

**Ministry of Finance**

**March 2010 Report**

**to the implementation of the Hellenic**

**STABILITY AND GROWTH PROGRAMME  
and Additional Measures**

**in response to**

**COUNCIL DECISION 6147/10**

## **1. Introduction**

The current report has been drafted as a response to the Council Decision 6147/10 of 16 February 2010 requiring Greece to provide *a report spelling out the measures and the calendar for implementation needed to achieve the 2010 budgetary targets, including additional necessary measures.*

The report includes a brief overview of current economic conditions and the short term outlook for the Greek economy and focuses upon the status of implementation of the policy measures contained in article 2 of the Council Decision and in Greece's Stability and Growth Programme (SGP) update of January 2010. It, furthermore, provides a description of the content, justification, expected fiscal impact and implementation timetable of the additional policy measures that the Greek government took in February and March 2010.

## **2. Overview of macroeconomic scenario**

Recent data suggest that the macroeconomic environment has deteriorated. According to the preliminary GDP estimates released in February 2010, the 2009 GDP growth rate was revised downwards to -2%, from the -1.2% estimate included in the SGP. In the 4<sup>th</sup> quarter of 2009, real GDP decreased by 2.6% in comparison to the 4<sup>th</sup> quarter of 2008 (and by 0.8% in comparison to the previous quarter), while the GDP estimates for the first three quarters of 2009 were also revised. The 2009 base year revision is expected to further contract real GDP in 2010 (-0.3% in the SGP forecast). The carry-over effect for 2010 is -0.9%.

Turning to the components of aggregate demand there is little doubt that the reduction of the disposable income of households - linked to the reduction in wages and salaries of the public sector employees and the worsening macroeconomic environment, reduced employment opportunities, tight credit market conditions and deteriorating market sentiment - is likely to reduce real consumption expenditures in 2010. At the same time the drop is likely to be mitigated to an extent by the design of the recent changes in income policy and taxation; more specifically the taxation of all incomes along a progressive tax schedule and the more-than-proportionate decrease in wage supplements of high earners place the burden of adjustment to higher income groups characterized by a lower marginal propensity to consume.

Public consumption for goods and services will decline in line with the fiscal consolidation measures and the urgent need to safeguard the attainment of the fiscal targets in the SGP.

Adverse factors underlying investment decisions include market uncertainty with regard to the outlook and emerging risks, coupled with tight financial conditions regarding the availability and cost of credit. With regard to the latter continued access of the commercial banking system to low cost ECB financing is an important factor in both the short and medium term. The public investment programme will continue to be one of the main forces of growth in 2010. The acceleration of the public investment programme, and especially the investment projects supported by the European Structural Funds, are of paramount importance in the short term: public investment will sustain aggregate demand in the short term, and also crowd-in private investment by improving market sentiment and allowing some of the private investment projects tied to the Structural Funds, which are already in the pipeline, to materialize. It will, furthermore, upgrade the economy's productive capacity and its longer-term developmental prospects.

The recent indications of a more robust recovery in the international economy suggest some improvement in the external balance in comparison to the outlook in the SGP. According to the IMF's January 2010 World Economic Outlook (WEO) update, world output is projected to increase in 2010 by 3.9%, a 0.8% upward revision from the October 2009 WEO update. The recovery of the European economy and Greece's main trading partners is likely to increase demand for Greece's exports of goods, which will be reinforced by the increase in competitiveness due to the reduction of wage costs.

The rebound in economic activity and the increase in world trade are also likely to have a beneficial effect on Greece's exports of services in general, and in the critical sectors of shipping and tourism in particular. In the latest WEO update the rate of growth of world trade volume covering both goods and services is estimated at 5.8%, a 3.3% upward revision over the 2009 WEO projection. Shipping receipts are projected to increase by around 10% due to the recovery of the world trade and transportation. With regard to tourism an increase of expected arrivals of about 3-4% is expected for 2010.

Overall, the external sector is projected to have a positive contribution to GDP growth on both the export side as well as the import side. The latter is likely to contract due the restrictive fiscal and income measures introduced over the last couple of months.

### 3. State of implementation of the Stability and Growth Programme

The Stability and Growth Programme measures required to reduce the fiscal deficit by four percentage points of GDP are in the process of being implemented. On the expenditure side, no slippages have been realized yet. On the revenue side, a number of measures have been implemented and others will be included in the tax reform Bill that will be submitted to Parliament within March. More specifically, progress on the deficit reduction measures included in the Stability Programme is as follows:

#### 3.A. Stability Programme 2010 fiscal measures (updated Annex C from the SGP)

Measures	Amount (million €)	State of implementation and other comments
<b>A. One-off expenditures in 2009</b>	<b>3228</b>	
A1. Salaries and pensions	203	Consists of one-off benefits to low wage earners and pensioners and its implementation was completed within 2009.
A2. Subsidy to social security funds	975	One-off measure additional to the 1% of GDP contribution to IKA. Its one-off nature is reinforced by the following interventions: <ul style="list-style-type: none"> <li>-Freezing pension rates to their 2009 level.</li> <li>-Reducing social contribution evasion by returning to normal social contribution collection levels: <ul style="list-style-type: none"> <li>• In January 2010, social contribution revenues of IKA increased by 3.5% compared to 2009. This was the result of the intensification of controls and the overall effort of the revenue collection mechanism, which</li> </ul> </li> </ul>

