

Note on the Economic Policy Programme relating to the Eurogroup and the IMF support mechanism

May 2nd, 2010

Greece's economic policy programme deal is practically bringing to completion the procedures under way from the day the Prime Minister asked for the activation of the support mechanism up until the launch of the funding programme.

Through this programme, our country will be able to secure the greatest part of loan capital it is going to need for the next three years.

Funding is an inextricable element of the economic policy programme, which will be monitored quarterly. Progress made in policy implementation and in the attainment of objectives will be the criterion for the smooth continuation of the funding programme. The programme includes fiscal adjustment measures and structural measures for the state and for the economy.

In 2009:

- Public expenditure was 120 billion euros, i.e. more than 50% of GDP.
- Income was less than 90 billion euros, i.e. less than 37% of GDP, and 10 billion euros less than the 2008 income.
- The deficit went beyond 30 billion euros, and an additional amount of more than 30 billion euros was necessary in order to refinance the public deficit.
- The public debt reached 300 billion euros, and was in the process of skyrocketing because of the big primary deficits and the increasing interest payments.
- The economy is in recession. In 2009 the nominal income decreased by 2 billion euros for the first time. The real growth rate was -2% with a double-digit current account balance and trade balance deficit, despite the slowing down and the recession of the economy. Inflation ran relatively high despite the decrease in consumption and economic activity.

The fundamentals

According to the economic programme, the fiscal effort will be of the order of 11 GDP points or approximately 30 billion euros within three years (up to 2013), in addition to that which already forms part of the 2010 economic programme.

According to the macroeconomic scenario, the 2010 recession will be 4% and positive growth rates are expected from 2011 onwards.

Regarding the 2009 deficit of 13.6% and the prospects of the economy:

- In 2010, the overall fiscal effort is almost 9% of GDP, in order to cut our deficit by more than 5 percentage points. Measures corresponding to 2,5% GDP points, i.e. 5.8 billion euros, will be added to the current effort.
- In 2011, the overall fiscal effort will go beyond 4% of GDP, i.e. approximately 10 billion euros.
- In 2012, our effort will be higher than 2% of GDP, i.e. approximately 5 billion euros.
- In 2013, our effort will be approximately 2% of GDP, i.e. approximately 4.8 billion euros.

The objective of the programme is to have a deficit lower than 3% in 2014.

- The deficit is expected to be of the order of 8% of GDP in 2010, and to gradually fall under 3% in 2014.
- The debt, which currently stands at 115% of GDP, will start decreasing as of 2014.
- The aim is to adjust the economy to its potential, to the potential it now has, to the potential it has not been using for years, and to the potential that can be generated.
- Public expenditure must be adjusted to a level that our income can fund, taking also into account the amount of expenditure required to service the public debt.
- Public expenditure currently stands at 50% of GDP, and will decrease by approximately 7 GDP points up to 2013.
- Our aim is to increase income from the 37% collapse level of GDP in 2009 by 4 GDP points until 2013.

The programme

Measures and policies under this three-year programme fall under three parts:

Fiscal adjustment through direct correctional and structural measures for the viable consolidation of public finances, for their management, and for enhancing transparency and accountability.

Competitiveness and growth through direct measures aiming to liberate markets and to contain costs and prices, together with structural measures to enhance entrepreneurship, competitiveness and growth.

A financial system ensuring the smooth operation of the banking system, as well as liquidity and capital adequacy in combination with the establishment of financial system monitoring and control mechanisms.

Adjustment and fiscal management consolidation measures

The effort to cut the 2010 budget deficit is being intensified. For 2011, this effort will be more specific through the following income-oriented measures.

- VAT rates will increase from 21% to 23% and from 10% to 11%
- Excise taxes on fuel, cigarettes and alcohol will increase
- Any *afthereta* [unauthorized buildings erected without planning permission] will be taxed, and semi-outdoor areas of buildings [which were subsequently converted to indoor areas illegally] will be subject to a preservation fee
- Taxes on luxury items will increase
- An accounting-based determination of incomes will apply
- Amusement-technical games and games of chance will be taxed
- Licenses for amusement-technical games and games of chance
- Highly profitable businesses will be subject to an ad hoc tax.
- A broader tax base for VAT will apply
- Green fees
- Real estate official values will increase
- Remunerations in kind will be taxed

With regard to expenditures:

- Reduction of public sector's salary cost. The 13th and 14th salaries are maintained but their method of payment is readjusted: they are fixed flat at 500 euros (250 euros for Easter bonus, 250 euros for subsidy leave and 500 euros for Christmas bonus) and are granted on a salary basis to salaries that do not exceed 3000 euros per month

- Further reduction by 8% of civil servants' allowances and by 3% of public utility organizations employees' salaries, which do not include allowances
- Reduction of pensions' expenditures. The Easter, leave and Christmas allowances are maintained but are fixed at 200 euros, 200 euros and 400 euros respectively and are granted to pensions that do not exceed 2500 euros per month
- Reduction of high pensions
- Further reduction of consumer expenditures
- Suspension of the second installment of the solidarity allowance
- Reduction of the public investment scheme
- Integration of salary expenditure through the unified payment principle
- No increase in salaries and pensions during the three year program period
- Local government expenditures saving through implementation of «Kallikratis» territorial reform

The program features a strict schedule regarding structural measures that are already included in the Stability and Growth Programme, such as the following:

- New social security law
- Changes in the health procurement sector through introduction of double entry systems to control expenditures
- New framework regarding State procurements
- Unified payment principle and unified remuneration scale at the public sector

Policies already implemented, in the framework of the IMF's technical support:

- Tax system and coping with tax evasion (application of the new law)
- Changes in tax administration, as well as operation of tax system and control and revenue collection mechanism
- Change of financial management framework and public accounting to support control of public expenditures and long term programming thereof
- Publication of budgetary data, expenditures and revenues of central government that today constitute a black hole in the system

Measures for reinforcing competition

These changes in the framework of financial management constitute an important step towards promoting our economy's growth and competition, as they release resources and

efforts, creating a framework of transparency and efficacy in the field of tax administration and a structure of a fair income redistribution.

