



HELLENIC REPUBLIC
MINISTRY OF FINANCE

The Medium-Term Fiscal Strategy 2012-15

15 April 2011

The Broader Framework:

The strategic objectives of the Government's economic policy

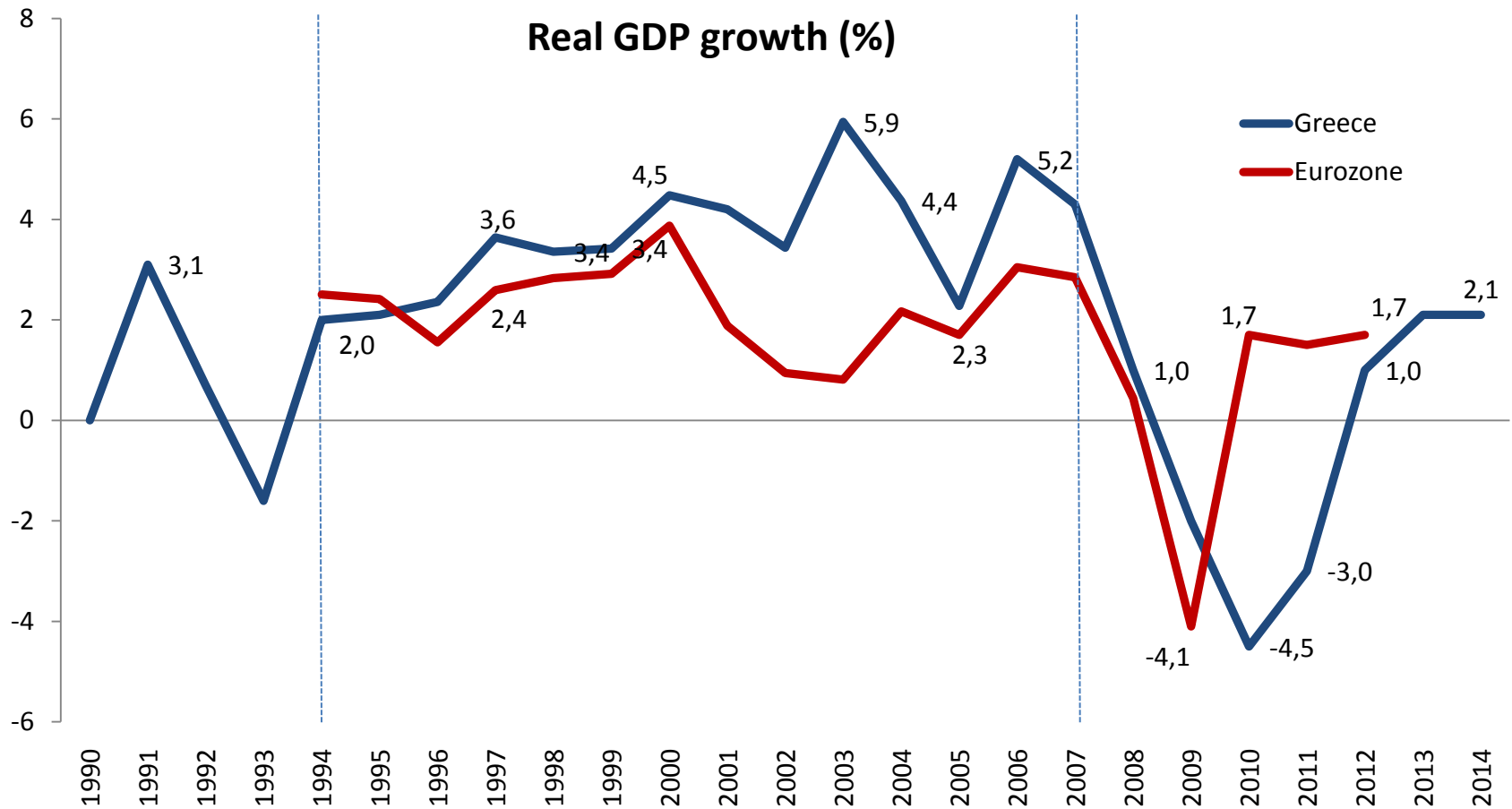
The Government's economic policy is centred around two objectives:

- **Creating a new growth model** based on export competitiveness and private investment to drive jobs, growth and viable external accounts
- **Front-loaded fiscal consolidation to restore public debt sustainability**

A necessary (but not sufficient) condition for the achievement of these objectives is **the preservation of financial stability and liquidity in the banking sector**

Greece's adjustment programme till 2013 agreed with the ECB/EU/IMF is based on these three pillars