		<p>became fully effective since 1 February 2010.</p> <ul style="list-style-type: none"> <li>• Settlement of debts to insurance funds (which amount to about 12 billion €). This measure was included in the bill tabled to the Greek Parliament and voted on 05 March 2010. The settlement is expected to increase revenues for 2010 by about 800 million €</li> <li>• The overall effort to combat contribution evasion and undeclared work is expected to result in additional revenues of 300 million €</li> </ul> <ul style="list-style-type: none"> <li>- Legalisation of immigrants: Relevant legislation has been approved by the Ministerial Council and has been submitted to the Parliament.</li> <li>- Changes in the medical procurement system: work is ongoing.</li> <li>- E-checks on prescriptions from 01/05/2010. With regard to the Ministry of Health: work is ongoing. With regard to the Ministry of Labour: The electronic control system of prescriptions for IKA has started on 1<sup>st</sup> March 2010 to operate on a pilot basis.</li> </ul>
A3. Social protection	866	This measure consists of the solidarity allowance already paid within the year 2009 and the abolition of the Social Cohesion Fund, which is in process.
A4. Grants to public sector entities	394	One-off grants to political parties, hospitals etc. implemented within 2009.
A5. Consumption expenditures	541	One-off expenditures resulting mainly from an arbitration decision for Olympic airlines which has already been implemented.
A6. Election expenditures	194	Expenditures for the Parliamentary elections in October 2009 and the European elections in June 2009.
A7. Other	55	
<b>B. One-off revenues in 2009</b>	<b>705</b>	
B1. Taxes to incomes € 60,000+	-300	Implemented.
B2. Tax settlements	-350	Implemented.
B3. Revenue from bank liquidity scheme	-55	Implemented.
<b>C. One-off revenues in 2010</b>	<b>1330</b>	
C1. Revenue from bank liquidity scheme	280	The Greek bank liquidity scheme is still on-going.
C2. Special levy on profitable	870	Imposition of an extraordinary levy on the net income of profitable firms for the year 2009. The relevant Law has

firms		already been introduced (Law 3808, FEK 227A'/10.12.2009). A significant part was collected in January 2010.
C3. Special levy on high value real estates	180	Imposition of a progressive extraordinary levy on high value real estates (for real estate valued above 400,000€). The relevant Law has already been introduced (Law 3808/2009, FEK 227A'/10.12.2009).
<b>D. Permanent expenditure cuts in 2010</b>	<b>1825</b>	
D1. 10% cut in general government expenditure on salary allowances	650	Consists of the imposition of a 10% cut in general government expenditure on salary allowances (excluding family allowances and child benefit) and applies to employees in the central government, subsidized legal entities and local authorities. The bill introducing this measure was voted on 05 March 2010. It will be applied retroactively from 01/01/2010.
D2. Recruitment freeze in 2010	80	This measure provides the recruitment freeze in the public sector in 2010 (with the exception of 1000 security officers, 3000 medical staff and 3000 teachers). The bill introducing this measure was voted on 05 March 2010.
D3. Reduction in short term contracts	120	This measure is currently implemented through: <ul style="list-style-type: none"> <li>• Reduced number of substitute teachers for the school year 2009-2010.</li> <li>• Reduction in the number of hourly-wage teachers.</li> <li>• Cancellation of the recruitment of about 11 thousand “stages” in the public sector.</li> <li>• Abolition of service contracts and non-renewal of a number of short term contracts.</li> <li>• According to Law 3812/2009, FEK 234A'/ 28.12.2009, all recruitments in the public sector will go only via ASEP.</li> </ul>
D4. Reduction in operating costs	360	Implemented and monitored.
D5. Reduction in pension fund subsidy	540	<ul style="list-style-type: none"> <li>• In January 2010, revenue growth of IKA increased by 3.5% compared to 2009, as a result of the intensification of controls and the overall effort of the revenue collection mechanism, which became fully effective since 1 February 2010.</li> <li>• Amendment for the settlement of debt to insurance funds (amounts to about 12 billion €). This measure was voted on 05 March 2010. Settlement is expected to increase revenues for 2010 by about 800 million.</li> <li>• The overall effort to combat contribution evasion and undeclared work is expected to result in additional revenues of 300 million €</li> </ul>
D6. Reduction in overtime etc.	75	The existing ceiling on hours for overtime employment is reduced by 30%. New stricter arrangements apply for travel expenses, etc. The bill introducing this measure was voted on 05 March 2010.

<b>E. General Government cuts</b>	<b>1857</b>	
E1. Military equipment expenditures	457	This measure reflects reduced deliveries for military equipment, according to the contracts signed and the expected delivery dates.
E2. Hospital expenditures		The subsidy for hospital operating costs is reduced to 800 million € in 2010 from 2,200 million € in 2009. This improvement is split into: 1) a one-off expenditure (from replacing stocks and additional stockpiling when the payment of hospital debts was announced in 2009) and 2) efficiency gains of 700 million € in a total budget of 5,300 million € of hospital operating costs.
E21. One-off	700	
E22. Permanent	700	Update from the Ministry of Health: <ul style="list-style-type: none"> <li>- Interventions of the Ministry of Health are proceeding according to the timetable and are planned to be completed by the end of 1<sup>st</sup> half of 2010.</li> <li>- A joint Working Group has been created by the Ministry of Finance and the Ministry of Health and Social Solidarity on the settlement of hospital arrears for the period 1/1/2005 to 30/9/2009. A first installment of 1.2 billion € was paid to suppliers at the end of 2009.</li> </ul> Update from the Ministry of Labour: <ul style="list-style-type: none"> <li>- The reintroduction of the list of medicines (drugs) has been legislated and the inclusion criteria are currently being defined.</li> <li>- Additional measures to control health expenditures include: tightening controls for excessive prescriptions, establishing stricter punishments for those doctors and pharmacists who sign such prescriptions (amendment to be included in the bill for enhancing the transparency of the labour market – see intervention 19 in the Annex).</li> <li>- Setting price caps for a series of medical materials.</li> <li>- The electronic control system of prescriptions for IKA started operating on a pilot basis on 1/3/10. 2010 target for reducing health expenditure is estimated at 1.1 billion.</li> </ul>
<b>F. Permanent expenditure increases in 2010</b>	<b>1900</b>	
F1. Education	-500	The public investment figure includes also an additional 500 million earmarked for Education. The public funds for education have been reduced – see additional measures voted by the Parliament on 05/03/2010.
F2. Public investment	-800	Increased public investment funds are needed to match the EU structural Funds commitments. The public investment funds figures have been reduced – see additional measures announced by the government on 03/03/2010 and voted by the Parliament on 05/03/2010.

