://ec.europa.eu/economy_finance/indicators/economic_reforms/Quantitative/laf/)

Note: Each of the 18 policy areas consists of a number of indicators (mostly Eurostat's structural indicators). A weighted average of those indicators is calculated. Then, results are standardized by the mean and the standard deviation of the benchmark. The usual caveats of indicator-based analysis apply, in particular some indicators may not reflect the latest economic developments and the impact of reforms recently adopted by Member States. In addition, in some areas there is a lack of indicators assessing the efficiency and quality of spending. The table was last updated in December 2010.

- **Active labour market policies.** The available indicators show that the amounts dedicated to active labour market policies are low in comparative terms. Labour market policy expenditure seems to rely more on passive measures than on actives ones. Other indicators give additional evidence of the relatively low enrolment of the unemployed and inactive in education and training, as well as relatively fewer resources devoted to employment services.

- **Job protection and labour market segmentation.** Information on employment protection measures shows that in Greece, the overall strictness of protection against dismissals for regular employment is relatively lower than for temporary employment. Strict employment protection legislation (EPL) for temporary workers, along with higher levels of protection for permanent white-collar workers, hinders young workers, women and long-term unemployed entry and re-entry into the labour market as well as transition into permanent contracts.

- **Specific labour supply measures for women**. Judging from the indicators, lower female participation seems to be related to the relatively lower access to childcare, to underdevelopment of part-time work, as well as to the lower presence of women in life-long learning activities.

- **Sector specific regulation: telecommunications and electricity**. The indicators show that prices of local and national calls are below the EU average, whereas international calls are above. On electricity, the indicators show that electricity prices for industrial users are relatively higher than for households. However, price setting does not reflect fully the cost of electricity supply, thereby hindering competition. Moreover, the incumbent remains too strong, retaining control over important access issues.

- **Business environment: regulatory barriers to entrepreneurship**. Propensity towards entrepreneurship is high in Greece, as shown by the importance of self employment. However, the 'World Bank Doing Business' indicators point to higher number of procedures needed to enforce contracts, to register property and to deal with licences. Longer time is also an issue in paying taxes, as well as in enforcing contracts.

- **Start-up conditions.** The available indicators rank Greece within the group of countries with the highest number of procedures to start a business. The minimum cost needed to start a business is also above the EU average. Moreover, closing a business is relatively cumbersome in terms of time and the lower recovery rates.

- **Openness to trade and investment.** Greece scores below average in terms of time and cost to import a standardized cargo of goods by sea transport.

- **R&D and innovation.** Most of the R&D and innovation indicators point to Greece having a gap in this area: share of high technology product in total exports, number of patent applications to the European patent office, percentage of venture capital investments, employment in high tech sectors, the share of science and technology graduates and domestic expenditure on R&D. The R&D intensity of the economy remains low despite efforts made, especially through the use of structural funds. This results from the sectoral specialization, which is driven by services and with a high share of small firms, and a low preponderance of high tech firms in overall production.

- **ICT.** Most ICT indicators also point to Greece having a gap in this area. E-government usage by enterprises is relatively high, though its use by individuals is below the benchmark. This is consistent with relatively lower broadband penetration rates and household internet access. Indicators on ICT spending show a relatively low expenditure on information technology as a percentage of GDP.

- **Education and lifelong learning**. The available indicators show that the problem is not so much on attainment levels than on the quality of education. Indeed, secondary education attainment levels – for both males and females – are above the EU average. However, Greek students score less well than their OECD counterparts in the PISA tests.

(*) DG ECFIN and EPC (2008), 'The LIME assessment framework (LAF): A methodological tool to compare, in the context of the Lisbon Strategy, the performance of EU Member States in terms of GDP and in terms of twenty policy areas affecting growth,' *European Economy-Occasional Papers*, 41.

53. **Progress in the land and commercial registries has been slow**. The absence of a proper functioning land registry has often been an obstacle to investment and the uniform collection of property taxes. In the case of state-owned properties, legal disputes of land and real estate property also constitute a barrier to privatisation. So far, only an estimated 18 percent (6.5 million) of land rights have been registered in Greece since the mid-1990s. The government is, however, increasing resources into the land registry, so that by 2015, another 22 percent (8 million) rights will be digitised and the entire project is finalised by 2020. The General Commercial Registry (GEMI) is foreseen to become operational in April 2011, as soon as outstanding technical arrangements within the government and with the Hellenic Union of Chambers has been put in place.

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

Box 10: **The reform of the Hellenic Competition Commission**

The law reforming the Hellenic Competition Commission (HCC) is under discussion in Parliament at the time this Compliance Report is published. The main features of draft law are as follows:

- **The new method of appointment of the HCC president and vice-president enhances independence.** Upon the approval of the new law, the HCC president and vice-president will be selected by the Hellenic Parliament. Currently, the President is appointed by the Ministry of Regional Development and Competitiveness. To strengthen the HCC independence, the draft law also limits the government's information requesting powers: the government will only have access to information of a general nature also available top Parliament.

- **The mandate of the HCC board is decoupled from the electoral cycle.** The draft law provides that the members of the board, both full and alternate members, as well as the *rapporteurs* are appointed for a five-year term, which could be renewed for a further five-year period. Currently, the mandate is four years and cannot be extended. In addition, the draft provides for the staggering of the HCC board's mandates. This is a way of ensuring continuity in the institution, while at the same time, providing for the rotation of the board memebership. In addition, the draft law reduces the number of board members from nine to eight.

- **The draft law sets more reasonable deadlines for the investigation and issuance of decisions.** Upon approval of the law, the HCC is expected take a decision within 12 months of a case being assigned to a *rapporteur*. The current time limit of six months between the opening of proceedings and the issuance of a statement of objections is unduly tight and does not take into account the fact that complex cases require detailed investigation.

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- **The HCC will decide on its own enforcement priorities and may reject low-priority complaints.** Upon approval of the law, the HCC should to prioritize cases according to a points-based system. The draft law provides however that the point system will be an internal management tool; that ranking deriving from its application will not be made public and that the Director General of the HCC may decide, if justified, on a re-ranking of cases and submit its decision to the approval of the board. Currently, the HCC is obliged to investigate all complaints it receives, so its discretion to set priorities, and enforce effectively and efficiently, remains hampered.

While the mission supported the intentions of the new law, it expressed concerns that the premature termination of the current mandate of the President and full-time board members, other than the *rapporteurs*, is in contradiction with HCC as an independent agency and may effectively defeat the stated objective of strengthening the competition commission's independence.

4.5.6 Education

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

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

Table A-1: Fiscal consolidation

<table>
<tr><th>Actions in the Memorandum of understanding on specific policy conditionality (MoU)
(actions by end-December 2010)</th><th colspan="4">Comments</th></tr>
<tr><td rowspan="9">Government achieves the quantitative performance criteria for 2010 and endeavours to reach the government deficit target on an ESA95 basis.</td><td colspan="4">Partially observed.</td></tr>
<tr><td>Criterion</td><td>Reference value</td><td>Outcome</td><td>Comments</td></tr>
<tr><td>ESA-based government deficit</td><td>EUR 18.0 billion
(Council Decision)</td><td>EUR 22 billion
(estimate - complete data will be reported by ELSTAT by end March and validated and published by Eurostat on 22 April.)</td><td>Not observed.</td></tr>
<tr><td>Government primary balance (cash basis)</td><td>EUR -5.7 billion</td><td>EUR -5.5</td><td>Observed.</td></tr>
<tr><td>State primary payments</td><td>EUR 67 billion</td><td>EUR 61.1 billion</td><td>Observed.</td></tr>
<tr><td>Central government debt</td><td>EUR 342 billion.</td><td>EUR 340 billion</td><td>Observed.</td></tr>
<tr><td>Annual increase in the general government consolidated gross debt</td><td>EUR 34.1 billion
(Council Decision)</td><td>EUR 29 billion</td><td>Observed.</td></tr>
<tr><td>Guarantees</td><td>EUR 2 billion
(indicative)</td><td>EUR 1.3 billion</td><td>Observed.</td></tr>
<tr><td>Payment arrears</td><td>EUR 0 (indicative)</td><td>EUR 3 billion.</td><td>Not observed.</td></tr>
</table>

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.	**Observed.**
The final 2011 budget provides information and projections on the entire general government sector.	
The final budget includes the following measures:	
Carryovers into 2011 of measures adopted in May 2010:	**Observed.** All these measures were legislated and implemented in the course of 2010. New estimates for: - cuts in wage bill (seasonal bonuses and allowances): EUR 460 million; - specific reduction in highest pensions: EUR 310 million - luxury goods tax: EUR 20 million; - incentives to regularise land-use violations: EUR 250 million.
Expenditure cuts:	
wage bill (seasonal bonuses and allowances): at least EUR 400 million;	
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:	**Observed.** All these measures were legislated and implemented in the course of 2010. New estimates for: - reduction in intermediate consumption: EUR 350 million - reduction in the wage bill through fraud reducing measures: EUR 0.
reduction in intermediate consumption by at least EUR 300 million compared to the actual 2010 level, on top of savings envisaged in the context of reforming public administration and the reorganisation of local government;	
implement legislation reforming public administration and reorganising local government with the aim of reducing costs in comparison to current levels by at least EUR 1 500 million in 2013, of which at least EUR 500 million in 2011;	
reduction in domestically-financed spending in investment by at least EUR 500 million compared to the actual 2010 level, while increasing revenue by giving priority to investment projects financed by EU structural and cohesion funds;	
freeze in the indexation of pensions, with the aim of saving at least EUR 100 million;	
reduction in the wage bill through fraud-reducing measures and the establishment of the single payment authority by at least EUR 100 million;	
reduction in pharmaceutical expenditure by social security funds by EUR 500 million owing to a reduction in pre-tax drug prices; and by hospitals by at least EUR 350 million.	

Revenue increases:	**Observed.** All these measures were legislated and implemented in the course of 2010. New estimates for the expansion of the base of the real estate tax by updating assets values: EUR 135 million.
temporary crisis levies on highly profitable firms, yielding at least EUR 1 000 million per year in 2011, 2012 and 2013;	
enforce the presumptive taxation of professionals, with a yield of at least EUR 700 million in 2011 and increasing returns in 2012 and 2013;	
start phasing in a green tax, with a yield of at least EUR 150 million in 2011;	
expand the base of the real estate tax by updating asset values to yield at least EUR 270 million additional revenue;	
collect revenue from the licensing of gaming: at least EUR 500 million in sales of licences and EUR 200 in annual royalties;	
increase taxation of wages in kind, including by taxing car lease payments: at least EUR 150 million;	
introduce book specification of income for tax purposes yielding at least EUR 50 million;	
initiate the collection of a special tax on unauthorised establishments (Αυθαίρετα) (at least EUR 300 million per year).	