Greece's recession is equivalent to that of the Eurozone in 2009



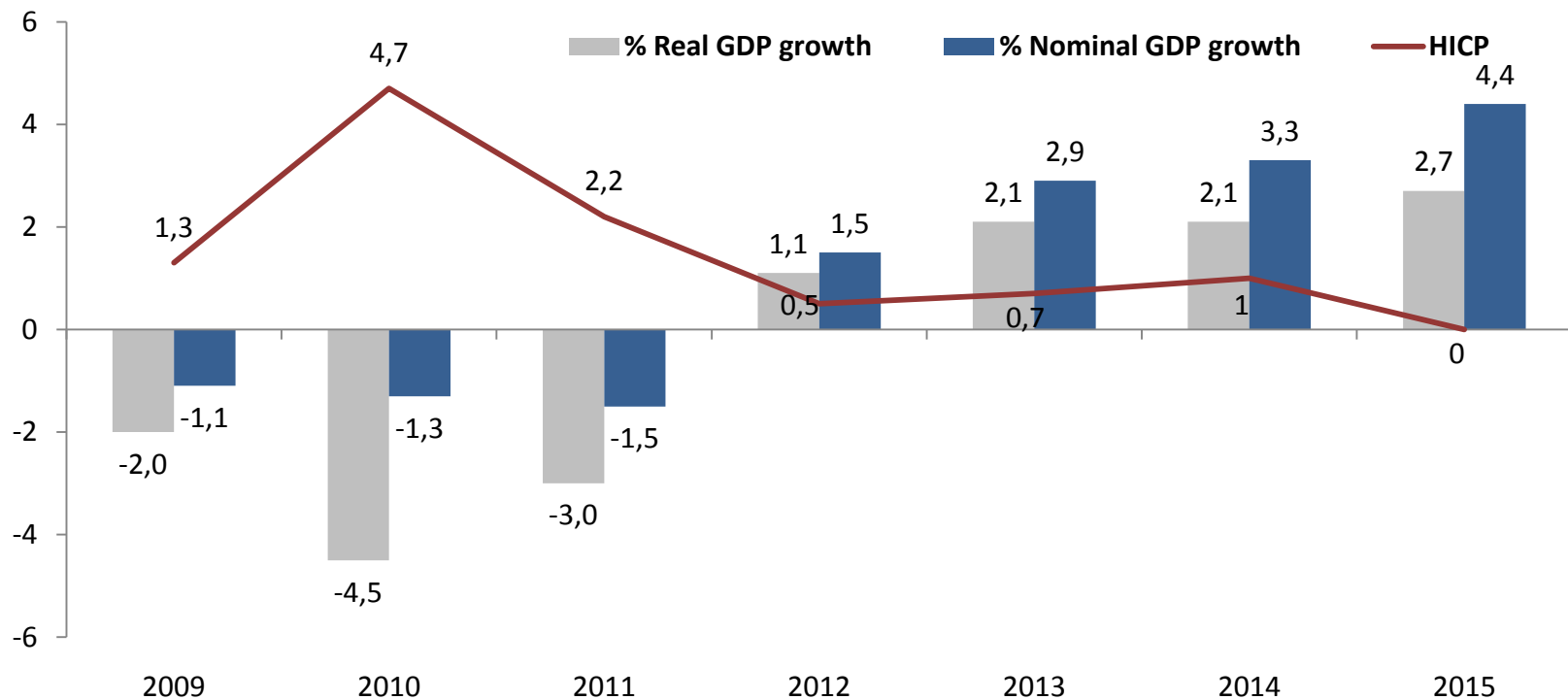
Source: Eurostat, European Commission (DG ECFIN)

While Greece's recovery will lag that of the EZ, by 2012 it will have converged to positive EZ growth rates

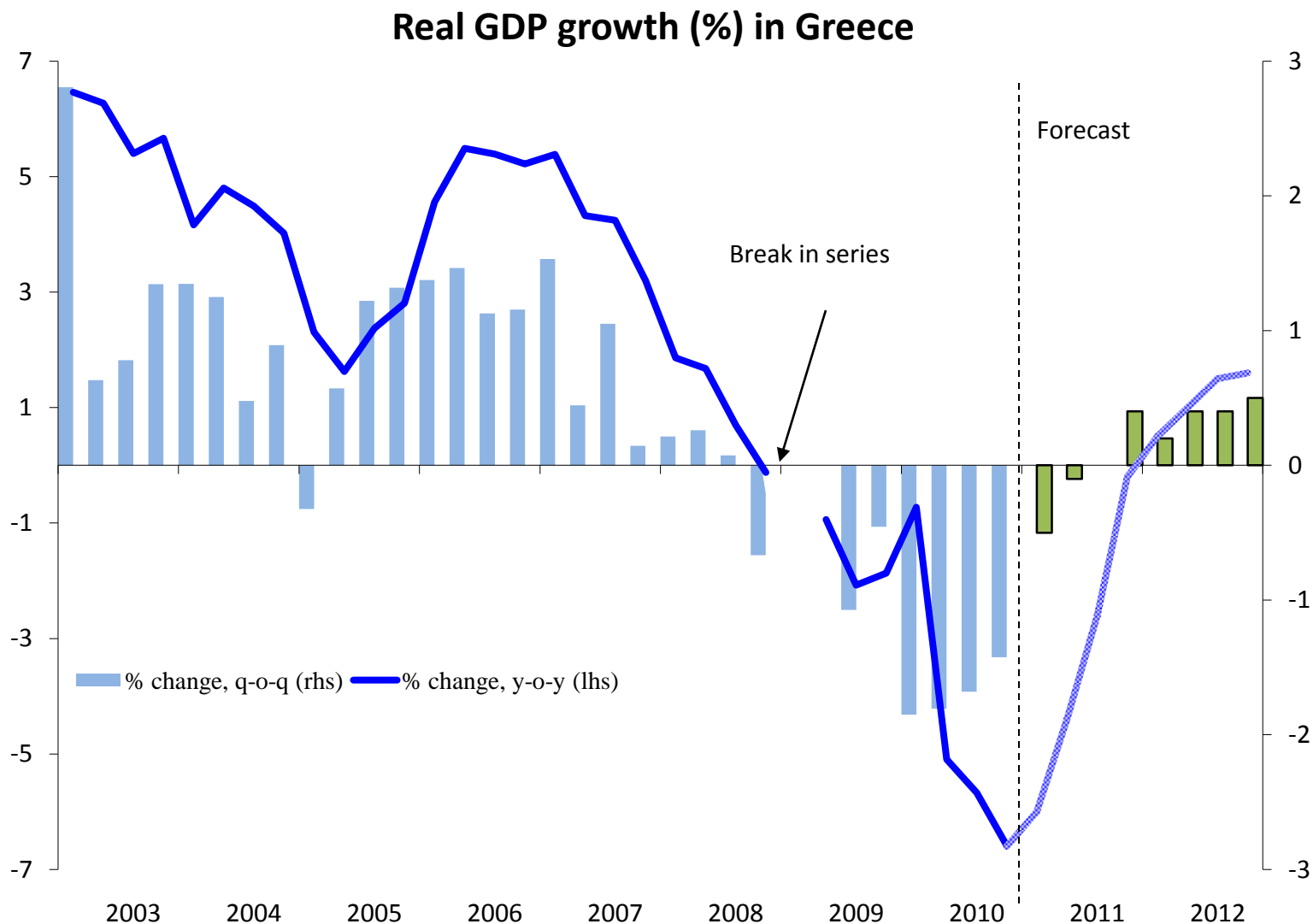
After 2012 real growth is projected above 2% over the medium-term (2013-15)