F3. Interest payments	-600	The interest payment figures are expected to be revised upwards given the higher spreads which bond issues face.
<b>G. One-off expenditure increases in 2010</b>	<b>500</b>	
G1. Solidarity allowance	-500	One-off solidarity allowance, ranging from 300 € to 1,300 € to support very low income citizens and vulnerable social groups It has already been enacted (Law 3808/2009, FEK 227A/10.12.2009) and allowance will be disbursed within the first half of 2010.
<b>H. Permanent revenue increases in 2010</b>	<b>5210</b>	
H1. Unique taxation scale and elimination of special taxation rules	1100	Included in the tax reform Law (to be submitted to Parliament in March 2010). It will be applied retroactively from 01/01/2010.
H2. Property taxes	400	Included in the tax reform Law (to be submitted to Parliament in March 2010).
H3. Increase in excise tax on cigarettes	650	The increase in the excise tax on cigarettes was introduced with Law 3815/2010, FEK 5A/26.1.2010. See also: additional measures for further excise tax increases.
H4. Increase in excise tax on alcohol	60	The relevant legislation has been introduced (Law 3815/2010, FEK 5A/26.1.2010). See also additional measures for further excise tax increases.
H5. Tax increase in mobile telephones and petrol (carry over from 2009)	400	The higher mobile telephone tax was introduced in September 2009 (Law 3775/2009 - FEK A' 122/ 21.07.2009) and the additional petrol tax was introduced in July 2009 (Law 3775/2009 - FEK A' 122/ 21.07.2009).
H6. Reducing tax evasion	1200	Measures included in the tax reform Law (to be submitted to Parliament in March 2010).
H7. Reducing social contribution evasion	1200	Same as in A2 and D5.
H8. EU receipts for the public investment programme	1400	Update from the Ministry of Economy, Competitiveness and Shipping: The absorption rate of EU funds so far is 4% (up from 3.5% included in the SGP).

To support the Stability Programme measures and safeguard the achievement of the 2010 fiscal target, the contingency reserve, outlined in the Stability programme, was created and two additional measures were announced at the beginning of February 2010. These are: the freezing of the salaries for 2010 in the public sector (cancelling an increase that had already been budgeted) and the increase in fuel excise taxes. More specifically:

<b>Other measures</b>	<b>Amount (million €)</b>	<b>State of implementation and other comments</b>
Increase in excise duties on fuel	830	Implemented since 9 February 2010 (Law 3828/2010, FEK 31A/25.2.2010). The full-year impact of this measure is 930 million €
Complete freeze on wages	200	The bill introducing this measure was voted on 05 March 2010 and will be retroactively implemented from 01/01/2010.

A further safeguard to the achievement of the 2010 target is the creation of a contingency reserve equal to 1.2% of GDP and resulting from the release of 90% of appropriations to the line Ministries except for wages, pensions and interest payments.

#### **4. Fiscal adjustment gap**

The size of the fiscal adjustment envisaged for 2010, the multiplicity of the measures with which it is approached, and the existence of a volatile economic environment, both domestically and at European/international level, imply the existence of certain risks in attaining the 2010 target. Recent developments enhance the probability of these risks being realised while, on the other hand, the government has committed itself to a four percent reduction in the fiscal deficit for 2010.

One of the risks relates to the macroeconomic environment, especially after the revision of the 2009 growth figure. Thus, the growth rate for 2010 will most likely be lower than that in the SGP baseline scenario (-0.3%) and may exceed that in the alternative scenario. However, we refrain from providing revised estimates given the uncertainties involved, and especially taking into account that the structure of the 2009 GDP is not yet known. The effect of a lower growth rate on the indirect tax revenues will also depend on the inflation forecasts.

The persistence of very high yields on government bonds will probably lead to a revision in the budgeted interest payments for the debt in 2010. In this regards, additional expenditures in interest payments will be required.

Finally, EC/ECB/IMF experts have emphasised the uncertainties surrounding the capture of certain tax evasion revenues and the flow of receipts from EU funds in the SGP. Although a number of measures are being taken in this direction, part of the risks may materialize. However, with regard to the EU receipts, and given the fact that these are matched by national investment funds of a similar amount, reduction in the EU receipts will also automatically result in reductions in national contributions, already budgeted, leading to a neutral effect on the 2010 budget.

Beyond the above risks, it is possible that risks may in due course develop in the case of other measures. For this reason, an adjustment gap between 1 and 1.5% of GDP may be realised that calls for additional measures to ensure the attainment of the SGP targets.

#### **5. Additional measures to ensure that the 2010 deficit target is met**

In order to safeguard the attainment of the targets in the SGP the Greek government announced an additional package of measures on 3 March. Given the overall uncertainty and

the paramount importance of restoring the credibility of market participants in the Government's commitment to fiscal sustainability thus reducing the cost of its borrowing, *the measures go beyond the estimated fiscal adjustment gap required to reach the targets of the SGP (1.5% of GDP at maximum)*. The estimated impact of the measures announced on 3 March on the deficit amounts to 4.8 billion Euro, or 2% of the nominal GDP estimate.

The measures announced by the Greek Government on 3 March supplement:

1. The measures included in the SGP, which targeted a 4% reduction in the deficit of the general government as a share of GDP in 2010; and
2. Those announced in February 2010 by the Prime Minister, which were expected to reduce the deficit as a share of GDP by 0.4%.

On the revenue side, the new package includes measures amounting to 1% of GDP, or 2.4 billion € These include:

- Increases in VAT rates (from the existing 4.5%, 9% and 19%, to 5%, 10% and 21% respectively). The increase in VAT rates will take effect on 15 March and has an expected fiscal impact of 0.54% of GDP, or 1.3 billion €
- Increases in excise taxes with an expected fiscal impact of 0.46% of GDP, or 1.1 billion € through:
  - A 0.08 € increase in the excise tax on petrol and a 0.03 € increase on diesel fuel;
  - A 2 percentage points increase in cigarette excise tax (from 63% to 65%), and a 20% increase in alcohol tax;
  - The introduction of an excise tax for electricity (2.5 euro/MWh for industrial consumption and 5 €/MWh for household consumption – excluding, however, the electricity produced by Renewable Energy Sources), as well as the abolition of the excise tax exemption for diesel used by the Public Power Corporation; and
  - An increase in the excise tax for luxury goods (covering expensive cars – above 35000€ final price – yachts, etc).