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

<table>
<tr><td colspan="2">Revenue increases:</td></tr>
<tr><td>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;</td><td>Not yet applicable.
The act to equalise the taxation of heating oil and diesel oil have not yet been legislated. The specific tax benefit to heating oil to be revoked applies only in autumn and winter (from 15 October to April); a delay in the adoption the act until now has no material impact on tax revenue and tax expenditure.</td></tr>
<tr><td>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;</td><td rowspan="8">Observed.
New estimates for:
- increase in the reduced rates of VAT: EUR 480 million
The measures against tax evasion and reforming the tax administration are included in the tax bill, which is expected to be adopted by Parliament by end-February. The one-off measures, namely the telecommunication licences and the concessions licences, are expected to yield according to the estimates in November.</td></tr>
<tr><td>intensification of the fight against smuggling on fuel (at least EUR 190 million);</td></tr>
<tr><td>increase in court trial fees (at least EUR 100 million);</td></tr>
<tr><td>the implementation of an action plan to accelerate the collection of tax arrears (at least EUR 200 million);</td></tr>
<tr><td>speeding up tax penalty collection (at least EUR 400 million);</td></tr>
<tr><td>collection of revenue that results from the new framework of tax disputes and trials (at least EUR 300 million);</td></tr>
<tr><td>revenue from the renewal of telecommunication licences that are about to expire (at least EUR 350 million);</td></tr>
<tr><td>revenue from concession licences (at least EUR 250 million).</td></tr>
</table>

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;	**Observed.**
information on monthly revenue per category, and expenditure per Ministry. Updated figures will be regularly made available online.	

Table A-2: Structural fiscal reforms

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

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

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

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

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

Table A-3: Financial sector regulation and supervision

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

Table A-4: Other structural reforms

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

Government eliminates the provision that establishes higher hourly remuneration to part-time workers. For this purpose Law 1892/1990, Article 38 is further amended.	**Observed.**
Government amends current legislation (Law 3846/2010, Article 7) to allow for a more flexible working-time management, …	**Not observed**.
… including part-time shift work (Article 2.3).	**Observed.**
To reform and modernise public administration:	
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.	**Ongoing, delayed**. Agreement on the terms of reference between Greece and the OECD (contractor) has been delayed, due to legal fine-tuning. The separate contracts for the two functional reviews are expected to be signed in late February. Meanwhile, the government has launched the process with the creation of the appropriate mapping teams and steering/coordination committees for the review of the central administration.
The review on central administration will be merged with the Ministry of Interior's own reorganisation programme. The review will: take stock of the resource use (human resources and procurement) to carry out government functions; identify actions to rationalise the several departments, ensure efficiency and generate productivity gains, and quantify savings. 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.	**Observed.**
Government adopts a decree disallowing local governments to run deficits at least until 2014. To ensure that savings contribute to the reduction in the government deficit. Government reduces transfers to local government in line with planned savings and transfers of competences to local government.	
Public sector wages and human resource management	
The Ministry of Finance together with the Ministry of Interior complete the establishment of a Single Payment Authority for the payment of wages in the public sector. The Ministry of Finance prepares a report (to be published by end January 2011), in collaboration with the Single Payment Authority, on the structure and levels of remuneration and the volume and dynamics of employment in the general government. The report presents plans for the allocation of human resources in the public sector for the period up to 2013. It specifies plans to reallocate qualified staff to the tax administration, GAO, the labour inspectorate, regulators and Hellenic Competition Commission.	**Partially observed.** The draft report includes a diagnosis on wages and employment data in the public sector. It does not contain plans for the allocation of human resources in the public sector for the period up to 2013.
Government establishes a process to simplify the remuneration system in the public sector. It shall apply to all public sector employees. This should lead to a system where remuneration reflects productivity and tasks. Government ensures that there is no increase in the wage bill in the public sector as a result of the reform.	**Not observed**.
ASEP accelerates staff selection-related procedures for the areas which are a priority in the implementation of this memorandum.	**Observed.**
Public procurement	**Not observed.** The contract for the provision of the IT platform has not been signed; the timetable for the development of e-procurement will only be defined after the signature of the contract.
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).	**Ongoing.** Acts for the completion of all the required procedures online are pending. Concerns persist in respect of the use of online procedures related to the recognition of professional qualifications, the distinction between established providers and those providing services cross-border as well as the simplification of procedures.
Government: ensures adequate links between the PSC and other relevant authorities (including professional associations); allows the online completion of procedures covering at least, the procedures in the distribution services, tourism, education and construction sectors; allows for payment of administrative fees at a distance	
Government carries out a risk assessment of procedures focusing on priority service sectors with a view to adopting solutions for electronic identification, electronic signature and electronic documents in conformity with Commission Decision 2009/767/EC.	**Observed.**
Government presents a progress report outlining available online procedures, steps to be taken over the next two quarters to finalise the electronic completion of procedures, setting clear deadlines by service sector and procedure.	
Government adopts changes to existing (sectoral) legislation in key services sectors such as tourism, retail and private education services. New legislation should: facilitate establishment by abolishing or amending requirements which are prohibited by the Services Directive and significantly reducing requirements, including those relating to quantitative and territorial restrictions, legal form requirements, shareholding requirements, fixed minimum and/or maximum tariffs and restrictions to multidisciplinary activities; facilitate the provision of cross-border services, so that providers of cross-border services are required to comply with specific requirements of the Greek legislation only in exceptional cases (when admitted by Articles 16 or 17 of the Services Directive); provide legal certainty for providers of cross-border services by setting out in the respective (sectoral) legislation which requirements can and which requirements cannot be applied to cross-border services.	**Ongoing with delay**. The legislative changes have been partially adopted. As of 1 February 2011, the Joint Ministerial Decision on outdoor trade, open markets and retail stores was about to be published in the official gazette. However, other acts were still pending, such as the legislation on cross border services in tourism. Work is particularly delayed in the wholesale sector which requires screening for restrictions covered by the Services Directive.

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

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 and establishes monitoring and enforcement mechanisms that ensure prompt correction of deviations vis-à-vis the plan.	**Ongoing**. State aid issues not yet cleared.
Sectoral growth drivers	
Government presents a report analysing the potential contribution of the tourism sector to growth and jobs. It should identify legislative, administrative and other obstacles hindering competition and market entry to the realisation of sector potential.	**Ongoing.** Preliminary results of these studies were presented to the EC/IMF/ECB staff on 9 February. The studies are expected to be made public in April.
Government presents a report analysing the potential contribution of the retail sector to price flexibility, growth and jobs. It should identify legislative, administrative and other obstacles hindering competition and market entry to the realisation of sector potential.	

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

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

<table>
<tr><td>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.</td><td>Observed
The Investment law was adopted by Parliament on 21 January 2011.
Export promotion measures were presented on 28/01/2011 but no clear strategy to alleviate the administrative burden for exporters is visible so far.</td></tr>
<tr><td colspan="2">To raise the absorption rates of structural and cohesion funds</td></tr>
<tr><td>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.</td><td>Observed.
<table>
<tr><td colspan="4">Payment claims in the absorption of structural funds in 2010
(EUR million)</td></tr>
<tr><th>Fund</th><th>Reference value</th><th>Outcome</th><th>Comment</th></tr>
<tr><td>European Regional and Cohesion Funds</td><td>2330</td><td>2372.4</td><td>Met.</td></tr>
<tr><td>European Social Fund</td><td>420</td><td>447.6</td><td>Met.</td></tr>
<tr><td>Total</td><td>2720</td><td>2820.0</td><td>Met.</td></tr>
</table></td></tr>
<tr><td>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.</td><td>Observed.
12 applications for major projects have been submitted in 2010.
Non-targeted de minimis state aid measures are progressively reduced.</td></tr>
<tr><td>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.</td><td>Observed.</td></tr>
</table>

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

Annex 2: Provision of data

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

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

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

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

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

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

Annex 3: Macroeconomic forecast

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

Annual % change	2009	2010	2011	2012	2013	2014
1. Private consumption expenditure	-1.8	-4.1	-4.6	0.5	1.1	1.2
2. Government consumption expenditure	7.6	-9.0	-8.5	-6.0	-1.0	-0.3
3. Gross fixed capital formation	-10.4	-17.4	-7.5	-2.6	1.1	1.2
4. Final domestic demand	**-2.0**	**-7.1**	**-5.7**	**-1.0**	**0.8**	**1.0**
5. Change in inventories + net acquisitions of valuables	-0.5	-0.5	-0.5	-0.2	-0.2	-0.2
6. Domestic demand	**-4.1**	**-7.2**	**-5.6**	**-0.7**	**0.7**	**1.0**
7. Exports of goods and services	-18.3	-0.3	6.4	6.0	7.2	6.7
7a. - of which goods	*-18.0*	*1.0*	*6.5*	*6.4*	*6.0*	*5.9*
7b. - of which services	*-18.5*	*-1.3*	*6.3*	*5.7*	*8.2*	*7.3*
8. Final demand	**-6.6**	**-6.2**	**-3.7**	**0.5**	**2.0**	**2.1**
9. Imports of goods and services	-18.6	-11.5	-6.0	-1.5	1.5	2.1
9a. - of which goods	*-18.5*	*-15.3*	*-7.4*	*-1.5*	*1.5*	*2.1*
9b. - of which services	*-18.9*	*4.9*	*-1.2*	*-1.5*	*1.3*	*2.0*
10. Gross domestic product at market prices	**-2.0**	**-4.5**	**-3.0**	**1.1**	**2.1**	**2.1**
Contribution to change in GDP						
11. Final domestic demand	-2.3	-8.0	-6.2	-1.0	0.8	1.0
12. Change in inventories + net acq. of valuables	-2.4	-0.1	0.1	0.3	0.0	0.0
13. External balance of goods and services	2.7	3.6	3.1	1.8	1.4	1.1

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

Annual % change	2009	2010	2011	2012	2013	2014
1. Private consumption expenditure	-0.7	0.4	-2.4	0.9	1.7	2.3
2. Government consumption expenditure	9.8	-12.9	-8.9	-5.7	0.0	0.9
3. Gross fixed capital formation	-11.4	-15.2	-6.6	-1.1	0.2	2.9
4. Final domestic demand	**-0.9**	**-4.3**	**-4.0**	**-0.4**	**0.0**	**2.2**
5. Change in inventories + net acquisition of valuables						
6. Domestic demand	**-2.9**	**-4.5**	**-4.1**	**0.0**	**1.6**	**2.3**
7. Exports of goods and services	-20.2	4.6	7.5	7.0	9.0	8.5
7a. - of which, goods	*-18.9*	*6.6*	*7.7*	*7.7*	*7.7*	*7.6*
7a. - of which, services	*-21.2*	*3.2*	*7.4*	*6.5*	*9.9*	*9.2*
8. Final demand	**-5.9**	**-3.1**	**-2.3**	**1.2**	**3.0**	**3.5**
9. Imports of goods and services	-19.1	-7.9	-5.0	0.3	3.5	4.2
9a. - of which goods	*-20.2*	*-11.5*	*-6.5*	*0.3*	*3.6*	*4.2*
9a. - of which, services	*-13.9*	*8.3*	*0.2*	*0.2*	*3.2*	*4.0*
10. Gross domestic product at market prices	**-1.1**	**-1.7**	**-1.5**	**1.5**	**2.9**	**3.3**
11. - of wich, external balance of goods and services						
12. Balance of primary income with rest of the world	0.5	-0.1	-0.1	0.0	0.0	0.0
13. Gross national income	**-0.6**	**-1.8**	**-1.6**	**1.5**	**2.8**	**3.3**
14. Compensation of employees	1.3	-4.7	-2.9	0.2	0.4	1.1
15. Gross operating surplus and mixed income	-0.9	-4.0	-3.4	1.4	5.1	5.4
16. Gross value added at basic prices	**0.0**	**-4.3**	**-3.2**	**0.9**	**3.2**	**3.7**
16a. - of which, labour costs, including self-employed	*1.6*	*-4.7*	*-2.7*	*0.2*	*1.0*	*1.5*
17. Taxes net of subsidies	-9.3	19.4	9.5	4.7	0.6	0.6
18. - taxes on products	*-9.0*	*19.0*	*9.4*	*4.7*	*0.7*	*0.6*
19. - subsidies on products	*14.0*	*-15.7*	*2.6*	*2.6*	*2.6*	*2.6*
20. Gross domestic product at market prices	**-1.1**	**-1.7**	**-1.5**	**1.5**	**2.9**	**3.3**