The program includes measures and policies aimed at the market and labour relations in the private sector:

- Restructuring of the labour legislation framework with regard to employment compensation, limit of lay offs, introduction of a new minimum salary level for young and long term unemployed persons and conditions that favour and protect part time employment forms.
- Reinforcement of flexibility in the labour market through introduction of annual limits regarding work time, thus reducing cost of overtime employment.
- Essential coping with the uninsured and black labour.
- Restructuring of social protection framework so as to create an efficient safety net for the vulnerable social groups.

Measures of new social security law:

- Increase of women's retirement limits in the public sector to 65 years of age by the end of 2013, starting in 2011
- Reinforcement of pay back between contribution and pensions
- Pensions shall be fixed on the basis of earnings in the entirety of labour life cycle
- Automatic adjustment of pensions to life expectancy
- Increase of minimum contribution period from 37 to 40 years until 2015
- Limitation of early retirement age and increase of minimum limit thereof at 60 years
- Review of disability pensions framework
- Cutbacks in the list of unhealthy professions
- Minimum guaranteed pension for people above 65 on the basis of revenue criteria
- Reduction of Social security organizations into 3

Policies with regard to improvement of business environment and reinforcement of investment so as to develop entrepreneurship, create and strengthen new dynamic branches and raise number of job positions that are created by the private sector:

- Simplification of procedures and delays pertaining to business launching
- Simplification of procedures with regard to licensing and reduction of administrative burden for businesses

- Adoption of Directive on services
- Opening of restricted professions and liberation of transports
- Reforming of the regulatory framework on competition
- Improvement of Hellenic Railways Company (OSE) through a business plan which ensures profitability of functional services and compliance with European legislation
- Liberation of energy and reinforcement of the independence of Regulatory Authority for Energy
- Attracting foreign investment in innovative branches (green growth, telecommunications, etc), establishment of a new investment framework through the new development law, Reinforcement of public - private sector partnerships, identification and encouragement of large projects that are funded through foreign investments and reinforcement of export promotion policy
- Reinforcement of research and innovation
- Increase of absorption of EU structural funds

Policy on financial system

The third and last part of the Financial policy Programme relates to safeguarding stability, cash flow, capital sufficiency, as well as regulation and supervision of financial and banking system in particular.

The program foresees:

- The creation of one Fund of Financial Stability
- The reinforcement of supervision of banks by the Bank of Greece

Appendix I

Key macroeconomics *

	2010	2011	2012	2013	2014
Inflation	1.9	-0.4	1.2	0.7	0.9
Growth rate (%)	-4.0	-2.6	1.1	2.1	2.1
Deficit of central government (% GDP)	-8.1	-7.6	-6.5	-4.9	-2.6
Debt of central government (% GDP)	133.3	145.1	148.6	149.1	144.3

* Program's estimates

Appendix II

Fiscal measures for 2010-2011 period

2010		
<i>in million euros</i>		% of GDP
	Revenues	0.5
Increase of VAT from 21% to 23% and from 10% to 11%	800	0.3
Increase of special consumer tax in fuel	200	0.1
Increase of special consumer tax in tobacco	200	0.1
Increase of special consumer tax in alcohol	50	0.0
	Expenses	1.9
Reduction of salary cost through reduction of 13 th and 14 th salary and allowances	1100	0.5
Reduction of consumer expenditures	700	0.3
Reductions in high pensions	350	0.1
Reduction of solidarity allowance	400	0.2
Reduction of cost of pensions through Reduction of 13 th and 14 th salary	1500	0.6
Reduction of public investment	500	0.2
	TOTAL ANNUAL FINANCIAL IMPACT	2.5

2011

<i>in million euros</i>		% of GDP
<i>Carrying forward of impact from previous financial year</i>		1.1
Increase of VAT by 2 points	1000	0.4
Increase of special consumer tax in fuel	250	0.1
Increase of special consumer tax in tobacco	300	0.1
Increase of special consumer tax in alcohol	50	0.0
Reduction of salary cost through reduction of 13 th and 14 th salary and allowances	400	0.2
Reduction of pensions through reduction of 13 th and 14 th pension	500	0.2
<i>Revenues</i>		2.2
Taxation of illegal buildings and semi outdoor duty	1300	0.4
Luxury tax	100	0.0
Income accounting definition	50	0.0
Taxation games of fortune	200	0.1
Permits for games of fortune	500	0.2
Special contribution from profitable businesses	600	0.3
VAT – changes in subcategories and widening of base	1000	0.4
Green duties	300	0.1
Taxation on the basis of presumptions	400	0.2
Increase of official real estate values	400	0.2
Taxation of fees in kind (vehicles)	150	0.1
<i>Expenses</i>		1.0
Intermediate consumption	300	0.1
Reduction of salary expenditures	100	0.0
Lack of increase in pensions	100	0.0
Resources saving by “Kallikratis”	500	0.2
Reduction in high pensions	150	0.1
Reduction of public investment	1000	0.4
TOTAL ANNUAL FINANCIAL IMPACT		9650
		4.3