On the expenditure side, the package announced on 3 March includes measures amounting to 1% of GDP or 2.4 billion € These include:

- Reductions in public sector nominal wages (in addition to the wage reductions announced previously), coupled with: (i) cancellation in the increases in pensions foreseen in the 2010 budget and (ii) reduction in the pensions of the Public Power Corporation and telecoms employees. In more detail they include:
  - A 30% reduction in the 13<sup>th</sup> and 30% in the 14% salary (or equivalently: 60% reduction of the 14th salary);
  - A 2% reduction in wage supplements (in addition to the 10% reduction announced previously);
  - A 7% reduction in wages and a 30% reduction in the 13<sup>th</sup> and 30% in the 14% salary (or equivalently: 60% reduction of the 14th salary) in public sector companies;
  - A reduction in the pensions of the Public Power Corporation and OTE (telecoms) pension funds, leading to a reduction in the relevant budget allocations; and
  - A freeze in all public and private sector pensions, cancelling the announced increases incorporated in the 2010 budget and leading to savings in budgetary allocations.

The estimated fiscal impact of the wage and pension cuts is 0.7% of GDP, or 1.7 billion €

## Additional Measures supporting the Greek Stability Programme

<i>Measure</i>	<i>Million Euro</i>	<i>% GDP</i>
<b>Revenues</b>	<b>2400</b>	
<b>Increase in VAT rates</b> (from 4,5%, 9% and 19% to 5%, 10% and 21% respectively)	<b>1300</b>	<b>0,5%</b>
<b>Increases in excise taxes</b> (additional to those recently voted in Parliament), of which:	<b>1100</b>	<b>0,5%</b>
<ul style="list-style-type: none"> <li>• <i>Increase in petrol excise tax by 0,08 euro (about 0,10 price increase) and in diesel by 0,03 euro (about 0,04 euro price increase)</i></li> </ul>	450	0,2%
<ul style="list-style-type: none"> <li>• <i>Increase in cigarette excise tax at 65% and in alcohol by 20% (increase per bottle by 1,20 euro and by 0,60 euro for ouzo and tsipouro)</i></li> </ul>	300	0,1%
<ul style="list-style-type: none"> <li>• <i>Introduction of excise tax in electricity (2,5 euro/MWh in industrial consumption and 5 euro/MWh in household consumption - excluding electricity produced by renewable energy resources) and abolition of the excise tax exemption for diesel used by the Public Power Corporation</i></li> </ul>	250	0,1%
<ul style="list-style-type: none"> <li>• <i>Increase in the excise tax for luxury goods (cars, yachts, etc)</i></li> </ul>	100	0,0%
<b>Expenditures</b>	<b>2400</b>	<b>1,0%</b>
<b>Reductions in public sector nominal wages and pensions</b> (additional to the wage cutbacks already announced) of which:	<b>1700</b>	<b>0,7%</b>
<ul style="list-style-type: none"> <li>• <i>Reduction by 60% in the 14th salary</i></li> </ul>	610	0,3%
<ul style="list-style-type: none"> <li>• <i>Reduction by 2% in the wage supplements (additional to the 10% already announced)</i></li> </ul>	130	0,1%
<ul style="list-style-type: none"> <li>• <i>Reduction by 7% in the wages in public enterprises and reduction by 60% in the 14th salary</i></li> </ul>	360	0,2%
<ul style="list-style-type: none"> <li>• <i>Reduction in the pensions of the Public Power Corporation and the OTE (telecoms) Pension funds leading to a reduction in the relevant budget allocations</i></li> </ul>	150	0,1%
<ul style="list-style-type: none"> <li>• <i>Freeze in all public and private sector pensions eliminating the announced increases incorporated in the budget and leading to savings in the budgetary allocations</i></li> </ul>	450	0,2%
<b>Reductions in current and capital expenditures in the public sector</b>	<b>700</b>	<b>0,3%</b>
<ul style="list-style-type: none"> <li>• <i>Reduction in the Public Investment Programme</i></li> </ul>	500	0,2%
<ul style="list-style-type: none"> <li>• <i>Reduction in the education expenditure (100 million euro from the Public Investment Programme and 100 million euro from the cancellation of the provisions for new education programmes)</i></li> </ul>	200	0,1%
<b>Total</b>	<b>4800</b>	<b>2,0%</b>

- In addition, reductions were also announced in current and capital expenditures in the public sector, with a total fiscal impact of 0.3% GDP or 0.7 billion €. These include:
  - A Reduction in the Public Investment Programme of 500 million € and
  - A 200 million € reduction in education expenditures (100 million € from the Public Investment Programme and 100 million € from the cancellation of the provisions for new education programmes).

**The bill introducing the measures announced on 3 March was tabled to the Greek Parliament in accordance with the emergency procedure foreseen in the Greek Constitution and was voted on 5 March.**

The above measures will be supplemented by a sustained effort to accelerate the introduction and timely implementation of a number of structural interventions, including the adoption of a new bill on the reform of the tax system, and the strengthening of tax collection and the fight against tax evasion.

#### **Wage bill and pension measures**

- 12% cut in salary allowances and 60% cut in the 14<sup>th</sup> salary, which is equivalent to about 8% reduction in the nominal wage rate and almost 10% cut in the real wage rate in the general government.
- 7% reduction in the nominal wage and 60% cut in the 14<sup>th</sup> salary, which is equivalent to about 11% reduction in the nominal wage and almost 13% in the real wage rate in public enterprise employees.
- Salary caps, leading to salary reductions for: Heads of independent authorities, Presidents and CEOs of public enterprises.
- 50% reduction in the remuneration of Board of Directors members in public enterprises.
- Abolition of bonuses in public sector enterprises.
- Abolition of all extra payments to civil servants for participation in special committees/working groups.
- Reduction in overtime payments by 30%.
- Pension rate freeze throughout the public and private sector and pension reduction in the electricity (DEH) and Telecoms (OTE) pensioners.
- Recruitment freeze in 2010 (with some exceptions).
- Non-recruitment within 2010 of about 10000 individuals that have successfully completed the recruitment procedures and will be subject to the 5:1 rule from 2011 onwards.
- Reduction in the temporary contracts.