Table A3: COSTS AND PRICES

% change in implicit price deflator	2009	2010	2011	2012	2013	2014
1. Private consumption expenditure	1.1	4.6	2.4	0.3	0.6	1.1
2. Government consumption expenditure	2.1	-4.3	-0.4	0.4	1.2	1.2
3. Gross fixed capital formation	-1.1	2.7	1.0	1.6	1.7	1.6
3a. - of which, construction	*0.5*	*3.3*	*1.0*	*1.8*	*1.6*	*1.8*
3b. - of which, equipment	*-0.4*	*3.1*	*0.9*	*1.4*	*2.0*	*1.7*
4. Final domestic demand	**1.1**	**3.0**	**1.8**	**0.6**	**0.9**	**1.2**
	-	-	-	-	-	-
6. Domestic demand	**1.2**	**3.0**	**1.6**	**0.7**	**0.9**	**1.3**
7. Exports of goods and services	-2.4	4.9	1.1	1.0	1.6	1.7
7a. - of which, goods	*-1.1*	*5.5*	*1.1*	*1.2*	*1.6*	*1.6*
7b. - of which, services	*-3.3*	*4.6*	*1.0*	*0.8*	*1.6*	*1.8*
8. Final demand	**0.7**	**3.3**	**1.4**	**0.7**	**1.0**	**1.3**
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	**0.9**	**2.9**	**1.5**	**0.4**	**0.7**	**1.1**
11. Terms of trade of goods and services	-1.8	0.9	0.1	-0.8	-0.4	-0.3
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	*-9.0*	*1.3*	*-0.3*	*-0.9*	*-0.2*	*-0.2*
12. HICP	**1.3**	**4.7**	**2.4**	**0.5**	**0.7**	**1.1**

Table A4: LABOUR MARKET AND LABOUR COST

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

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

levels	2009	2010	2011	2012	2013	2014
1. Private consumption expenditure	174.4	175.1	170.9	172.4	175.3	179.3
2. Government consumption expenditure	45.4	39.6	36.1	34.0	34.1	34.4
3. Gross fixed capital formation	40.1	34.0	31.7	31.4	32.3	33.2
4. Final domestic demand (1+2+3)	**259.9**	**248.7**	**238.7**	**237.8**	**241.7**	**246.9**
5. Change in inventories + net acquisition of valuables as % of GDP						
6. Domestic demand (4+5)	**258.3**	**246.8**	**236.6**	**236.7**	**240.6**	**246.0**
7. Exports of goods and services	44.3	46.3	49.8	53.3	58.1	63.0
7a. - of which, goods	*18.5*	*19.7*	*21.3*	*22.9*	*24.7*	*26.5*
7a. - of which, services	*25.8*	*26.6*	*28.5*	*30.4*	*33.4*	*36.5*
8. Final demand (6+7)	**302.6**	**293.1**	**286.4**	**290.0**	**298.6**	**309.0**
9. Imports of goods and services	69.5	64.0	60.8	60.9	63.1	65.7
9a. - of which goods	*56.8*	*50.3*	*47.0*	*47.2*	*48.9*	*50.9*
9a. - of which, services	*12.7*	*13.7*	*13.8*	*13.8*	*14.2*	*14.8*
10. Gross domestic product at market prices (8-9)	**233.1**	**229.1**	**225.7**	**229.0**	**235.6**	**243.3**
11. - of wich, external balance of goods and services						
12. Balance of primary income with rest of the world	-6.4	-6.5	-6.7	-6.9	-7.1	-7.3
13. Gross national income at market prices (10+12)	**226.7**	**222.6**	**218.9**	**222.1**	**228.4**	**235.9**
14. Compensation of employees	87.3	83.1	80.7	80.9	81.2	82.1
15. Gross operating surplus and mixed income	122.6	117.7	113.7	115.3	121.2	127.7
16. Gross value added at basic prices (14 + 15)	**209.9**	**200.8**	**194.4**	**196.1**	**202.4**	**209.8**
16a. - of which, labour costs, including self-employed	*134.1*	*127.7*	*124.4*	*124.6*	*125.8*	*127.6*
17. Taxes net of subsidies (18-19)	25.7	30.7	33.6	35.2	35.4	35.7
18. - taxes on products	*26.1*	*31.0*	*33.9*	*35.5*	*35.8*	*36.0*
19. - subsidies on products	*0.3*	*0.3*	*0.3*	*0.3*	*0.3*	*0.3*
20. Gross domestic product at market prices (16 + 17)	**233.1**	**229.1**	**225.7**	**229.0**	**235.6**	**243.3**

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

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

C1: FISCAL ACCOUNTS AND FORECAST

	2009	2010	2011	2012	2013	2014
			% GDP			
Total revenue	**37.79**	**40.61**	**42.37**	**41.90**	**41.14**	**40.27**
Indirect taxes	11.10	13.09	13.78	14.34	13.97	13.96
Direct taxes	8.17	7.88	8.45	8.25	8.38	7.62
Social contributions	13.10	12.95	12.68	12.29	12.02	11.79
Sales	1.72	1.89	1.90	1.87	1.82	1.76
Other current resources	2.37	2.69	3.63	3.27	3.11	3.31
Capital transfers received	1.33	2.11	1.94	1.87	1.84	1.82
Total expenditure	**53.16**	**50.22**	**50.69**	**50.04**	**49.75**	**48.84**
Intermediate consumption	7.11	5.27	4.64	4.71	4.88	4.96
Compensation of employees	13.51	12.50	12.49	12.13	11.57	11.00
Social transfers other than in kind	20.85	20.61	21.45	21.14	20.95	19.53
Interest	5.28	6.49	6.55	7.44	8.01	8.18
Subsidies	0.15	0.10	0.13	0.13	0.13	0.12
Other current expenditure	1.73	1.60	1.57	1.83	1.47	1.63
Gross fixed capital formation	3.38	2.70	2.65	2.35	2.47	2.45
Other capital expenditure	1.14	0.95	1.20	0.29	0.26	0.96
General Government balance	**-15.4**	**-9.6**	**-8.3**	**-8.1**	**-8.6**	**-8.6**
Measures identified in May 2010, to be revised			-	2.4	2.6	2.1
Unidentified fiscal consolidation measures			**0.8**	**1.6**	**3.8**	**5.9**
General Government balance (targets)			**-7.6**	**-6.5**	**-4.8**	**-2.6**
			Levels (in EUR billion)			
Total revenue	**88.82**	**93.16**	**95.73**	**96.10**	**97.12**	**98.22**
Indirect taxes	26.09	30.03	31.13	32.90	32.98	34.05
Direct taxes	19.20	18.07	19.09	18.93	19.79	18.59
Social contributions	30.79	29.71	28.64	28.18	28.37	28.76
Sales	4.03	4.33	4.28	4.29	4.29	4.29
Other current resources	5.58	6.17	8.20	7.50	7.35	8.08
Capital transfers received	3.13	4.85	4.38	4.30	4.35	4.45
Total expenditure	**124.94**	**115.19**	**114.54**	**114.78**	**117.45**	**119.11**
Intermediate consumption	16.71	12.08	10.48	10.81	11.52	12.10
Compensation of employees	31.76	28.68	28.23	27.83	27.31	26.84
Social transfers other than in kind	49.01	47.27	48.47	48.50	49.46	47.63
Interest	12.42	14.89	14.81	17.07	18.92	19.94
Subsidies	0.34	0.23	0.30	0.30	0.30	0.30
Other current expenditure	4.07	3.67	3.55	4.20	3.48	3.99
Gross fixed capital formation	7.94	6.20	5.98	5.40	5.82	5.98
Other capital expenditure	2.69	2.17	2.71	0.67	0.62	2.34
General Government balance (EDP)	**-36.15**	**-22.03**	**-18.81**	**-18.69**	**-20.33**	**-20.89**
Measures identified in May 2010, to be revised			-	5.58	6.15	5.10
Unidentified fiscal consolidation measures			**1.74**	**3.77**	**8.93**	**14.50**
General Government balance (targets)			**-17.07**	**-14.92**	**-11.40**	**-6.39**

** measures for 2012, 2013 and 2014 identified and quantified (not yet implemented) in the original programme of May are subject revision*

C2: GROSS DEBT

	2009	2010	2011	2012	2013	2014
			levels (EUR billion)			
Government deficit (level)	**-36.2**	**-22.0**	**-18.8**	**-14.9**	**-11.4**	**-6.4**
Gross debt (level)*	**298.0**	**326.9**	**347.4**	**365.5**	**375.1**	**380.9**
Change in gross debt	36.6	28.9	20.5	18.1	9.6	5.8
Stock-flow adjustment	**0.5**	**6.8**	**1.7**	**3.2**	**-1.8**	**-0.6**
			% GDP			
Gross debt ratio	**126.8**	**142.5**	**153.8**	**159.4**	**158.9**	**156.2**
Change in the ratio	16.5	15.7	11.2	5.6	-0.5	-2.7
Contributions:						
Primary balance (+ is a deficit)	**10.1**	**3.1**	**1.8**	**-0.9**	**-3.2**	**-5.6**
“Snow-ball” effect	**6.2**	**9.6**	**8.7**	**5.2**	**3.5**	**3.1**
Of which:						
Interest expenditure	5.3	6.5	6.6	7.4	8.0	8.2
Real growth effect	2.2	5.8	4.3	-1.7	-3.3	-3.3
Inflation effect	-1.3	-2.7	-2.2	-0.6	-1.3	-1.8
Stock-flow adjustment	**0.2**	**3.0**	**0.8**	**1.4**	**-0.8**	**-0.2**

**** the debt levels do not take into account the upward revision of the government's privatization plan, as of February 2011***

Annex 4: Financing needs and sources [1]

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

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

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

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

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

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

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

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

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

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

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

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

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

Annex 6: Updated programme documents

I. Letter of Intent

Athens, 23 February 2011

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 Memorandum of Economic and Financial Policies (MEFP) and
Memorandum of Understanding on Specific Economic Policy Conditionality (MoU) from 3 May, 6 August and 22 November 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.