Current economic conditions are not supportive

- Global growth prospects, and those of the Eurozone (EZ) in particular remain limited
- The volatility in global markets and particularly the EZ periphery are likely to continue
- BUT the recession in Greece in 2011 will be smaller than in 2010 (-3% versus -4,5% in 2010) and **Greece is expected to return to positive growth in 2012**

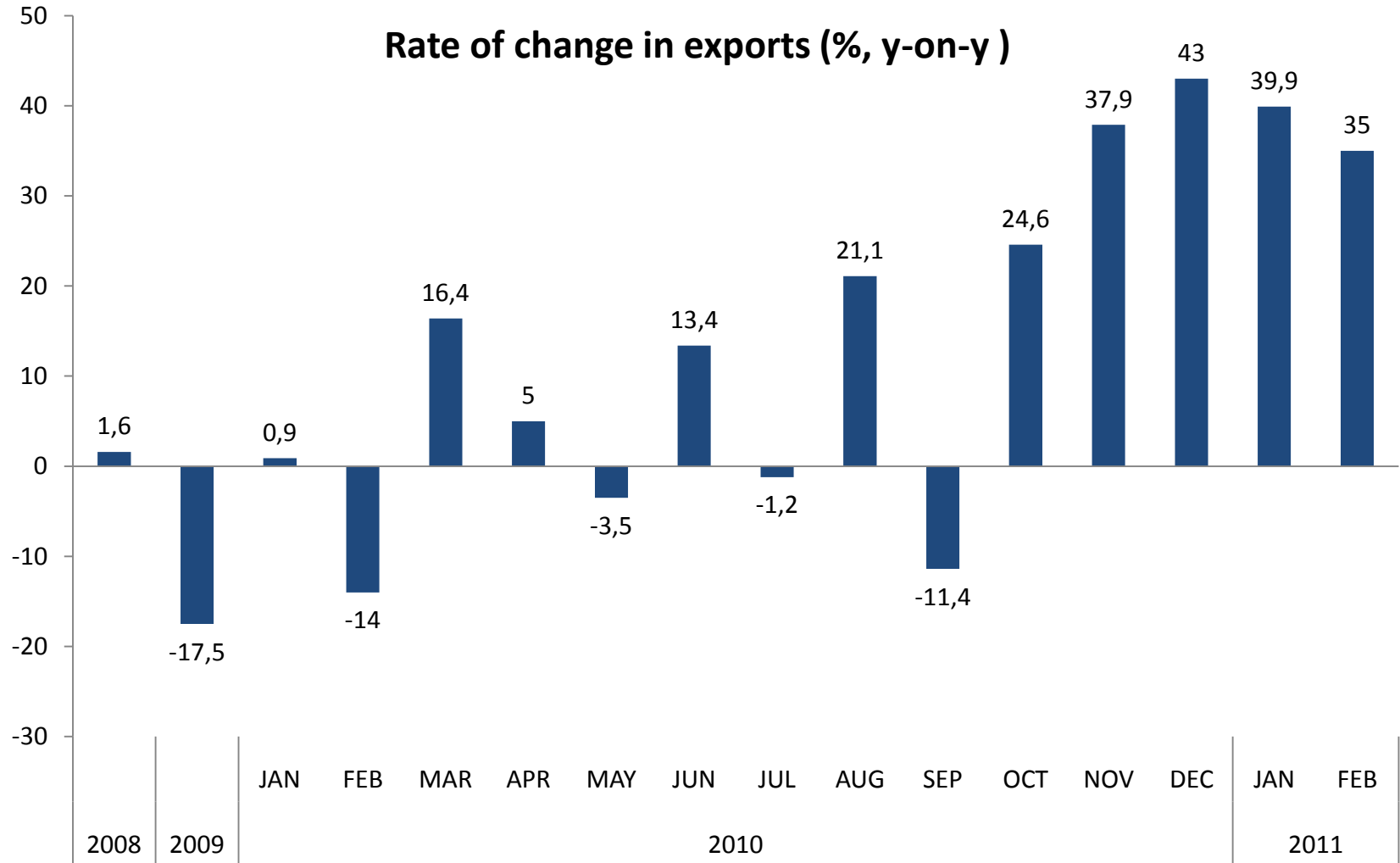


There are signs the economy is recovering already



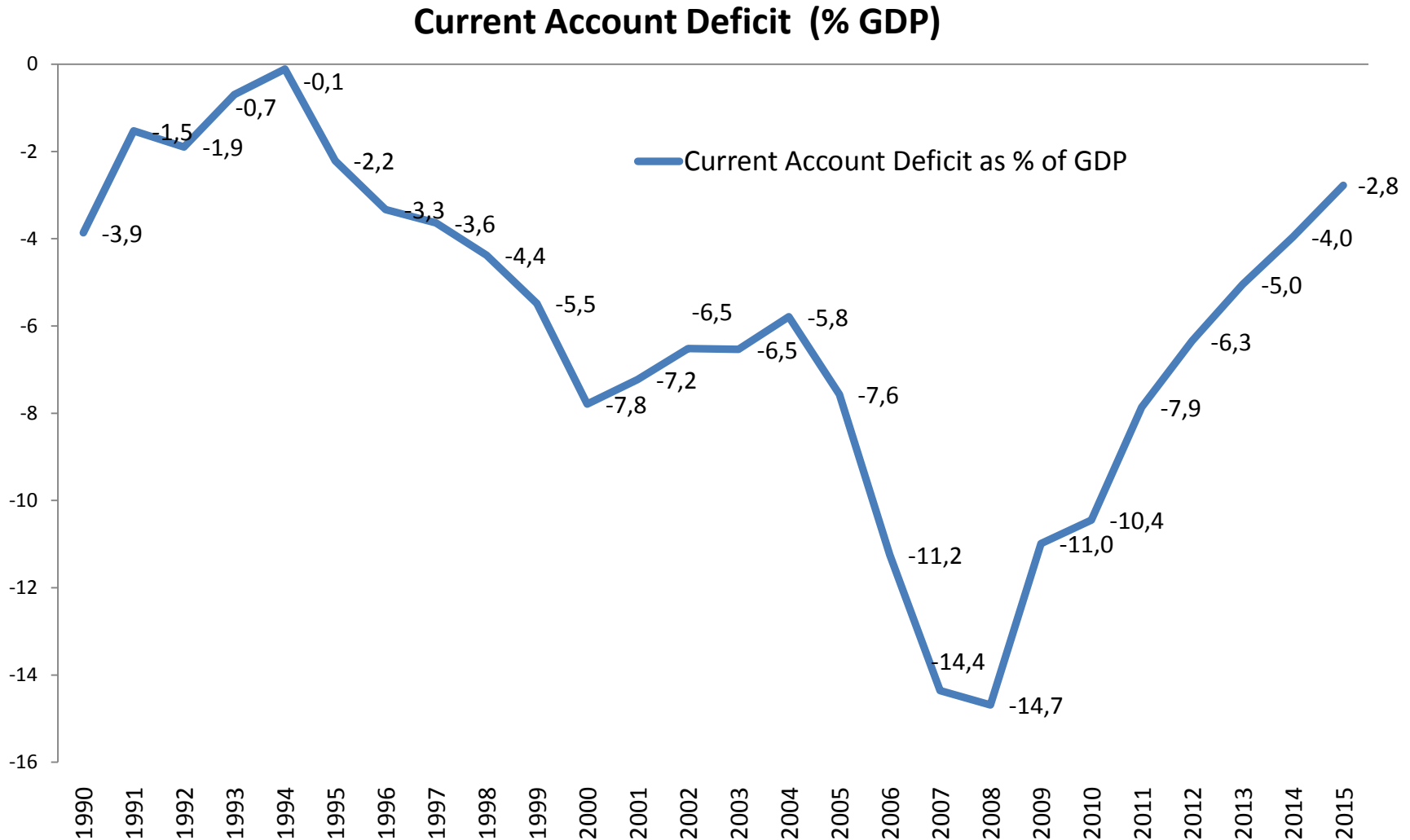
Source: Eurostat, European Commission (DG ECFIN)