## **6. Conclusion**

*Although the Stability Programme was adopted by the ECOFIN Council three weeks ago, the vast majority of its recommendations that had to be adopted by the middle of May are already legally enforced and implemented. The tax law that will be tabled to the Parliament by the*

*end of March will complete these measures, some of which will be applied retroactively from the beginning of the year. In addition, other measures, like the introduction of the 5:1 retirement to recruitment ratio from 2011 onwards, that had to be adopted before the end of the year, is already in force.*

Therefore, the implementation of the SGP is ahead of schedule whereas a sufficiently long list of measures has been adopted to secure the attainment of the targets set out in the SGP and go even beyond, under very difficult economic conditions. These measures are, furthermore, supplemented by an appropriate mix of structural reforms aiming to ensure the sustainability of public finances in the longer term and also successfully address the chronic structural imbalances in the Greek economy.

Encouraging are the news regarding the execution of the budget so far. Only 5.5% of the ordinary budget expenditure payments were made in the month of January. Revenues increased in January by 9.9% overshooting the budget target (a significant increase was recorded even controlling for the revenues collected from the one-off tax on the profitable firms) but undershoot it in February (increase by 4.5% - preliminary data). Overall, revenues increased during the first two months of the years by 7.9%, somewhat lower than the target. However, the revenue data for the first two months of the year do not include the extra receipts from most of the additional taxes included in the Stability Programme and the additional measures whereas the VAT receipts are underestimated by about one-third because of the temporary facilitation provided to pay it in three instalments.

Of paramount importance in the short term is:

1. The restoration of confidence in Greece's fiscal sustainability and in the government's serious commitment to introduce and timely implement the announced fiscal and structural reform measures. This restoration of confidence will reduce significantly the cost of financing the government's borrowing requirement and also contribute to the reduction in the overall uncertainty in the economy.
2. The acceleration of the investment programme in the short term, especially the investment projects supported by the European Structural Funds. This will be a key factor given the economy's cyclical position, and the urgent need to upgrade the economy's productive capacity. Public investment is required to:
  - Sustain aggregate demand in the short term;
  - Facilitate the crowding-in of private investment, including the investment projects linked to the EU Structural Funds;
  - Reduce the overall uncertainty regarding the macroeconomic outlook and improve market sentiment; and, last but not least,
  - Public and private investment is required to strengthen Greece's growth and development prospects in the years to come and facilitate the shift in the Greek economy's growth paradigm which was analysed in the SGP.

## ANNEX 1

### Implementation of COUNCIL Decision recommendations

<b>A. FISCAL MEASURES TO BE TAKEN BY 15 MAY 2010</b>				
	<b>Measure</b>	<b>Decision</b>	<b>Time (decision/ application)</b>	<b>Details</b>
	<b>Expenditure</b>			
A1	10% contingency reserve	Ministerial Decision	January 2010.	-A reserve equal to 1.2% of GDP has been created.
A2	Nominal wage freeze	Emergency Measures Law	5 March 2010. Retroactively from 1/1/2010.	-It applies to all employees of central and local government, state agencies and public enterprises.
A3	Recruitment freeze in 2010	Emergency Measures Law	5 March 2010. Applied for the whole of 2010.	-With some exceptions in education, health and security. -Inter-Ministerial Committee to approve the absolutely essential recruitments.
A4	Cancel vacancies in general government	Emergency Measures Law	5 March 2010.	-About 10.000 individuals have successfully completed previous recruitment procedures but will not be recruited in 2010 and their recruitment will be subject to the 5:1 rule in the following years.
A5	Reduction in temporary contracts	Emergency Measures Law	5 March 2010. Applied for the whole of 2010.	-Dismissal of 11 thousand “stages”. -All temporary contracts through the Public Sector Recruitment Independent Authority. -The approval of temporary contracts are restricted to only the absolutely necessary ones (e.g. forest fire fighters during the summer months etc.)
A6	Cut special allowances in general government sector	Emergency Measures Law	5 March 2010. Applied retroactively from 1/1/2010.	-Cut by 10% retroactively from 1/1/2010. -Salary caps, leading to salary reductions for: Heads of independent authorities, Presidents and CEOs of public enterprises. -50% reduction in the remuneration of Board of Directors members in public enterprises. -Abolition of bonuses for public sector enterprises. -Abolition of all extra payments to civil servants for participation in

				special committees/working groups. -Reduction in overtime payments by 30%. -Changes in the rules for duty travel compensation.
A7	Nominal cuts in transfers paid by the social security, including measures to restrict the indexation of benefits and entitlements	Emergency Measures Law	5 March 2010. Applied retroactively from 1/1/2010.	-Abolition of indexation in all social benefits.
<b>Revenue</b>				
A8	Increase in tobacco excise duties	Law	Enacted in January 2010.	Operating.
A9	Increase in alcohol excise duties	Law	Enacted in January 2010.	Operating.
A10	Increase in fuel excise duties	Law	Enacted in January 2010.	Operating.
A11	Taxation on inheritances and bequests	Law	Enacted in January 2010.	Operating.
A11	Unified tax scale for all income sources	Tax reform Law	To be applied retroactively from 1/1/2010. In Parliament by the end of March.	
A12	Abrogation of all exemptions and autonomous taxation provisions in the tax system	Tax reform Law	To be applied retroactively from 1/1/2010. In Parliament by the end of March.	List of exceptions available.
A13	Presumptive taxation for self-employed persons	Tax reform Law	To be applied retroactively from 1/1/2010. In Parliament by the end of March.	Applied to all taxed persons.
A14	Introduction of permanent levies on	Tax reform Law	To be applied retroactively	Tax restructuring resulting to higher revenues.