We continue to make progress with our economic program:

- The quarterly quantitative performance criteria for end-December have all been met. The ESA95 accrual deficit was above target, but at the level projected at the time of the last review, and the overall reduction in the headline deficit in 2010 is estimated to have amounted to a higher-than-initially targeted 6 percentage points of GDP. However, while we managed to reduce the stock of general government arrears at the very end of 2010, it was not enough to prevent us from missing the indicative target.
- Fiscal-structural reforms have been moving forward. A structural benchmark covering an actuarial study of the main pension funds was met. A benchmark on removing barriers to effective tax administration is expected to be met in mid-March (with tabling the legislation in parliament a prior action for the review). A benchmark covering a study of the structure, level and dynamics of public employment and compensation was partially met, and will be completed in the

context of the medium-term fiscal strategy. Similarly, a benchmark on improving statistical reporting to Elstat was also partially met, with good progress on signing MOUs with data-providing entities, and the finalization of regulations that now need to be formally approved by Elstat. The attached Memorandum of Economic and Financial Policies lays out an ambitious schedule of next stage actions to support our medium-term fiscal consolidation program, along with reforms to revenue administration and public financial management designed to strengthen budget implementation.

- The financial system remains stable. Private banks have had notable success in raising capital, and state bank restructuring has started. Exceptional ECB liquidity support has helped bridge the system to a point where banks can begin implementing medium-term plans to adjust their funding (as discussed in the memorandum below). The Financial Stability Fund is well-financed relative to projected needs.
- Progress continues with structural reforms. A structural benchmark covering a 2011-13 privatization plan was met, while a benchmark covering collective bargaining reform was partially met (and time will be needed to assess effective implementation). The opening of restricted professions has moved forward with legislation passed by parliament in February. Legislation concerning restructuring of public enterprises has been approved. The attached memorandum lays out next steps, including an expanded privatization and real estate development plan.

On this basis, we request the disbursement of the fourth installment of financial assistance by the euro-area Member States, pooled by the European Commission, in the amount of EUR 10 900 million.

We believe that the policies set forth in the 3 May 2010 Letter of Intent, MEFP and MoU and subsequent updates (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

II. GREECE—MEMORANDUM OF ECONOMIC AND FINANCIAL POLICIES

The Outlook

1. **The economy remains on track to stabilize in late 2011**. Industrial production, retail trade, and construction activity point to a continued contraction of output during the first half of 2011. Nevertheless, the recent improvements in some leading indicators (new industrial orders; and industrial turnover for the foreign market; and economic sentiment in manufacturing), alongside a positive contribution of net exports to GDP growth, support program projections of a stabilization in the second half of 2011. For the full year we continue to expect GDP to contract by about 3 percent.

2. **Inflation remains on course to decline to an average of about 2½ percent in 2011.** December headline inflation surprised on the upside on account of rising oil import prices, but inflation at constant taxes is close to zero. With continuing weak domestic demand and continued slack in the economy, the aggregate impact of commodity price pressures and hikes in administered prices and indirect taxes should be contained.

3. **Competitiveness is improving, and the current account deficit should narrow as projected in 2011**. Growth in unit labor costs has turned negative in the second half of 2010, contributing to improved competitiveness of the Greek economy. Combined with weak domestic demand, this should help offset the impact of significantly higher import prices (for oil and other imported commodities), and reduce the current account deficit to around 8 percent of GDP in 2011 (from an estimated 11 percent in 2010).

4. **There remain a number of challenges to overcome to secure the recovery.** Greece has achieved considerable progress in fiscal adjustment to date, but more needs to be done to secure a lower deficit and debt, and to put the adjustment on a more sustainable footing. Similarly, the program has successfully maintained financial stability to date, but banks are still relying heavily on Eurosystem liquidity and face challenges towards ensuring more sustainable funding models. Finally, favorable business environment and supply-side conditions need to be put more firmly into place to support an export and investment led recovery. The rest of the memorandum explains how the program's policy framework will be implemented to address these continuing challenges.

Fiscal Policies

5. **The government's present fiscal priority is to put the ongoing fiscal adjustment on a clearly sustainable path**. While 2010 delivered a large reduction in the ESA95 general government deficit, from 15½ to about 9½ percent of GDP, weaknesses in revenue collection and expenditure control persisted (and some problems with arrears persisted). To sustainably reduce the deficit below 3 percent of GDP by 2014 we will need to keep the 2011 budget on track, define remaining needed structural adjustment measures, and accelerate our work to strengthen fiscal institutions and processes.

6. **The government remains committed to achieve a €17 billion (7½ percent of GDP general government deficit) in 2011, measured on an ESA 95 basis**. Downside risks to achieve this target exist. Current trends point to a fiscal gap of ¾ percent of GDP for the year as a whole (due to lower projections for revenues and a revised estimate for the yield of our measures). We will specify structural measures to address this gap once we finalize our detailed fiscal structural reform plans in March (below). In the interim, to ensure we continue to meet fiscal targets, we will under execute our budget.

7. **A medium-term budget strategy paper is under preparation.** The strategy paper will set annual spending ceilings for individual line ministries and fiscal balance targets for all general government entities through 2014. It will also define measures to be taken in support of these targets. We estimate that some 8 percent of GDP in permanent measures will be needed, some of which have already been identified in our May 2010 program. The medium-term budget strategy paper will be published for consultation in end-March, approved by the Council of Ministers before mid-April (a **structural benchmark**), and to be voted by Parliament by mid-May. It will be the basis for preparation of the 2012 budget.

8. **The measures supporting the medium-term strategy will be articulated in plans covering several sectors and areas of government spending.** The measures will be designed with the aim to preserve the social safety net, and limit the impact of fiscal adjustment on growth. Each sectoral plan will set a target for budgetary gains to be realized through 2014, with the total amounting to 8 percent of GDP (and additional contingent measures defined as well). Each plan will be available in draft form by end-March (in some cases, more detailed plans may subsequently be produced). Each sectoral plan will be incorporated into the medium-term budget strategy paper.

- **State enterprises**. The plan will be managed by the Secretariat of State Owned Enterprises in the Ministry of Finance, in coordination with line ministries. It will aim to bring the efficiency of the state enterprises into line with well-run private companies and European peers. This will ensure better service to the public at lower cost to the budget. The plan will lay out, by enterprise: tariff increases, operating cost reductions, investment prioritizations, and wage, benefit, and employment adjustments to improve financial results. It will define needed changes in dividend payments and subsidy reductions to accrue savings to the budget. The plan will establish criteria to determine which of these enterprises are to remain in state hands, and anticipate revised state enterprise governance legislation to provide a stronger oversight framework for them. State enterprises defined under general government will be instructed to finalize their own detailed implementation plans by end-June; all other state enterprises will be instructed to finalize their plans by end-year. In both cases they will be instructed to use the overall plan as guidance.
- **Extrabudgetary funds** (other legal entities of the public sector and earmarked accounts)**.** The plan for extrabudgetary funds will be designed and implemented by a dedicated working group operating under the Ministry of Finance, coordinating with the Office of the Deputy Prime Minister. The plan will aim to

simplify the structure of the public sector and improve the flexibility of the budget. It will identify entities with overlapping mandates that can be merged, accounts that can be integrated into the budget, and other entities that can be privatized or closed (for outliving their mandate). It will also identify instances where operational costs are out of line with private sector comparators, and define restructuring plans. The plan will specify a two-year implementation timeline including entities and/or accounts to be closed or merged before end-2011, and those to be closed or merged before end-2012.

- **Tax policy reforms.** The tax plan will be managed by a working group established in the Ministry of Finance. It will aim to simplify the tax system, raise revenue in a progressive manner, and facilitate more effective tax administration, while supporting growth and investment. The government expects the business tax code, corporate taxation, tax exemptions, tax incentives, and capital income taxation to be among the principal areas of focus. A more detailed version of the plan will be articulated by end-May, to allow time to consult with tax experts. The plan will indicate the timeline for the stages of the reform. Implementing legislation for the first stage of the reform will be tabled in parliament by end-September.
- **The public wage bill.** The plan will be managed by a joint working group of the Ministries of Interior and Finance. A preliminary report on public compensation and employment, to be published by end-February, unveiled a complex system of wages and benefits, overall levels of compensation above private sector comparators, and significant misallocation of human resources. To reduce excess employment in the public sector, the plan will focus, among other things, attrition, tighter policies for contract workers, and vacant job post cancelations. The plan will identify ways to simplify the wage grid, including allowances. While reducing the wage bill, the plan will aim for some decompression of wages across grades and specialized career streams. The necessary legislative changes to enact the plan will be adopted by end-June 2011 (proposed as a program **structural benchmark.**
- **Public administration.** The plan in this area will be managed by a joint working group of the Ministries of Interior and Finance. The plan will aim to identify services and programs which can be rationalized (either due to private sector alternatives, or outmoded mandate); and to streamline public organizations to eliminate overlapping responsibilities. A more detailed version of the plan will be prepared by end-July (allowing time to take into full account the findings of the ongoing functional reviews of the central administration). This detailed version will set out an implementation timeline, including actions to be taken in the context of approval of the 2012 budgets
- **Social spending reform.** The plan in this area will be managed by a joint working group of the Ministries of Interior, Labor, Health and Finance. The plan will identify ways to streamline social programs to eliminate duplication and make them better targeted. A more detailed version of the plan will be prepared by end-July (allowing time to take into full account the findings of the ongoing functional review of social programs). This detailed version will set out an implementation

timeline, including actions to be taken in the context of approval of the 2012 budget.

- **Public investment.** The plan will be managed by a joint working group of the Ministries of Regional Development, Infrastructure, and Finance. The plan will prioritize projects, and estimate in each instance possible savings to the budget from rescheduling projects. On this basis the plan will identify projects which can be removed from the roster, with a view to rationalize overall spending while speeding execution of remaining projects to support growth. The plan will set out by end-June an implementation timeline, including actions to be taken in the context of approval of the 2012 budget.
- **Military spending.** The plan will be prepared by the Ministries of Defense and Finance (under the Government's Committee for Foreign and Defense Policy). It will cover military procurement and military operations spending, (with a view to durably contribute to fiscal consolidation while preserving national defense capabilities. The plan will set out an implementation timeline, including actions to be taken in the context of approval of the 2012 budget, and the medium term plan for military expenditures.

9. **The government is preparing for a next phase of social security reforms, during the latter half of 2011:**

- **Pensions**. Confirming the ambition of the first phase of the reform, the National Actuarial Authority's projections suggest that the July 2010 pension reform has gone a long way towards stabilizing spending of the main pension funds at the 2009 level (in relation to GDP). However, problems remain in the supplementary and welfare funds, and with pensions for arduous professions. The National Actuarial Authority is on track to complete an assessment of the main supplementary funds by end-March 2011 (**structural benchmark**). We will reform supplementary and welfare funds to eliminate imbalances in those funds with deficits; introduce a strict link between benefits and contributions to guarantee the sustainability of all funds, and reduce the number of existing funds. The government will also revise the list of heavy and arduous professions to reduce it to less than 10 percent of employees (current and future). To limit pension spending increases to less than 2½ percent of GDP by 2060, we remain prepared, if needed, to adjust further the parameters of the main pension funds. Reforms will be adopted by end-September 2011 and implemented beginning January 1, 2012, with the principal focus on the supplementary funds.
- **Health**. We are broadly on track with implementation of the measures underpinning the 2011 budget (e.g. cost-reducing reforms in hospitals, co-payments, and applying the extended negative list of non-reimbursable pharmaceutical products). Steps have also been taken towards the full computerization of the public hospitals. To help overcome delays in extending e-prescribing systems, we will launch a tender by end-April to implement a comprehensive and uniform health care e-prescribing system. Meanwhile, an independent task force has been appointed to map out an overall reform of the health system. It will produce an interim report by end-March, and a final report

by end-May 2011 defining policies and quantitative targets in specific areas, including service provision, pharmaceutical spending, financing and governance of the health system, and accounting and assessment systems. Using this report, the government will adopt a time-bound action plan by end-June 2011.