Greece's exports are showing dynamic growth



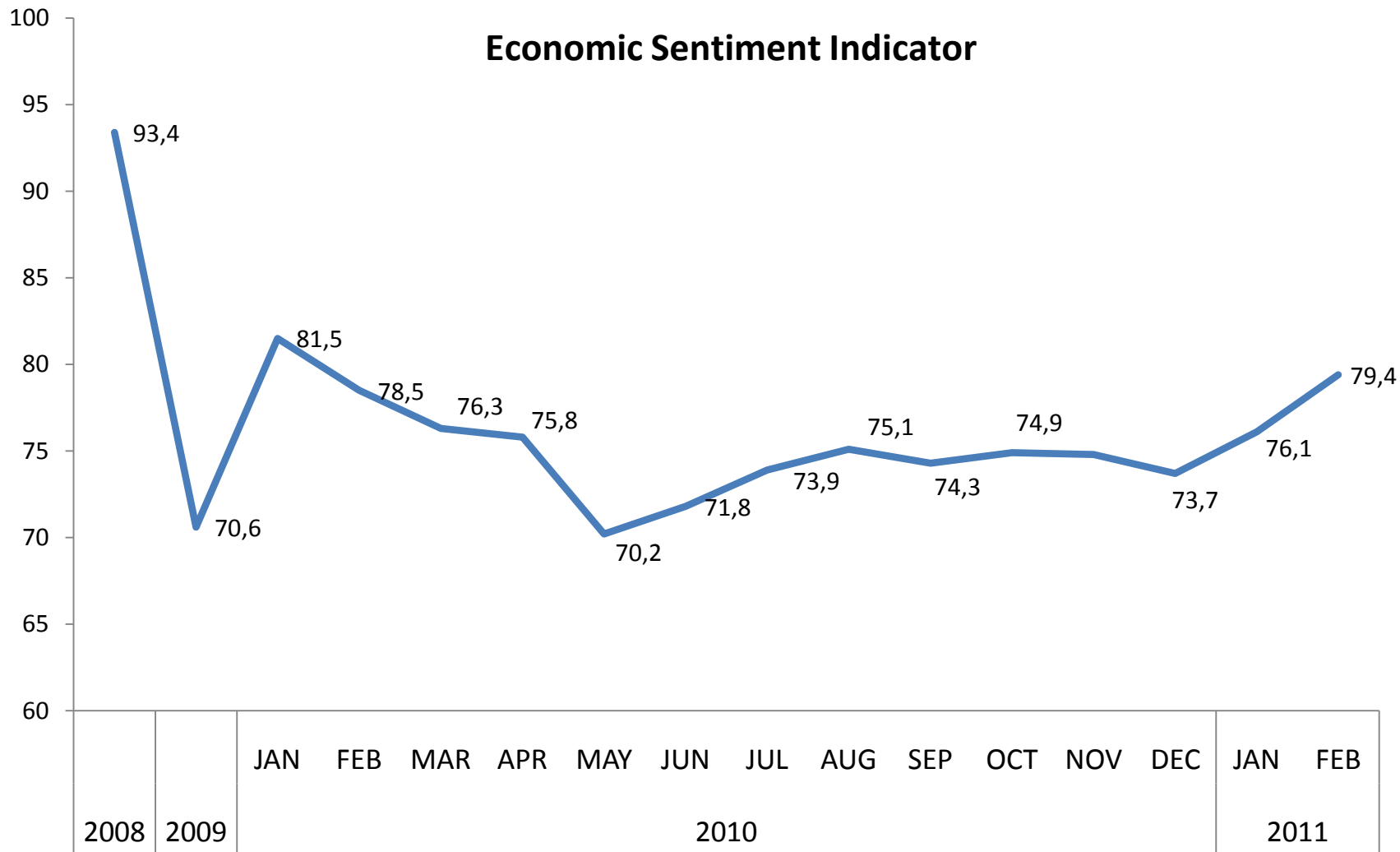
Source: ELSTAT

The current account