	buildings and increases in tax rates on real estate		from 1/1/2010. In Parliament by the end of March.	
A15	Spell out in detail and implement, by the end of March 2010, the currently planned tax system reforms	Tax reform Law	In Parliament by mid-March 2010.	List of reforms available.
<b>C. OTHER MEASURES TO BE ADOPTED BY THE END OF 2010</b>				
	<b>Expenditure</b>			
C1	Healthcare system reform			In process.
C2	Pension system reform	Pension reform Law	April 2010	In process.
C21	Lowering of the upper pension limits	Pension reform Law	April 2010	In process.
C22	Progressive increase in the statutory retirement age for both men and women	Pension reform Law	April 2010	In process.
C23	Change in the pension award formula	Pension reform Law	April 2010	In process.
C3	Further reduction in temporary contracts			Continuation of actions as in A5.
C4	5:1 retirement/recruitment rule in the public sector	Emergency Measures Law	5 March 2010	To be applied for the whole public sector rather than per Ministry or other public entity to promote personnel redistribution among different public administration departments.
C5	Reform of the wage payment system	Emergency Measures Law	5 March 2010	Creation of a Wages Committee to prepare for the new wage system.
	<b>Revenue</b>			
C6	Fight against tax evasion	Tax reform Law	March 2010	List of interventions available. IMF technical assistance invited.
C7	Strengthen the legal enforcement of tax payments	Tax reform Law	March 2010	
C8	Modernisation of the tax administration			IMF technical assistance invited.
C81	Setting of annual targets and performance-based	Ministerial Decision	February 2010	Operating.

	assessment for tax offices			
C82	High level personnel, infrastructure equipment, managerial organization and information systems			Under design. IMF technical assistance invited.
<b>Fiscal framework</b>				
C9	Spell out in detail the measures to be implemented in 2011 and 2012			In process.
C10	Strengthening of the Ministry of Finance position in the course of budget preparation			In process.
C11	Reinforce the budget execution control mechanism			IMF technical assistance invited.
C12	Programme-based budgeting			IMF technical assistance invited. OECD technical assistance operating.
C13	Reform of the General Accounting Office			IMF technical assistance invited.
C131	Adopt medium term budgetary framework			Under consideration
C132	Independent fiscal policy agency			Under consideration
C133	Report publicly of all public spending			In process
C134	Within C131, announce additional permanent expenditure reducing measures			Under consideration
C135	Fight against corruption in public administration			In process.
C136	Avoid reduction in the average maturity of public debt			Depends on market conditions.

## ANNEX 2

### Reform Programme Timetable

	INTERVENTION	LEGISLATION/DECISION	TIME	STATUS OF IMPLEMENTATION
<b>1. Strengthening the transparency, accountability and monitoring of budget execution and the budget process</b>				
A1	Legislation to render the Statistical Service independent	Legislation	Q1 2010	<i>The law was passed on 03/03/2010 - publication in the Government's Gazette pending.</i>
A2	Creation of a Budget Office under the Parliament	Legislation	Q3 2010	
A3	Introduction of effective checks and balances in the compilation and reporting of fiscal statistics	Ministerial decision	Q1 2010	<i>The independent review group has submitted its report, which has been discussed at the Parliament. Input to the Action plan of Eurostat on Greek Statistics.</i>
B2	Introduction of reporting requirements from each line Ministry on a monthly basis	Ministerial decision	Q1 2010	<i>In progress; circular sent to all ministries.</i>
B3	Publish online the monthly execution of the budget	Ministerial decisions to set specific monthly reporting requirements	Q1 2010	<i>Being implemented.</i>
B4	Create standing Bilateral inter-ministerial working groups composed of officials between the Ministry of Finance and all other Ministries	Ministerial decision	Q1 2010	<i>Decision signed. Gradually implemented.</i>
B5	Improved wage bill accountability through the Single Payment Authority	Ministerial decision / circular to all line ministries to collect information	Q1 2010 (1st phase) Q2 2010 (2nd phase)	<i>In progress.</i>
B6	Establish an MIS to monitor the expenditures of each Ministry	Gradual implementation	Q2 2010	<i>In progress</i>
B8	Extend the MIS coverage to all public sector agencies	Gradual implementation	Q4 2010	<i>Not started.</i>
B9	Use external auditors in public sector entities to assist understaffed General Accounting Office	Contract preparation	Q1 2010	<i>In progress / negotiation.</i>
Γ1	Introduce 3-year budget plans for each Ministry incorporating cost cutting, in line with PM's instruction	MoF to produce templates and instructions	Q1 2010	<i>In progress.</i>
Γ2	Proposals on merging and/or abolishing public sector organizations and entities	Letter to all ministries sent; proposals to be submitted by ministries	Q1/Q2 2010	<i>In progress.</i>

Δ7	Significant reduction in the public sector paid special committees	Circular sent	Q1 2010	<i>Implemented.</i>
Γ3	Introduce a “zero basis” methodology to re-evaluate all applications for funding	Ministerial decision	Q2 2010	
Γ4	Introduce aspects of programme budgeting in the 2011 budget process	Legislation in 2010; application in 2010	2011 onwards	<i>Ongoing work.</i>
Γ5	Adoption of fiscal rules for effective medium term execution of the budget	Legislation mid-2010	2011 onwards	<i>Joint MoF-Parliament working group to be set up.</i>
B7	Creation of a contingency reserve by setting an upper 90% limit on all budgetary appropriations	MoF decision	Q1 2010	<i>The relevant Ministerial Decision has been signed and a reserve of 1.2% of GDP has already been created.</i>