10. **The Ministry of Finance is moving forward with the implementation of comprehensive fiscal institutional reforms**:

- Concerning **revenue administration** reforms**:**
  - *The anti-tax evasion action plans are being implemented*. The five task forces started implementing these plans in January. The Ministry of Finance will publish and announce the anti-evasion plans in March, and subsequently publish monthly reports on the performance of these task forces, including a set of pre-defined progress indicators, beginning at end-March.
  - *Barriers to effective administration are being removed*. Legislation will be tabled in parliament (**prior action**) to: streamline the judicial appeal process and create an independent arbitration process; to create a new disciplinary body to accelerate investigations of misconduct in the revenue administration; strengthen the administrative tax dispute process and to remove a number of barriers to efficient tax collection (e.g. simplifying debt recovery and allowing installment payments, subject to strict controls on abuse, for taxpayers experiencing financial hardship).
  - To institutionalize and consolidate the results of the anti-evasion plan, we remain committed to articulate a strategic plan of medium-term reforms, and anticipate this will be done by end-June (proposed as a program **structural benchmark**). The plan will introduce a risk management framework and a large tax payer unit, and cover the re-building of the tax audit function.
- Regarding **public financial management** reforms:
  - *Initiatives to strengthen spending controls are progressing*. Commitment registers are in the process of being established in line ministries and in the main general government entities, and will provide consistent commitment and arrears data starting in March, with limited coverage gaps. We are providing training and technical assistance to various general government entities with the aim to complete the establishment process during the first quarter for all social security funds, and major local authorities. We remain committed to appointing, by end-March, accounting officers in all line ministries and main general government entities (with responsibility to ensure sound financial controls and proper reporting). A presidential decree will be issued specifying the qualifications and responsibilities of these officers, as well as the appointment procedures.
  - *Fiscal reporting is being improved.* ELSTAT has now concluded Memoranda of Understanding with 9 ministries and entities, with the aim to improve the compilation of ESA95 general government fiscal statistics. Concerning arrears reporting, we intend to finalize the December report by end-March, to allow extra time to ensure full coverage of both recurrent and investment spending, and across all line ministries, social security funds, public hospitals, extra budgetary funds, and the largest local governments. Beginning with end-March, we will publish monthly consolidated general government reports with revenue, expenditures and

intra-governmental transfers for each sub-sector of the general government. Publishing three consecutive months of consistent arrears and consolidated general government fiscal reports (excluding small general government entities) is proposed as a **structural benchmark** for end-June. To help ensure timely reports, we will adapt the incentives of agencies and ministries; in particular we will introduce automatic administrative and/or financial sanction mechanisms on institutions and/or responsible officers for delays in reporting.

- *Gaps in our budget framework will be addressed*. We will amend Law 2469/1997, by end-June 2011, to strengthen the existing legal framework requiring that legislative proposals carrying budget burdens be accompanied by an assessment by the Ministry of Finance. This assessment will provide an estimate of the budgetary cost, and either certify that costs are already covered in the budget, or in the event that costs go beyond budgeted amounts, that resources have been identified to pay these costs.

Asset and liability management

11. **The government remains focused on securing stronger market confidence and reducing the spreads on its debt.** The program remains fully financed. The disbursements by the euro-area Member States and the IMF are expected to almost fully cover Greece's gross financing needs during 2011, (amortization of medium and long-term debt, the cash deficit and full arrears clearance) and contribute significantly to financing needs in 2012. While timely and comprehensive implementation of the program remains key, we intend to scale up our privatization program to help reduce public debt, facilitate a more gradual return to bond markets, and provide an additional impetus to lower spreads.

12. **The government plans to notably scale up the privatization and real estate development program.** Besides the contribution to debt reduction, this will help to support higher investment and growth:

- A **comprehensive plan** through 2013 will be finalized, taking as a starting point the existing privatization plan for 2011-13 (covering, inter alia, the railroad sector, airports, post office, water companies, ports, and gaming companies); as well as the state enterprise restructuring plans (which will identify entities to be sold, as discussed above). As a key additional building block, we will complete by end-June a first inventory of commercially-viable public real estate, including an estimate in each instance of valuation. By end year we will extend this to other real estate that has commercial potential. The plan will target proceeds of about €15 billion until the end of the program, and we expect the pace of privatization and real estate development to pick up in the following years. It will provide a quarterly and semiannual schedule for transactions scheduled one-year and two years ahead respectively. An initial draft of the plan will be prepared by end-March and a final plan will be adopted by the Council of Ministers by end-July (proposed as a **structural benchmark**). We will consult with the European

Commission, ECB, and IMF staff on any new legislative initiatives regarding privatization.

- **Development and management of the government's real estate assets will be strengthened**. Building on the end-June inventory, the government will create a first portfolio of major real estate assets. A second will be created after the end-2011 inventory. These will become available for investment during the plan period. The government will appoint, by end-March external and financial advisors for the formation of these portfolios, and the structuring of the associated privatization transactions. Furthermore, the government will establish a General Secretariat of Real Estate Development under the Ministry of Finance as well as appropriate special investment vehicles, in order to improve coordination and accelerate the privatization and asset management program.

13. **We have mapped out the near-term contours of our debt issuance program**. The public debt management authority (PDMA) will concentrate on treasury bill issuance, where we have seen good demand. We will expand issuance to maturities of up to a year as demand permits. We also intend in 2011 to introduce a diaspora bond issuance program targeted at the Greek expatriate community.

Financial sector policies

14. **The financial system has remained stable, and the priority is to support banks' efforts to restructure in an orderly manner.** The banking system remains solvent. The challenge for the government and Bank of Greece will be to facilitate reduced dependency on Eurosystem liquidity over time while laying the basis for sustainable growth, and to ensure an effective capital safety net.

15. **Initiatives underway should help preserve sufficient system liquidity**. As a temporary measure, the government will put forward for legislative adoption a new tranche of government guarantees for uncovered bank bonds (proposed as a **structural benchmark** for end-March). The tranche will be in an amount of €30 billion, and the guarantee scheme will be subject to approval by decision of the European Commission. This additional liquidity should provide an adequate buffer to address liquidity issues potentially arising from continued market volatility. The tranche will be made available, on a bank-by-bank basis, conditioned on the adoption and implementation of medium-term funding plans by banks.

16. **The Bank of Greece has asked banks to devise and implement medium-term funding plans**. The plans will aim at reducing banks' reliance on Eurosystem refinancing operations and state guarantees over a medium-term horizon, at a pace consistent with the program's macroeconomic and fiscal framework. The plans will consist of institution-specific measures, pertaining, for instance, to the size and composition of balance sheets, capital structure, and operational efficiency. Preliminary drafts will be completed by mid-April. The Bank of Greece and the ECB, in close cooperation with the EC and IMF will assess the adequacy of these plans, which will be consistent with the EU/IMF Program (and with the restructuring/viability plans submitted by individual banks to the EC for

separate approval under the competition rules). Submission of these plans to the ECB and the Bank of Greece is proposed as a program **structural benchmark** for end-May 2011.

17. **The restructuring of state banks is moving forward.** For ATE, due diligence of the loan portfolio, performed by a reputable international accounting firm, has confirmed a capital need in the order of €300 to 400 million. The exact size of the capital increase will be finalized by end-February 2011, also based on a review by the BoG, and we will then proceed with all other necessary steps, including approval by the EC. We intend to meet the bulk of ATE's capital needs by relying on the surplus reserves of the HCLF, and are on track to unbundle the HCLF's commercial activities by end-March. We are also taking steps towards removing barriers to state bank restructuring, and by end-March 2011 expect to table legislative changes that will place all registered bank employees under the same private sector status, regardless of the bank ownership type. We are committed to consider the sale of our state bank holdings, as market conditions permit.

18. **We will continue to encourage private banks to raise capital and restructure as needed**. Through the sale of non-core assets, rights issues, and capital injections from foreign parents, private banks have generally been able to keep their capital ratios well above the regulatory minimum. Going forward we will continue to require banks to actively raise capital on their own as needs arise, and in this context will encourage them to explore strategic alliances with domestic and foreign banks. We will also support their efforts to restructure operations, including by taking steps to limit bonuses and eliminate the so called "balance sheet premium," or equivalent measures. For viable banks (as assessed through their business plans), the FSF will remain available as a capital backstop.

19. **The FSF is operating, and has sufficient funds for capital support**. The Board is in place, along with arrangements to second staff from the Bank of Greece and to retain external consultants. Hiring of an appropriate level of full time staff should be complete by end-June 2011. In terms of funding, beyond the €1½ billion available in its account at the Bank of Greece, another €1 billion will be made available in a separate dedicated government account to be set up by end-February 2011. The remainder of the €10 billion foreseen for the FSF will be deposited into the dedicated government account, beginning with a deposit of €1 billion during the second quarter of 2011. Amounts will be released to the FSF consistent with the need for bank capital determined by program reviews.

20. **Strong and effective supervision is of key importance**. In this context, the strengthening of banking supervision in terms of resources has not been commensurate with the rising needs, but we are intensifying our efforts to address this situation. In particular, the difficulty of hiring appropriately qualified staff has not yet been addressed, but we now expect the ongoing hiring program to be complete by end-June 2011. The Bank of Greece will continue to ensure prudential bank supervision and will continue to focus on and take actions aimed at preserving financial stability in Greece.

21. **Steps are being taken to strengthen the insurance sector.** The Bank of Greece took over insurance supervision as of December 2010, and has requested technical assistance from the IMF to strengthen this function. We will undertake a diagnostic assessment of insurance firms (including stress tests), and review the adequacy of existing policyholder protection schemes. This diagnostic work, to be completed by end-June, will inform a strategy to secure the sector, and in a manner that protects the government from financial commitments.

Structural reform policies

22. **The government remains committed to achieving enough progress with structural reforms to spark an investment and export led economic revival in 2011**. The scope of the work necessarily remains broad, covering labor market reforms, product and service market liberalization, and reforms to the business environment (to reduce the red tape holding up investment).

23. **Implementation of labor market reforms is underway**. Legislation covering arbitration and collective bargaining was passed in December. Concerning collective bargaining, in order to encourage greater wage flexibility, the government allowed for special firm-level collective agreements. These were subject to some conditions, including the non-binding evaluation by the Labor Inspectorate (gathering representatives of the government, social partners, and local authorities), and consent by sectoral unions in small firms. The government will closely monitor the implementation of this reform and underscore the right of social partners at the firm level to utilize special firm level agreements, as well as reaffirm the nonbinding nature of the Labor Inspectorate assessments. The government is prepared to amend the legislation by end-July if it proves necessary to support greater firm-level wage flexibility.