deficit is shrinking...



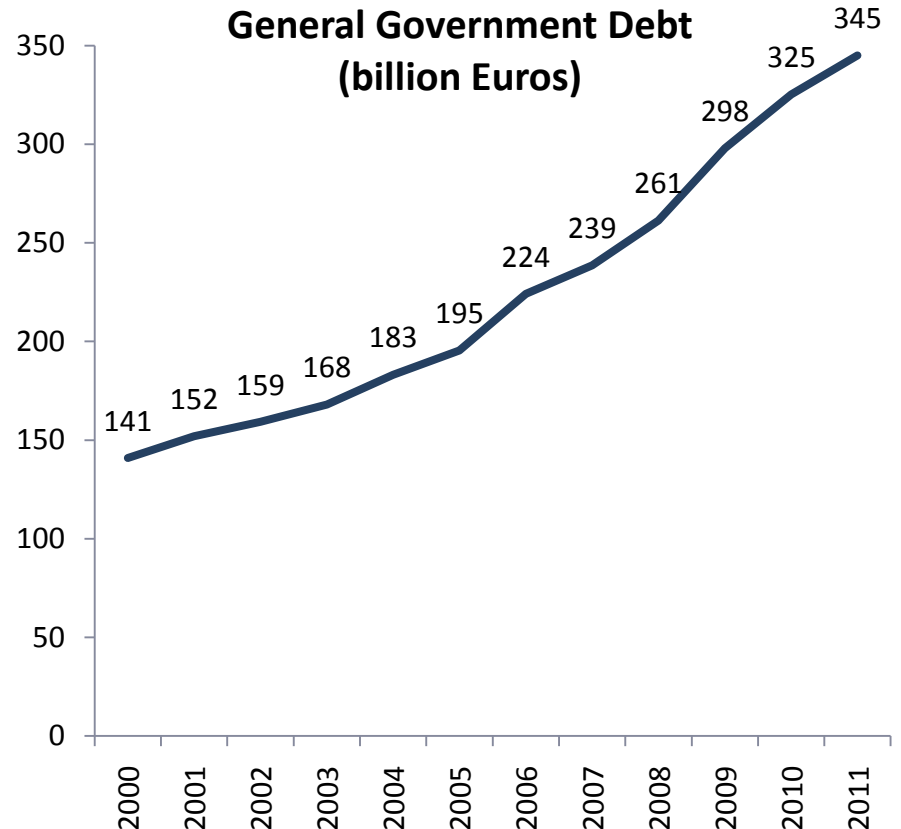
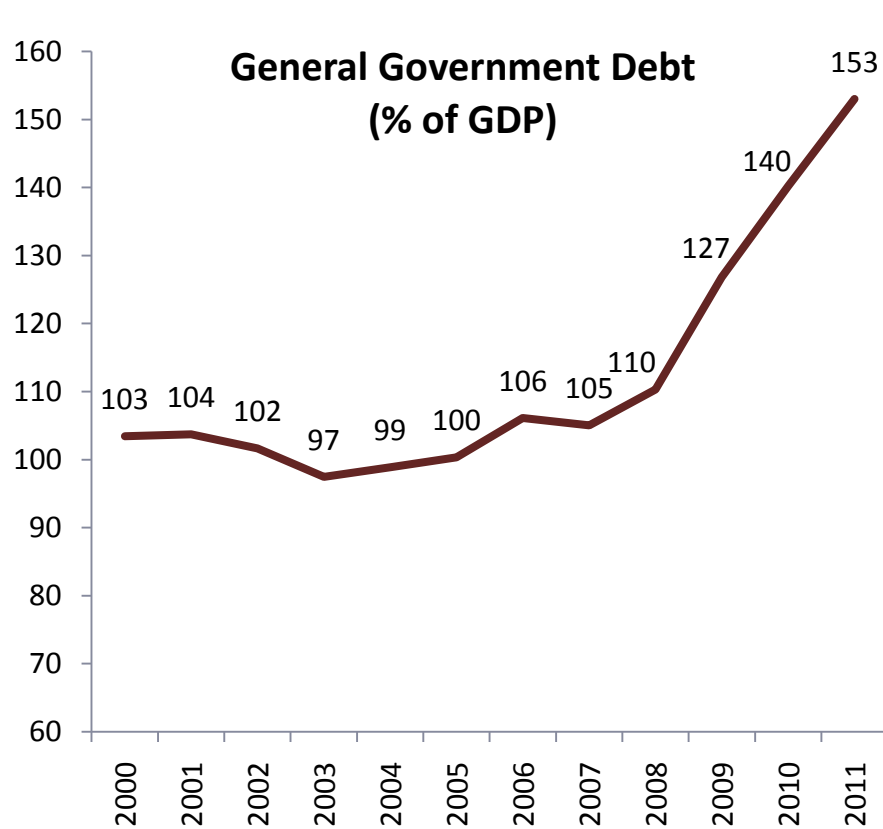
Source: ELSTAT