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## 2. Tax policy

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Z1	Introduce unified progressive tax scale for income from all sources	Legislation (Tax reform Law)	March 2010	<i>The law will be submitted to Parliament in March 2010 and will be applied retroactively from 01/01/2010.</i>
Z2	Introduce incentives for issuing transaction receipts	Legislation (Tax reform Law)	March 2010	<i>The law will be submitted to Parliament in March 2010.</i>
Z3	Abolish autonomous taxation and most tax exemptions in personal income and corporate profits	Legislation (Tax reform Law)	March 2010	<i>The law will be submitted to Parliament in March 2010 and will be applied retroactively from 01/01/2010.</i>
Z4	Treat distributed profits as personal income taxed at the unified progressive tax scale, and provide incentives to induce enterprises to re-invest	Legislation (Tax reform Law)	March 2010	<i>The law will be submitted to Parliament in March 2010 and will be applied retroactively from 01/01/2010.</i>
Z5	Reintroduce a progressive tax on large property, inheritances and bequests	Legislation (Tax reform Law)	January 2010	<i>Completed. Law 3815/2010, FEK 5A/26.1.2010.</i>
Z6	Introduce transfer pricing and “thin capitalization” rules and measures that will increase the tax accountability of off-shore companies and their owners.	Legislation (Tax reform Law)	March 2010	<i>The law will be submitted to Parliament in March 2010.</i>
Z7	Implement an effective capital gains tax on short term share transactions	Legislation (Tax reform Law)	March 2010	<i>The law will be submitted to Parliament in March 2010.</i>
Z8	Codify and simplify tax legislation	Legislation (Tax reform Law)	March 2010	<i>The law will be submitted to Parliament in March 2010.</i>
Z9	Move to obligatory wholly electronic tax declarations together with e-tax reforms, such as electronic invoicing.	Legislation		<i>Public consultation in process.</i>

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## 3. Tax administration

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H4	Review and improve existing procedures for cross-checking of tax data	Administrative decision	Q2 2010	<i>In progress.</i>
H5	Focus on a risk-based approach in the auditing process	Administrative decision	Q3 2010	<i>In progress.</i>
H6	Eliminate bargaining in penalty assessment process and shift to a point system	Legislation	Q3 2010	<i>Pending.</i>
H7	Establish IT-based audit case management system	Administrative decision	Q3 2010	<i>In progress.</i>
H8	Centralise dispute resolution process	Legislation	Q3 2010	<i>Pending.</i>
H9	Minimize the contact of individuals with tax officials	Legislation	Q3 2010	<i>Pending.</i>
H1	Unification of the tax and social security collection mechanism	Legislation and Administrative decision	Q4 2010	<i>Pending.</i>

#### 4. Competition and Growth

Θ1	Legislative initiatives to simplify and accelerate process of establishing, licensing and operating enterprises	Legislation followed by Ministerial Decrees and Administrative decisions	Q1 2010	<i>In progress (in Q1 2010 the simplification of business start-up will be completed and in Q2 2010 the simplification of licensing and operating of business will be completed ).</i>
Θ2	Strengthen the Service for Antitrust Monitoring	Administrative decisions	Q2 2010	<i>Under Preparation.</i>
Θ3	Modernize the institutional framework under which the Competition Authority is operating (i.e. Law 703/1977)	Legislation	Q2 2010	<i>Under Preparation.</i>
Θ7	Liberalize a number of restricted professions	Public Consultation to be followed by legislation	Q3 2010	
Θ8	Introduce a modern unified public procurement system	Legislation and administrative decision	Q3 2010	<i>Planning.</i>
Θ9	Application of new auditing rules on transfer pricing	Amendment to existing legislation (in cooperation with Ministry of Finance)	Q1 2010	<i>In Progress.</i>
	Retain permanent monitoring of wholesale prices in various sectors through the continued operation an Electronic Price Observatory for more than 1000 goods and services	Administrative decisions	Q1 2010 onwards	<i>In operation.</i>
Θ10	Restructure business and commercial debts	Legislation	Q1 2010	<i>Completed. Law 3816/2010, FEK 6A/26.01.2010.</i>
Θ11	Revision of the Investment Law	Legislation	Q2 2010	<i>In preparation.</i>
Θ12	Simplification in the NSRF administrative procedures to facilitate acceleration	Amendment to existing legislative framework; Ministerial Decrees	Q1 2010	<i>In Progress. Debrief of Ministerial Council on the amedments of the bill on12/02/2010. Public consultation until 8/3/2010 and then to be tabled to Parliament.</i>
Θ13	Provide state guarantees to SMEs	Legislation	Q2 2010	
Θ14	Promote Public Private Partnerships		2010 onwards	<i>Ongoing.</i>

Θ16	Establish the Hellenic Development Fund	Legislation; cooperation with EIB	Q3 2010	<i>In Progress.</i>
Θ15	Strategic re-orientation of NSRF operational programme	Programming	Q23 2010	<i>In progress. Cooperation with regions and Ministries (working groups have already been set up). Consultation with the European Commission is required.</i>
<b>5. Other structural reforms/interventions</b>				
E1-E4	Local administration Reform	Legislation to: <ul style="list-style-type: none"> <li>1. Strengthen the role of the first level of local administration and reduce the number of municipalities from 1034 to 370.</li> <li>2. Replace the second layer of prefectures by elected regional authorities and reduce the number of institutions from 76 to a number corresponding to the existing 13 regions.</li> <li>3. Introduce 7 regional general authorities to replace the current 13 regional authorities.</li> <li>4. Drastically reduce the legal entities founded by the bodies of local authorities from the current number of 6000 to 2000</li> </ul>	Q1 2010	<i>First approval of the draft Law by the Ministerial Council. Currently in public consultation.</i>
Δ3	Freeze hiring in 2010, excluding the limited hiring required to cover critical vacancies in the health, education and security sectors	Emergency Measures Law	5 March 2010	<i>Tabled to the Greek Parliament on 03 March 2010 and voted on 05 March 2010. Interministerial committee will approve only the absolutely necessary recruitments.</i>
Δ2	Maintain the 5-to-1 rule, linking retirees with new public service employees	Emergency Measures Law/5 March 2010	2011-2013	<i>Tabled to the Greek and voted on 05 March 2010. It will be applied uniformly across the public sector (and not across each Ministry) and there will be a redistribution of personnel between the public entities.</i>