24. **Restricted professions are on track to be liberalized in 2011**:

- A framework law will be passed by end-February (a **prior action** for the review):
    - ➢ The law will remove various restrictions to competition in regulated professions. These restrictions will include those related to quantity, geography, scale, incorporation, prices, number of licenses, and prior conditions for licenses. Following the passage of the legislation a 4 month period will be provided to define exceptions to this general liberalization. These will abide by the principles of non-discrimination, necessity and proportionality, and will be subject to approval by the Council of State and an assessment of economic rationale. The Ministry of Finance will produce a report evaluating implementation by end-September 2011.
    - ➢ The law will also address specific closed professions (lawyers, notaries, engineers, architects, and auditors). Key changes will include: (i) for notaries, a substantial reduction of fees (through a regressive scale) and free negotiation of prices for high-value transactions; (ii) for lawyers, elimination of minimum prices (except for justified cases such as legal aid); (iii) for engineers and architects, elimination of minimum fees; and (iv) for auditors, a two-year sunset clause for the regulation of working hours (minimum-per-audit and maximum-per-year working hours).

- A separate law, also to be legislated by end-February, will address the closed pharmacist profession. It will permit incorporation, increase operating hours, reduce fixed profit margins, and reduce the minimum population criterion for opening new pharmacies.
- To minimize any ambiguity in this reform, the Ministry of Finance will address a circular to competent ministries in order to list the professions subject to liberalization principles and requesting that Ministries take all necessary administrative steps to implement the law within 4 months.

25. **We will also undertake some industry-specific liberalization during 2011.** Reports analyzing reforms in the tourism and retail trade sectors and their potential contribution to employment, growth and disinflation, remain under preparation. The diagnostic work has been completed, and we anticipate that recommendations and time-bound action plans will be available by end-April. Beyond these key industries another important focus will be the liberalization of the energy sector, including: (i) competitive access to lignite fired generation capacity; (ii) the gradual deregulation of tariffs; (iii) the unbundling of transmission and distribution from generation; and (iv) a plan awarding hydro management to an independent body.

26. **Key business environment reforms recently legislated are being implemented, while we prepare new initiatives for later in the year**:

- **Parliament will in March approve a new law for the competition authority, and new licensing laws**. The competition law will aim to increase the efficiency and effectiveness of the competition authority; strengthen the independence and continuity of its Board; maintain its financial capacity, and reinforce its governance and accountability. The licensing law will set a deadline for issuing necessary opinions (with a non-response to provide for tacit agreement) and a deadline for granting licenses. The companion law covering environmental permits will set a deadline for issuing necessary opinions (with a non-response to provide for tacit agreement, without prejudice to other environmental legislation); and a deadline for granting permits. It will also provide for a reclassification of environmental impact categories in line with EU average practices, and for coordination of licensing procedures by electronic means.
- **We are working to implement these and earlier laws.** To operationalize the licensing law, we will issue the necessary presidential decrees (by end-June). To complete the preparations for one-stop shops, we will complete the data migration from the Chambers to the General Commercial Registry, and issue all Ministerial decisions required by the law by end-March. To set in motion the framework for approvals of large investment projects, we will issue the necessary ministerial decisions and transfer experts in the evaluation of projects from other public entities by end-June. We intend to issue a report by end-June covering the status of implementation of all business environment reforms.
- **A number of additional reforms should be finalized during 2011**. We will amend legislation to remove administrative burdens on exports by end-September; accelerate progress towards a well-functioning land registry; and minimize legal

and administrative impediments to the implementation of public works and investment projects. We will also adopt legislation by end-March to establish a Single Public Procurement Authority with the mandate to issue opinions on new legislation affecting public procurement; draft standardized tender documents of a binding nature; and perform effective control functions.

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

	2010			2011				Medium Term 5/	
	Dec-10			Mar-11	Jun-11	Sep-11	Dec-11	Dec-12	Dec-13
	Progr. 1/	Adjusted Progr. 1/ 7/	Act.	Progr. 2/	Progr. 2/	Progr. 2/	Progr. 2/	Progr. 3/	Progr. 4/
Performance Criteria (unless otherwise indicated)									
1. Floor on the modified general government primary cash balance	-5.7	-5.7	-5.5	-2.0	-4.3	-4.0	-3.2	2.4	7.4
2. Ceiling on State Budget primary spending	67	67	61	15	30	45	63	68	69
3. Ceiling on the overall stock of central government debt	342	366	340	394	394	394	394	..	..
4. Ceiling on the new guarantees granted by the central government	2.0	2.0	1.3	1.0	1.0	1.0	1.0	0.0	0.0
5. Ceiling on the accumulation of new external payments arrears on external debt contracted or guaranteed by general government 6/	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	0.0	0.0	[3.0]	0.0	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/ Indicative targets.
6/ Applies on a continuous basis from January 1, 2010 onward.
7/ Adjustor for upward revision to end-2009 stock of central government debt.

Table 2 Greece: Structural Conditionality

Measures	Macrocritical relevance	Status
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.	Partially observed (with delay). A report was completed in January and published in February, that covered part of the general government.
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.	Partially observed (with delay). MoUs between key data-providing institutions and ELSTAT have been drafted and have been signed. The regulation now must be apporved by ELSTAT
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.	Observed
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.	Observed
Prior actions:		
1. Table 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). (Structural becnhamrk for end-February)	Removes legal and administrative impediments to tax collection.	Expected to be observed.
2. Pass a framework law removing restrictions to competition in regulated professions (as defined in the EU Services Directive), addressing specific closed professions (lawyers, notaries, engineers, architects, and auditors)	Liberalizes services sector with the aim to strengthen competition and improve efficiency.	Expected to be observed.
End-March structural benchmarks		
2. Appointment of financial accounting officers in all line ministries and major general government entities (with the responsibility to ensure sound financial controls).	Improves control and transparency of budget expenditures.	
3. Pass legislation to separate the core consignment activity from the commercial activities of the HCLF.	Fosters banking sector stability.	
4. The National Actuarial Authority to produce a report for the main supplementary funds 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.	
End-April structural benchmarks		
5. 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.	Supports fiscal consolidation.	
Proposed new structural conditionality		
6. Government to put forward for legislative adoption a new tranche of government guarantees for uncovered bank bonds (end-March 2011).	Assures sufficient banking system liquidity.	
7. Commercial banks to submit medium-term funding plans to the ECB and the Bank of Greece (end-May 2011)	Aims at reducing banks' reliance on Eurosystem refinancing operations and state guarantees over the medium term.	
8. Articulate a strategic plan of medium-term revenue administration reforms to fight tax evasion (end-June 2011).	Institutionalizes and consolidates the results of the anti-evasion plan.	
9. Publish three consecutive months of consistent arrears and consolidated general government fiscal reports (excluding small local governments) (end-June 2011).	Supports measures to reduce arrears across general government.	
10. Adopt the necessary changes to enact the plan to reform the general government personnel system (end-June 2011)	Supports the medium term fiscal adjustment plan.	
11. The Council of Ministers to adopt a comprehensive privatization plan through 2015 (end-July, 2011).	Upscaled privatization program to contribute to debt reduction and to support higher investment and growth.	

GREECE

Memorandum of Understanding
on
Specific Economic Policy Conditionality

(third update)

23 February 2011

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 Council Decision 2010/320/EU of 10 May 2010 (as amended), the MEFP and in this Memorandum. These criteria have been updated and further specified during the February 2011 review.

Annex 1 on data provision is part of the Memorandum and how well it has been respected 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. They will also provide them with all requested information for monitoring progress during program's implementation. Government provides a quarterly report in line with Article 4 of Council Decision 2010/320/EU.

1. 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 extrabudgetary funds, the public investment budget, social security funds and hospitals, local governments and public enterprises, and effective tax collection, to secure the attainment of the programme quantitative criteria (Article 1 (2 and 3) of Council Decision 2010/320/EU, as amended, and Table 2 of the MEFP).

The Ministry of Finance releases 1/14 of the annual budgetary appropriation (excluding wages, pensions and interest) per month to each ministry. 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 payment arrears accumulated in 2010 and reduces those of previous years.

Medium-term budgetary planning

Government prepares a medium-term budgetary strategy paper which identifies permanent fiscal consolidation measures of at least 8 percent of GDP, (some of which have already been identified in May 2010), plus a contingency reserve that will ensure the achievement of deficit targets up to 2014, and that the debt-to-GDP ratio is put on a sustainable downward path.

The strategy paper will be published for public consultation before end-March, adopted by the Council of Ministers by mid-April and voted by Parliament by mid-May. It will be the basis for preparing the 2012 budget.

The medium-term strategy paper includes, in particular:

- prudent macroeconomic forecasts;
- baseline revenue and expenditure projections for the state and for the other government entities;
- a description of permanent fiscal measures, their timing and quantification;
- annual spending ceilings for each ministry and fiscal targets for other government entities through 2014;
- post-measures fiscal projections for general government in line with the deficit and debt targets;
- longer-term debt projections based on prudent macroeconomic projections, stable primary surpluses from 2014 on, and privatisation plans.

The medium-term strategy will be articulated with the ongoing healthcare and pension reforms and with specific sectoral plans. The sectoral plans (draft plans to be available by end-March), will cover in particular:

- state-owned enterprises;
- extrabudgetary funds (legal entities of the public sector and earmarked accounts);
- tax policy reforms;
- public wage bill;
- public administration;
- social spending;
- public investment and
- military spending.

Each sectoral plan will be managed by interministerial taskforces to be appointed by end February.

ii. Structural fiscal reforms

Revenue administration reforms

Government launches an anti-tax 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 starts publishing monthly reports of the five anti-tax evasion taskforces, including a set of progress indicators.

Public financial management reforms

To strengthen expenditure control, Government

- adopts an act specifying the qualification and responsibilities of accounting officers to be appointed in all line ministries and major government entities with the responsibility to ensure sound financial controls;
- appoints financial accounting officers;
- accelerates the process of establishing commitment registries. It will make operational registries covering the whole general government (except the smallest entities).

Public sector wages and human resource management

Government presents a detailed action plan with a timeline to complete and implement the simplified remuneration system. This plan will be based on the results of the report published by the Ministry of Finance and the Single Payment Authority.

Government prepares a medium-term human resource plan for the period up to 2014 in line with the rule of 1 recruitment for 5 exits.[1] The plan will include tighter rules for temporary staff, cancellation of vacant job post and reallocation of qualified staff to priority areas.

Government starts publishing monthly data on staff movements (entries, exits, transfers among entities) of the several government departments.

To complete the pension reform

The National Actuarial Authority (NAA) 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 staff. The projections shall encompass the main supplementary (auxiliary) schemes, based on comprehensive set of data collected and elaborated by the NAA.

Asset management

Government starts compiling the inventory of state-owned assets, including stakes in quoted and non-quoted enterprises, and commercially viable real estate and land. Government provides an interim report – including a first list of assets – and describes steps taken to ensure that the first part of the inventory will be ready by June 2011.

Government appoints financial advisors for the formation of real estate and land portfolios, and the structuring of the associated privatisation transactions.

Proceeds from privatisation are to be used to redeem debt and do not substitute fiscal consolidation efforts.

Fighting waste in public enterprises

With the aim of fighting waste and mismanagement in state-owned companies, Government adopted an act by end 2010 that:

- Cuts primary remuneration in public enterprises by at least 10 percent at company level (applicable from January 2011 on);
- Limits secondary remuneration to 10 percent of primary remuneration at company level (applicable from January 2011 on);
- Establishes a ceiling for gross earnings of EUR 4 000 per month (12 payments per year) (applicable from January 2011 on);
- Increases urban transport tariffs by at least 30 percent;
- Establishes actions that reduce operating expenditure in public companies between 15 to 25 percent, according to the specific needs of enterprises.