Economic sentiment is gradually improving



Source: Institute for Economic and Industrial Research – European Commission (DG ECFIN)

This recovery faces risks... especially as public debt continues to rise

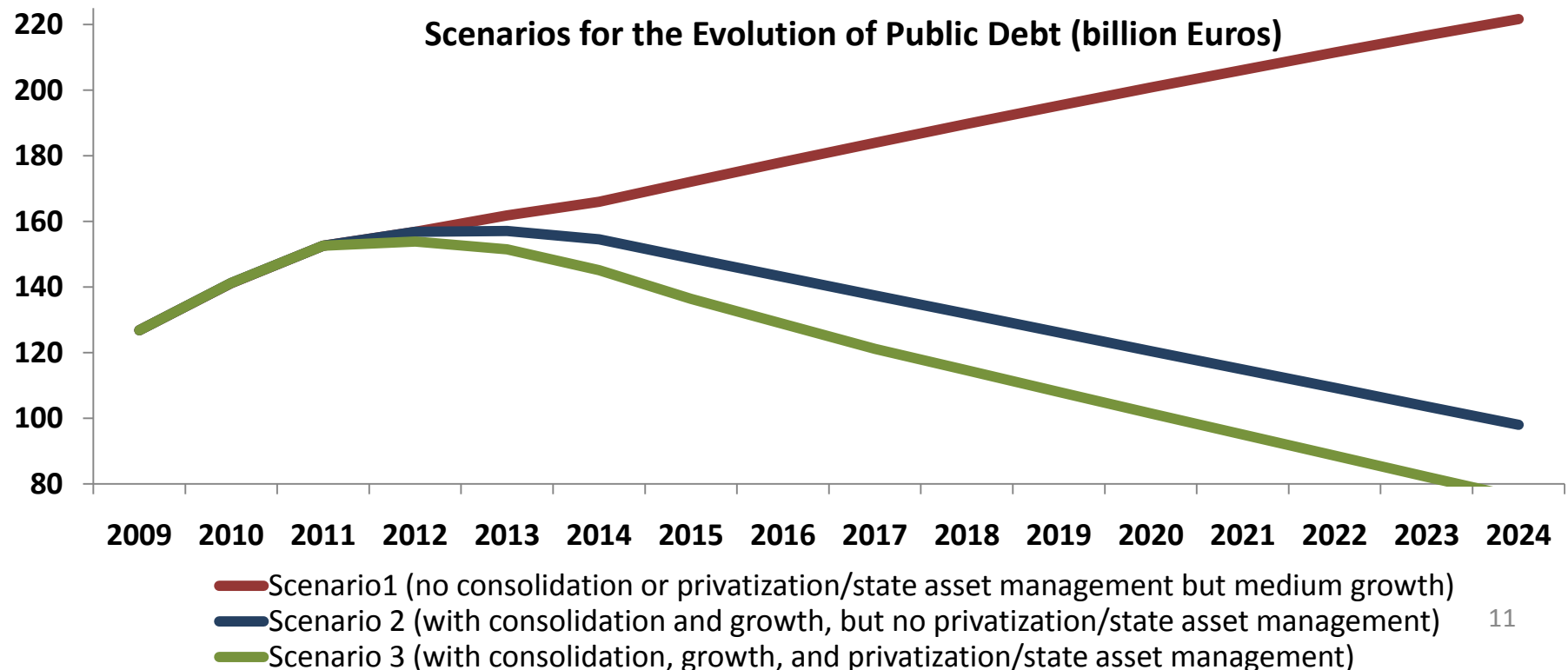


The substantial progress made in the implementation of the adjustment programme and resultant recovery are being overlooked by markets, primarily due to the debt trajectory...

BUT the public debt trajectory can be reversed starting in 2013

Public debt can start decreasing as early as 2013 with a combination of ambitious reforms and the growth rates forecast:

- Fiscal Consolidation - primary surpluses above 5.5%
- Privatisation and State Asset Management- revenue of 1-2% of GDP for 5 years
- Growth - nominal growth rates above 2%



Building on the nascent recovery and changing the debt trajectory... and the narrative

The **Medium-term Fiscal Strategy** and the **Privatisation and State Asset Management Programme** are thus two essential policy frameworks for strengthening the nascent recovery and reversing the debt trajectory

They set **ambitious targets over the short and medium-term** and **outline concrete, realistic measures** to meet them ...