Δ4	Reduce short-term contracts of up to one-third in most government areas	Legislation in Q1 2010	Q1 2010 onwards	<i>Automatic non-renewal of existing short-term contracts. All fixed-term contracts will need to be approved by the ASEP (Law 3812/2009, FEK 234A/ 28.12.2009). Short-term contracts will be restricted to those which are absolutely necessary (eg. seasonal firefighters during the summer months).</i>
Δ5-Δ6	All public sector recruitments through the Public Sector Hiring Authority (ASEP) Abolition of all recruitment exceptions	Law 3812/2009, FEK 234A/ 28.12.2009	Q1 2010 onwards	<i>Being Implemented.</i>
E6	Publication online of all government decisions involving expenditure. This becomes a necessary condition for the validity of any such decision	Approved by Council of Ministers; to be submitted to Parliament	Q1 2010 onwards	<i>In Progress. Draft law under finalization.</i>
Θ18	Develop regional and local Integrated Employment Plans			<i>Planning.</i>
Θ19	Improve labour market transparency			<i>The draft law will be tabled to Parliament next week.</i>
Θ20	Migration legislative initiative	Legislation	Q1 2010	<i>Approved by Ministerial Council and submitted to Parliament.</i>
	Law on transparency in public decisions involving disbursements of funds	Draft legislation	Q1 2010	<i>Draft law approved by the Council of Ministers</i>
E5	Transposition of services directive Equalisation of women and men retirement ages in public sector	Legislation	Q1 2010	
Θ7	Opening of closed professions	Legislation	Q2 2010	

### *Additional interventions submitted by Ministries*

ΣΤ1-3	Pension reform	Legislation	May 2010	<i>Public consultation completed. Finalization of draft Law, which will be presented to the Ministerial Council in March. Thereafter, submission to Parliament. Process expected to be completed in May (at the latest).</i>
B1	Budget funds released on a monthly basis	Ministerial decision	January 2010	<i>Decision has been signed, currently being implemented.</i>
Δ8	Change in the way teaching staff is hired	Legislation	Q1 2010	<i>To be discussed by the Ministerial Council on 02/03/2010.</i>
E7	Changing the institutional framework for health supplies		1st semester 2010	<i>In Progress.</i>
E8	New management, storage and handling system for medical material within hospitals		1st semester 2010	<i>In Progress.</i>

E9	New management system for drugs		1st semester 2010	<i>In Progress.</i>
E10	Establishment of hospital packaging systems and modern logistics		1st semester 2010	<i>In Progress.</i>
E11	Electronic monitoring of doctors' prescriptions		1st semester 2010	<i>In Progress.</i>
E12	Completion of hospital computerization		1st semester 2010	<i>In Progress.</i>
E13	Measures to reduce social contribution evasion			
E14	Controlling health costs by applying a list of pre-approved drugs	Ministerial decision	1st semester 2010	<i>In Progress. Study by an inter-ministerial committee on the inclusion criteria for the drug list.</i>
E15	Integration of the healthcare pillar of social security funds in the NHS			<i>Ministerial dialogue.</i>
H13	Establishment of annual targets for tax administration offices and evaluation based on performance	Ministerial decision	February 2010	<i>In force.</i>
Θ4	Reduction in the licensing time for renewable energy by 82% and creation of one-stop shops	Draft Law	Q2 2010	<i>In progress, the first reading took place 03/02/2010.</i>
Θ5	Establishment of a "Green Fund"	Bill		<i>Debrief of Ministerial Council on the principles of the draft bill - Awaiting announcement of date for the first reading to the Standing Committee.</i>
Θ21	Insurance of agricultural productions. Review of the institutional framework of ELGA	Legislation	March 2010	<i>Public consultation in process.</i>
Θ22	New institutional framework for the restructuring of agricultural unions	Legislation	March 2010	<i>Public consultation in process.</i>
Θ23	New institutional framework for the management policy of agricultural land	Legislation	June 2010	<i>Plan under finalisation – consultation.</i>
Θ24	New institutional framework for the restructuring of Agricultural Cooperatives	Legislation	November 2010	<i>Public consultation.</i>
Θ25	Bill for the protection of forests and woodlands in the Attica prefecture	Legislation	Process completed	<i>Publication to the Official Gazette pending.</i>
Θ26	Establishment of a National Network for Lifelong Learning (Network, Institutions, National Qualifications Framework etc)	Legislation	Q2 2010	<i>Stage of preparation by inter-ministerial working groups.</i>
Θ27	Review of the institutional setting controlling the establishment and operation of Colleges (Law 3696/2008)	Legislation	Q2 2010	
Θ28	Amendment of the regulation for Geothermal fields in line with current needs	Ministerial decision	By end of 2010	<i>Consultation and suggestion Committee in operation.</i>
Θ29	Amendment of the current legislation for the licensing of power plants	Amendments-Additions to Ministerial Decision	February 2010	<i>Completed.</i>

Θ30	Adjustment to Legislation for health and safety requirements for work at quarrying and mining sites	Ministerial decision	By end of 2010	<i>Consultation and suggestion Committee in operation.</i>
Θ31	Measures for the improvement of end-use energy efficiency, energy services and other provisions	Draft Law	Within 2010	<i>Has gone through ministerial council. Will enter into public consultation. It is estimated that the law will pass in the next three months.</i>
Θ32	Energy Efficiency Building Regulations	Common Ministerial Decision	Within 2010	<i>Public Consultation terminated (31/01/2010)</i>
Θ33	Establishment of an energy inspectors body and of a registry for controlling buildings and issuing an Energy Efficiency Certificate for buildings, boilers and air conditioning systems	Ministerial Decree	Within 2010	<i>On-going.</i>
Θ34	Increased transparency in the banking and insurance services provision	Legislation	1st half of 2010	<i>Working group has been established at the Ministry of Economy, Competitiveness and Shipping.</i>
Θ35	Settlement of debts of heavily indebted individuals	Legislation	Q1 2010	<i>Legislative review has been completed. Report by the General Accounting Office has been completed. Awaiting submission to the Parliament.</i>
Θ36	Organisation and operation of alternative management systems for packaging and other products and of the National Organisation for the Alternative Management of Packaging and Other Products.	Draft Law	Q2 2010	<i>Discussion at KENE 18/02/2010.</i>
Θ37	Enhancing the transparency of banking and insurance transactions	Legislation	Q2 2010	<i>In progress. Amendments of Law 3714/2008 and new regulations.</i>