[1] This rule is without sectoral exceptions; it also applies to staff transferred from public enterprises to other government entities.

These measures should be immediately effective and yield annual fiscal savings of at least EUR 800 million compared to 2010.

Government publishes an action plan for restructuring state-owned enterprises and other public entities leading to the closure of non-viable enterprises and extra-budgetary funds that have outlived their original purpose.

In particular, Government adopts and starts implementing a legal act and a business plan for the restructuring of the Athens transport network (OASA). The objective is to make the company economically viable. 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 tariff increases. It includes a fiscal impact analysis and sensitivity analysis and includes monitoring and enforcement mechanisms (including performance indicators and predefining correcting mechanisms in case of deviation from the plan). The required legal act is adopted by end February 2011, while restructuring starts to be effective by end March 2011.

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

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.

When restructuring state-owned enterprises, or preparing them for privatisation, specific attention will be given to timely clear state aid issues.

Local administration

Government monitors the implementation of the recently adopted acts on the restructuring of local government, the no-deficit rule (at least until 2014) and the transfers paid to local government. It continues the implementation of legislation reforming public administration and reorganising local government with the aim of reducing costs and increasing revenue by at least EUR 1 500 million in 2013, of which at least EUR 500 million in 2011 and additional EUR 500 million in 2012.

To modernise the health care system

Building on important reforms already undertaken over the recent months, in particular the move towards the integration of the primary healthcare, changes in the supplies system and progress in hospital computerisation, Government continues to implement the comprehensive reform of the health care system started in 2010 with the objective of keeping public health expenditure at or below 6 percent of GDP, while maintaining universal access and improving the quality of care delivery.

Government has taken measures yielding savings on pharmaceuticals of at least EUR 2 billion relative to the 2010 level, of which at least EUR 1 billion in 2011. This will bring average public spending on outpatient pharmaceuticals to about 1 percent of GDP (in line with the EU average) by end 2012.

More specifically, the following measures are implemented by end March 2011:

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;
- 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 takes all necessary measures in order to extend in a cost-effective way the e-prescribing of medicines, diagnostics and doctors' referrals to all social security funds, health centres and hospitals. To this extent, in compliance with EU procurement rules, Government speeds up and finalises the necessary tendering procedures to implement a comprehensive and uniform health care information system (e-health system).

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, Ministry of Finance and ELSTAT. 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

Government (Ministry of Health) completes the programme of hospital computerisation. In particular, building on the web-based platform esy.net, it finalises the process of centralisation of information. The Ministry of Health creates a dedicated service/unit to collect and scrutinise data and produce monthly and annual reports. A copy of these reports is transmitted to the competent authority in the Ministry of Finance. Government takes measures to ensure the integration and consolidation of hospitals' IT systems.

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 (EKEVYL) 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 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 with price below that of similar branded products 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;
- under the new law, reduced 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.
- reduces the profit margin of wholesale companies distributing pharmaceuticals by at least one third.
- updates and publishes the complete price list for the medicines in the market, using the new pricing mechanism. Continue to regularly update it on a quarterly basis;
- lifts the caps to the price reductions used when the price list was first introduced.

Prescribing and monitoring

Government
- publishes the prescription guidelines for physicians defined by EOF on the basis of international prescription guidelines;
- publishes the new positive list of reimbursed medicines using the new reference price system developed by EOF.

Accounting and control

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

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 with initial indications on the necessary revisions to the policies implemented recently and the improvements for the years to come. To accomplish this, the taskforce has access to all necessary information on health-related issues from the relevant ministries and government agencies and health funds upon request and through dedicated fact-finding meetings. It receives adequate administrative support.

iii. Financial sector regulation and supervision

Government transfers, by end February, EUR 1 000 million to a dedicated government account opened by the General Accounting Office. Funds from this account are regularly released to the Hellenic Financial Stability Fund to ensure the latter keeps a cash balance of EUR 1 500 million and 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 puts forward for parliamentary adoption a new tranche of government guarantees for uncovered bank bonds. This tranche will amount to EUR 30 billion. The guarantee tranche is subject to approval by the European Commission.

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

FSF is adequately staffed.

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

To support banks in their effort to restructure operations, Government takes steps to limit bonuses and to eliminate the so called 'balance-sheet premium,' or other equivalent measures.

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 legislation on fixed-term contracts and on working-time management.

Government simplifies the procedure for the creation of firm-level trade unions.

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 European Commission in November 2010. Government transmitted the draft law to the Commission for review and an assessment of compliance with the Action Plan.

Government launches the development of an e-procurement IT platform and sets intermediate milestones in line with the Action Plan. This includes: testing a pilot version, availability of all functionalities for all contracts and phasing-in of the mandatory use of e-procurement system for supplies, services and works contracts.

Better Regulation

Government adopts 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.

To improve the business environment and enhance competition in open markets

Restricted professions

Government adopts legislation to remove unjustified or disproportionate 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 notary profession, to reduce fixed tariffs and increase the number of notaries;
- the pharmacy profession, to permit incorporation, increase operating hours and reduce the minimum population criterion for opening new pharmacies; (voted in February);
- architects and engineers, covering fixed minimum tariffs;

– auditing services, covering fixed tariffs, minimum hours per case and maximum annual working hours.[2]

It publishes the opinion of the Hellenic Competition Commission on this legislation.

Government screens the statutes of the professional chambers to identify rules on access to, and exercise of, the profession, and on pricing, that are against the new law on restricted professions and EU law. The necessary changes to these statutes are adopted by June.

Government takes measures ensuring that providers of services are not subject to requirements which oblige them to exercise a given specific activity exclusively, or which restrict the exercise jointly or in partnership of different activities, except in the circumstances and under the conditions set in the Services Directive.

Government takes measures to remove complete prohibitions on commercial communications by the regulated professions and to ensure that professional rules on commercial communications are non-discriminatory, justified by an overriding reason relating to the public interest and proportionate.

Recognition of professional qualifications

Government continues to take all necessary measures to ensure the effective implementation of EU rules on recognition of professional qualifications, including compliance with ECJ rulings (*inter alia*, related to franchised diplomas). It updates information on the number of pending applications for recognition of professional qualifications, and sends it to the Commission.[3]

Sectoral growth drivers

Government publishes 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 publishes 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.

Competition policy

Government finalises the adoption of a law modifying the existing institutional framework of the Hellenic Competition Commission (HCC). It ensures the

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[2] Government establishes a two-year sunset clause for minimum and maximum working hours.

[3] This information specifies since when applications are pending, number of applications per profession, nature of diploma (franchised or not) and a timetable for dealing with pending applications, and includes decisions on the recognition of franchised diplomas.

HCC's independence, effectiveness and accountability, and warrants continuity in the operation of the HCC board. The new law abolishes the notification system for all agreements falling within the scope of Article 1 of Law 703/1977, grants the HCC the power to reject complaints and to prioritize cases effectively and establishes reasonable deadlines for the investigation and issuance of decisions.

Investment and licensing laws

Government adopts all presidential decrees and ministerial decisions necessary for the implementation of the law on aid for private investment to promote economic growth, entrepreneurship and regional cohesion, and ensures accordance with the fiscal consolidation requirements

Government ensures the acceleration of the environmental licensing by committing the authorising authority to proceed with the approval procedure after a specified time period.

Commercial and land registry

Government makes General Commercial Registry (GEMI) and one-stop shops for business start-ups operational.

Government provides sufficient resources for accelerating the completion of the land registry, with a view to tendering cadastral projects for additional 4 million rights by December 2011, completing the works for the large urban centres by 2015 and completing the overall project by 2020.

Business-friendly Greece

Government starts implementing the measures identified by the action plan for a business-friendly Greece according to the timetable for the removal of the 30 most important remaining restrictions to business activity, investment and innovation.

Export and R&D promotion

Government pursues an up-to-date and in-depth evaluation of all R&D and ongoing innovation actions, including in various operational programmes, and presents an action plan for policies aimed at enhancing the quality and the synergies between public and private R&D and innovation, as well as tertiary education. This action plan identifies a clear timetable for relevant measures to be taken, taking the budgetary impact into account and harmonising these actions with other relevant initiatives in these areas (in particular the investment law).

Government finalises the creation of 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 presents an action plan with a view to abolishing the requirement of registration with the exporter's registry of the chamber of commerce for obtaining a certificate of origin by September 2011.

Services directive

Government ensures that the point of single contact (PSC) distinguishes between procedures applicable to service providers established in Greece and those applicable to cross-border providers (in particular for the regulated professions).[4]

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 as well as in food and beverage services, services of the regulated professions – including the recognition of professional qualifications –, real estate services, and business services.

Government completes the adoption of changes to existing (sectoral) legislation in key services sectors such as tourism, retail and private education services. New acts 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 Law 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.

Energy

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

Government presents detailed plans for ensuring a maximum market opening as regards the non-interconnected system.

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

Government commences implementation of its commitment to award the hydro reserves management to an independent body.

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, ensuring timely management appointments, and adopts necessary legislation to ensure the creation of fully unbundled electricity and gas transmission system operators by March 2012.
- Government ensures the creation and effective operation of an independent Distribution System Operator, in line with the second and third energy liberalisation packages.

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 on education policy with the purpose of indicating specific policy measures aimed at increasing the efficiency and effectiveness of the public education system (primary, secondary and higher education) and reach a more efficient use of resources.

To raise the absorption rates of structural and cohesion funds

Government adopts legislation to shorten deadlines and simplify procedures on contract award and land expropriations (including the deadlines needed for the relevant legal proceedings).

Government carries out an evaluation the time-saving effects of the legislation

- on contract awards and land expropriation,
- on permits by the Central Archaeological Council in Athens,
- on environmental licensing (see below 'business environment').

Government submits a timetable for the preparation, selection and implementation of different types of projects (including scenarios of legal proceedings), derived from the above legislation. The timetable will serve as a benchmark for monitoring of projects.

2. 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.

The Council of Ministers adopts the medium-term budgetary strategy paper by end April, to be voted by Parliament by mid-May.

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 (including welfare funds and lump-sum schemes). 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 reduction in the number of existing funds;
- the elimination of imbalances in those funds with deficits;
- the stabilisation of the current spending at sustainable level, 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, including lump sums at retirement) increase of public sector pension spending, over the period 2009-60, 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, even after the reforms of the supplementary schemes, the projected increase in the total 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 employment. The new list of Difficult and Hazardous Occupations (Law 3863/2010) 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.

Military spending

The new National Medium-Term Military Procurement Programme, 2011-25, which is expected to be adopted by May 2011, plans a reduction in military expenditure that durably contributes to fiscal consolidation, without prejudice to national defence capability.

Asset management

Government publishes an inventory of state-owned assets, including stakes in listed and non-listed enterprises and commercially viable real estate and land. It also provides estimated values of these assets. The inventory will continue to be updated until end-year to ensure it is comprehensive.