... reflecting the Government's **understanding of the depth of the challenges** and its **commitment to address them**

Privatisation and State Asset Management

State commercial assets as a driver of growth, employment and competitiveness

The privatisation and state asset management programme will

- **Support growth**
- **Attract private investment and create jobs**
- **Provide impetus to critical sectors of the economy**

We want to attract private capital to important sectors and activities

.... while **maintaining public participation in critical infrastructure** to ensure public welfare

The privatisation of state assets can also help to significantly reduce the public debt burden

The programme will reap significant revenues

- 15 billion Euros during the period 2011-2013
- 50 billion Euros in total until 2015

These revenues can be used to make the debt burden sustainable by reducing it by **20 percentage points of GDP** until 2015 and reducing significantly the burden on the Greek taxpayer for interest payments

Indicatively, the successful implementation of the programme until 2015 will reduce the *annual* interest expenditure by **3 billion Euros for the Greek taxpayer**

The programme will have a flexible approach and transparent processes

- **Levels of State control**
 - 51% or above: controlling majority
 - 34%: blocking minority
 - Less than 34% with shareholder agreement
 - Full privatisation
- **Procedures**
 - Sales
 - Concession Agreements
 - Strategic Investors
 - Equity through the Stock Exchange
 - Holding Company

There are significant state commercial assets in a range of sectors with high potential

- **Infrastructure:** Airports, Ports, Motorways
- **Energy:** Public Power Corporation, Public Gas Corporation, Hellenic Petroleum
- **Telecommunications:** Hellenic Telecommunication Organisation, Frequency Spectrum
- **Gaming:** OPAP, Hellenic Casino of Parnitha, Hellenic Horse Racing Organization, State Lottery, e-gaming
- **Real Estate**
- **Other Holdings:** LARCO, TRAINOSE, Hellenic Defence Systems, Hellenic Vehicle Industry S.A

Creating modern airport infrastructure

The country needs state-of-the-art airport infrastructure in order to

- **Meet the needs of the population in the whole country**
- Support the **development of tourism**

Actions:

- **Extension of the duration of the concession agreement for Athens International Airport (AIA) in 2011 and gradual sale of state participation to private investors (2012)**
- A new Law was passed by the Greek Parliament in March 2011 **permitting the corporatization of the 29 regional airports**
- **Corporatization of all regional airports starting in 2011** and attraction of private capital/know-how to upgrade operations while State maintains participation (similar structure to AIA)

New port infrastructure

The Government wants ports that:

- **Promote tourism, trade and growth**
- **Can contribute to the generating employment and income both in the local communities and country-wide**

Actions:

- Studies are under way to **explore viable public-private partnership structures** to develop the Attiki Port System as well as the 12 regional ports of Greece
- Starting in 2012-13 these structures will be established and private investments in upgrading infrastructure initiated
- Starting in 2011, private investors interested in equipping marinas in Greece with modern tourist infrastructure will be identified and appropriate investment structures set up

Road and railway networks

- **The national road and railway network must facilitate safe transportation and trade, at a reasonable cost for taxpayers and users**

Actions:

- **The operation, maintenance and toll rights for existing motorways will be assigned to private investors on a concession basis.** be the approach for the Egnatia Odos Motorway the process will be completed by end of 2011.
- **A Special Purpose Vehicle with the rights to future toll revenues from motorways under construction or to be constructed will be set up and sold to private investors.** This will reduce tolls during construction, facilitate the construction of roads currently underway and reduce debt.
- **Implementation of the consolidation plan for the OSE Group so that it stops making losses and draining public funds.** In 2011 the State's share in TRAINOSE will be divested and the development of the real estate assets of GAIAOSE will be initiated.

State assets will be used strategically to promote a new energy policy

The Government has 3 key objectives in the energy sector:

- **The dynamic development of renewable energy sources**
- **The upgrading of Greece's geo-strategic role in international energy networks**
- **Ensuring the country's energy independence**

The strategic management of state energy assets and careful liberalization of the market can help achieve these policy objectives:

- **In 2012, the State's equity holding in PPC will be reduced from 51% up to 34%, while the State will maintain control and interest**
- **Reduction of the State's holding in Public Gas Corporation (DEPA) to 34% in 2011**
- **Foreign investors will be identified in 2011-12 to develop undersea gas storage facilities**
- **LARCO S.A (nickel mining company) will be sold in 2011**

Establishing modern telecommunication and broadband infrastructure

Greece must develop a modern communications network by upgrading existing infrastructure and introducing modern technologies and practices

Actions:

- **Creation of a modern and wide fiber optic cable network** with the collaboration of the public and private sectors
- In **2011 the State will reduce its participation in the Hellenic Telecommunication Organization**
- The **frequency spectrum and digital dividend** will be utilized starting in **2012** in order to develop modern telecom, broadband and digital infrastructure
- In 2011 the **licenses for mobile telecommunications** will be extended
- The process for identifying a **strategic investor in Hellenic Post** who will take **operational control of nationwide services** will start in **2012**

Establishing a transparent, regulated gaming market

- The State must establish a **regulatory framework that ensures transparency and social protection in the gaming market that will also generate revenues for the public sector**

Actions:

- **In 2011 the State will sell its entire stake in the Parnitha Casino**
- **Regulation of the gaming (including e-gaming) market and issuing of licenses will be introduced in 2011**
- In 2011 the duration of the **concession agreement with OPAP** for gaming/football prognostics **will be extended**. The company will also obtain licenses for e-gaming and other games. The State's stake in OPAP will be sold in 2012
- The **privatization process for the State Lottery will start in 2011**
- **Restructuring of Hellenic Horse Racing Corporation** and initiation of privatization process in 2012

Development of the banking sector

- **The Greek banking system must play an important role in the growth of the economy in the next years**
- **The Government supports strategic moves between banks and created the Financial Stability Fund and a broad programme of guarantees as a safety net and support for the provision of credit to the real economy**
- **The Government is pursuing the restructuring of banks with State participation:**
 - **The Agricultural Bank of Greece (ATE)** has announced an important increase in the equity capital and has started an important restructuring process. At the end of this process the State's participation will be reduced
 - **The Loan and Consignment Fund is being unbundled.** The consignment function will maintain their public sector role in supporting the Local Governments and other public bodies. In 2012 the State will proceed with the sale of the commercial department depending on market conditions.
 - **The Hellenic Postbank remains an important part of the public banking pillar. By 2013** the participation of the public sector will have been reduced and the role of the bank will have been strengthened in a broader framework that will allow it to continue its activities