Government establishes a General Secretariat of Real Estate Development in order to improve coordination and accelerate the privatisation and asset management program and takes appropriate steps to the creation of special investment vehicles,

On the basis of this inventory, privatisation plans are revised and accelerated targeting total proceeds of at least EUR 15 billion during the programme period. The pace of privatisation and real estate development is expected to pick up further in the following years.

Government privatises its stake in Casino Mont Parnes and extends the concession of the Athens International Airport.

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 with similar active substance.

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 mobility of healthcare staff (including doctors) within and across health regions.

The independent task force of health policy experts created at the end- 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 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 ratio to 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

Internal controllers are assigned to all major hospitals.

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. ELSTAT starts providing data in line with the System of Health National (joint questionnaire collection exercise).

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

By end-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 month (see Annex 1).

Wages and human resource management in the health care sector

The Ministry of Health and the Ministry of Labour, in cooperation with the Ministry of Finance prepare a regular annual report (the first one to be published by end-May 2011), on the structure and levels of remuneration (including fees provisions to consultants and doctors) and the volume and dynamics of employment in the hospitals, health centres, and health funds. The report will present plans for the allocation of human resources for the period up to 2013. It specifies any plan to reallocate qualified and support staff within the NHS and health funds.

iii. Financial sector regulation and supervision

Government transfers EUR 1 000 million to a dedicated government account opened by the General Accounting Office. Funds from this account are regularly released to the Hellenic Financial Stability Fund to ensure the latter keeps a cash balance of EUR 1 500 million and 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.

The capital increase of ATE is completed.

FSF is fully staffed.

Bank of Greece hires qualified staff to be able to strengthening banking supervision.

Bank of Greece undertakes a diagnostic assessment of insurance firms.

iv. 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.

Government undertakes a review identifying areas to increase the efficiency of the public procurement system on all outside the Single Public Procurement Authority, as specified in the Action Plan. The review includes conclusions and actions in agreement with the European Commission.

Restricted professions

Government takes measures on commercial communications by the regulated professions and on multidisciplinary activities, in accordance with the Services Directive.

Government adopts all presidential decrees necessary for the implementation of the law on fast-track licensing procedure for technical professions, manufacturing activities and business parks.

Recognition of professional qualifications

Government removes prohibitions to ensure that holders of franchised diplomas from other Member States have the right to work in Greece under the same conditions as holders of Greek degrees.

To upgrade the education system

The independent taskforce on education publishes a detailed blueprint for improvement of the efficiency and effectiveness in the use of resources in the public education system. This blueprint includes concrete policy recommendations that the Ministry of Education takes into account for implementation.

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 improve the business environment and enhance competition in open markets

Services Directive

Government adopts legislation on the services sectors of agriculture, transport, employment, technical services, sanitary facilities, welfare, wholesale and other priority identified in the Q4-2010 progress report. Government specifies, for any remaining sectors, a timetable for adopting sectoral legislation by end-2011 that ensures full compliance with the requirements of the Services Directive.

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.

Business environment

Government adopts legislation to simplify and shorten procedures to complete studies on environmental impact and to get the approval of environmental terms with a view to reducing the number of projects subject to environmental licensing and the duration of approval procedures to EU average levels.

Government implements an action plan to abolish the requirement of registration with the exporter's registry of the chamber of commerce for obtaining a certificate of origin.

Government reviews and codifies the legislative framework of exports (i.e., Law 936/70 and Law Order 3999/59), simplifies the process to clear customs for exports and imports and gives larger companies or industrial areas the possibility to be certified to clear cargo for the customs themselves.

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 the table below. Compliance with the targets shall be measured by certified data. In addition, Government achieves a semi-annual target of submitting 5 major project applications to the Commission. It provides data on expenditure for non-targeted *de minimis* state aid measures declared to the Commission in 2010.

Government adopts and implements the appropriate acts to ensure the smooth and timely implementation of structural-fund programmes in the framework of the recent local administration reform.

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	*target:* 2 330.0 *outcome:* 2 372.4	2 600	2 850	3 000
European Social Fund	*target:* 420.0 *outcome:* 447.6	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	*target:* **2 750** *outcome* **2 820**	**3 350**	**3 730**	**3 890**

3. 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 comply with the budgetary targets.

Government adopts an act to equalise the taxation of heating oil – to be applicable from 15 October 2011 on – with the aim of fighting fraud and yielding at least EUR 400 million in 2011, with a carry-over of EUR 320 million in 2012, net of specific measure to protect the less prosperous population strata.

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 (these measures and their yield will be revisited during the fourth review taking into account the medium-term fiscal strategy):

- Reduce public employment on top of the rule of 1 recruitment for each 5 exits in the public sector;[5] 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, contributing by at least EUR 500 million in savings to the reduction of the general government deficit;
- Nominal freeze in pensions yielding savings of at least EUR 250 million;
- Continue to increase the effectiveness of the presumptive taxation of professionals, with the aim of collecting at least additional EUR 100 million;
- Reduction of current and capital 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-financed spending in investment by at least EUR 500 million compared to the actual 2011 level, while increasing revenue by

[5] The rule also applies to staff transferred from public enterprises under restructuring to government entities.

giving priority to investment projects financed by EU structural and cohesion funds.

ii. Fiscal structural reforms

Tax reform

Government tables legislation to simplify the tax system, raise revenue in a progressive manner and facilitate more effective tax administration.

Asset management

Building on the inventory of commercial state-owned real-estate assets (to be published by June) Government elaborates a medium-term plan to divest state assets, revises the privatisation receipts planned for 2011-13 and extends the plan through 2015.

Government privatises Hellenic Defense Systems and the State Lottery Tickets.

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 strengthen labour market institutions

Government promotes, monitors and assesses the implementation of the new special firm-level collective agreements. It ensures that there is no formal or effective impediment to these agreements and that they contribute to align wage developments with productivity developments at firm level, thereby promoting competitiveness and creating and preserving jobs. It provides a report on its assessment. Any necessary amendment to the law on sectoral collective bargaining is adopted before end-July 2011.

To modernise public administration

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

Public procurement

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 and strengthen competition in open markets

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.

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.

Government abolishes the requirement of registration with the exporter's registry of the chamber of commerce for obtaining a certificate of origin.

Restricted professions

In the implementation of the new law on the opening of restricted professions, Government promptly adopts the necessary decrees, administrative orders or circulars. Restrictions to be reinstated should consider public interest, the need to promote competition and takes into account international best practice. Government consults widely before the adoption of these restrictions.

Government publishes a report on the implementation of the legislation on regulated professions with a view to assessing whether further measures are needed.

Services Directive

Government ensures that the PSC (point of single contact) 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 prepares, and starts implementing, an action plan for the improvement of the effectiveness and efficiency of the education system taking into account the measures recommended by the independent taskforce.

To raise the absorption rates of structural and cohesion funds

Government launches an internal pilot web-based monitoring tool of procedures for approval of project proposals and for implementation of public projects.

4. 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 and other quantitative performance criteria.

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

Asset management
Government publishes the second part of the state's assets inventory.

Government privatises DEPA, LARKO, TRAINOSE (at least 49 percent, including shares management with the new shareholders), and sells concession SPVs in relation to the Egnatia motorway and accelerates the divestment of |public real estate.

To modernise the health care system

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

The independent taskforce 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 improve the business environment and 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).

To upgrade the education system

Government starts publishing a bi-annual progress report on the implementation of the law on quality assurance in primary, secondary and higher education.

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. In addition, Government submits 5 additional major project applications to the Commission, in view of achieving an annual target of submitting 10 major projects. In meeting absorption rate targets, recourse to non-targeted *de minimis* state aid measures should be gradually reduced. Government provides data on expenditure for non-targeted de minimis state aid measures co-financed by the structural funds.

Government introduces the fully-operational 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 2007-13 has been certified 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.

Government provides an impact assessment of legislative measures since 2010 to accelerate the absorption of structural and cohesion funds adopted since May, and indicates any further measures.

5. Actions for the eight review (actions to be completed by end Q1-2012)

i. Fiscal consolidation

Government rigorously implements the budget for 2012 in line with this Memorandum, and Council Decision 2010/320/EU.

ii. Structural fiscal reforms

To complete the pension reform

Government implements the reform of the secondary/supplementary pension schemes, by merging funds and 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 in funds with deficits, 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 deficits. All funds set up a computerised system of individual pension accounts.

To modernise the health care system

Pricing of medicines

Starting from 2012, pharmacies profit margins should be calculated as a flat amount or flat fee combined with a small profit margin with the aim of reducing the overall profit margin to no more than 15 percent.

Accounting and control

Social security funds start publishing an annual report on medicine prescription. Individual prescription reports are regularly (at least annually) fed back to each physician. The annual report and the individual prescription reports look at prescription behaviour with particular reference to the most costly and most used medicines.

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).
Monthly data on staff: number of employees, entries, exits, transfers among government entities; per ministry.	Monthly, 30 days after the end of each month (starting in March

	2011).
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)*	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 data from the several line ministries)*	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 on maturing debt (planned redemptions per month, split between short- and long-term debt. Data on planned monthly interest outflows. *(Data compiled by the Ministry of Finance)*	Monthly, within one month.

Data on public enterprises: revenue, costs, payroll, number of employees and liabilities (including maturities of public enterprises' debts) *(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. Quarterly for the maturities of public enterprises' liabilities.
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 statement of the operations on the special accounts. *(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. Starting 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 monetary balance sheet of credit institutions.	Monthly, 30 days after the end of each month.
Evolution of the external funding provided by Greek banks to their subsidiaries abroad.[6]	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 assessment exercise.	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.

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

GREECE: TECHNICAL MEMORANDUM OF UNDERSTANDING

February 22, 2011

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. This includes ETERPS
    - The following state enterprises and organizations 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, 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.

III. 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 of arrears will reflect all arrears outstanding, irrespective of the time period in which the unpaid commitments were entered into. 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 Democracy, 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, and are expected to be based on the data from the commitment registers.
- **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. The stock of arrears will reflect all arrears outstanding, irrespective of the time period in which the unpaid commitments were entered into, but will exclude the 5.34 billion hospital arrears to pharmaceutical companies which were incurred by end-2009 to the extent these are still outstanding. 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, and are expected to be based on data from the commitment registers.

- **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; purchases of troubled assets; and operations related to the FSF. 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. 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. 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, debts of extra-budgetary funds, and other ESA 95 adjustments.

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**. 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.

IV. 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.

24. **Public financial management reforms**. The authorities will publish (i) monthly reports on arrears of the general government using data from commitment registers; and (ii) monthly consolidated general government reports with revenue, expenditures and intra-governmental transfers for each sub-sector of the general government. For the purposes of the benchmark, the reports will begin with end March 2011 data. The reports will include both ordinary and investment budget arrears across all line ministries, public hospitals, and the largest social security funds, extra-budgetary funds and local governments, with the latter defined as follows.

- The “largest” social security funds will cover at least the top 50 funds in terms of spending as from ELSTAT reporting.
- The “largest” extra-budgetary funds will cover 80 percent of existing extra budgetary funds, including at least all public enterprises classified under the general government, ETERPS, and the top 100 entities in terms of expenses as from ELSTAT reporting.
- The largest local governments will be defined to include at least the 100 largest local authorities in terms of population out of the 324 authorities as defined under the “kallikrates” law.

To meet the benchmark, 3 consecutive months of reports will need to be published.