The Development of State Real Estate Assets

- **The State owns a vast portfolio of real estate assets that today is under-developed or is exploited by uncontrolled private vested interests.**
- **The development and management of these assets with transparent conditions and protection of public interest is an obligation for the State, as an important development tool and as a means to reduce the country's large public debt.**
- **The complete registration and evaluation of the State's properties with commercial value has already begun**

Actions for the Development of Real Estate Assets

- The complete registration and evaluation of State-owned commercial real estate assets **will be recorded for the first time in Greece in a Single Land Registry**
- **A National Sovereign Fund for Public Land with individual specialized portfolios of large properties will be established**
- Greek and international banks will **structure the real estate investment portfolios as Special Purpose Vehicles and promote their sale in global markets**
 - Four Real Estate Investment Portfolios will be presented between 2011 -12, one every six months starting in June 2011

Actions for the Development of Real Estate Assets

- **In 2011, institutional interventions that will resolve chronic problems preventing the development of real estate assets will be made:**
 - **Surface rights and long-term leaseholds will be legally established**
 - **Conditions for holiday and tourist accommodation and property development will be defined**
 - **Decisions on the zoning and building conditions for specific large State properties will be expedited to ensure faster development and utilization of these assets through the fast-track procedure**
- **Immediate development of State properties** held by the Public Real Estate Corporation S.A. (KED), Hellenic Tourism S.A. (ETA), and Hellenic Olympic Properties S.A
- **State real estate assets that were thus far largely unused will be now be developed and will reduce the burden on the Greek tax payer**

The Timetable for the Development of State Real Estate Assets

- **March – April 2011:** Hiring of consortia that will register and evaluate the commercial viability of all State real estate assets
- **June 2011:** Delivery of the **first** portfolio
 - June 2011: Hiring of Advisors that will structure and promote investment products
 - June – September 2011: Legislative interventions required are made
 - October 2011 – 2012: Promotion of products in global markets
- **December 2011:** Delivery of the **second** portfolio (and the same procedure as above is followed for the sale of the products)
- **June 2012:** Delivery of the **third** portfolio (and the same procedure as above is followed for the sale of the products)
- **December 2012:** Delivery of the **fourth** portfolio (and the same procedure as above is followed for the sale of the products)

A Summary of the Programme in numbers

- **Potential**

- **10-15 billion Euros** from enterprises and infrastructure
- **25-35 billion Euros** from the strategic management of rights and development of State Real Estate Assets

- **Timing**

	2011	2012	2013	Total
Estimated Revenue (million Euros)	2,000-4,000	5.500-7.500	4.500-5.500	12.000 - 17.000

Anticipated Transactions in 2011

Enterprise	% Under State Control	Method
Athens International Airport	55%	Extension of concession duration
Hellenic Defence Systems	100%	Trade Sale to Strategic Investor
State Lottery Tickets	100%	Partial Privatization and introduction of Strategic Investors
Public Gas Corporation (DEPA)	65%	Sale of Shares
TRAINOSE	100%	Trade Sale to Strategic Investor
LARCO (nickel mining industry)	55%	Trade Sale to Strategic Investor
Hellenic Horse Racing Corporation	100%	Trade Sale to Strategic Investor
Casino of Parnitha (Mont Parnes)	49%	Trade Sale to Strategic Investor
Hellenic Telecommunication Organization	16%	Sale of Shares
Frequency Spectrum - Mobile Telephony	100%	Sale of concession SPV
Hellenic S.A	100%	Sale of concession SPV
Real Estate Investment -Portfolio I	100%	Sale of concession SPV

Estimated Revenue : 2 -4 billion Euros

Anticipated Transactions in 2012

Enterprise	% Under State Control	Method
Athens International Airport	55%	Sale of Strategic Stake
Egnatias Odos Motorway	100%	Sale of concession SPV
Hellenic Post	90%	Trade Sale to Strategic Investor
Ports- Portfolio I	77-100%	Sale of concession SPV
Athens Water Supply and Sewerage Company (EYDAP)	61%	Trade Sale to Strategic Investor
Thessaloniki Water Supply and Sewerage Company (EYATH)	74%	Trade Sale to Strategic Investor
Hellenic Vehicle Industry S.A. (ELBO)	51%	Trade Sale to Strategic Investor
Consignment Fund	100%	Sale of banking operation after consignment activity spun-off
Public Power Corporation (DEH)	51%	Sale of Shares
Hellenic Football Prognostics Organisation (OPAP)	34%	Trade Sale to Strategic Investor
Hellenic Motorways	100%	Sale of concession SPV
Regional Airports – Portfolio I	100%	Sale of concession SPV
Hellenic S.A – Part II	100%	Sale of concession SPV
Real Estate Investment – Portfolios II and III	100%	Sale of concession SPV
Frequency Spectrum – Digital Dividend I	100%	Sale of concession SPV

Estimated Revenue : 5.5-7.5 billion Euros

Anticipated Transactions in 2013

Enterprise	% Under State Control	Method
Participation in Banks (Alpha, Peiraeus, Attiki)	-	Sale of Shares through ATHEX
Agricultural Bank of Greece	76%	Trade Sale to Strategic Investor
Hellenic Postbank	34%	Trade Sale to Strategic Investor
Regional Airports - Portfolio II	100%	Sale of concession SPV
Ports- Portfolio II	77-100%	Sale of Strategic Stakes
Real Estate Investment - Portfolio IV	100%	Sale of concession SPV
Frequency Spectrum – Digital Dividend I	100%	Sale of concession SPV

Estimated Revenue: 4.5-5.5 billion Euros

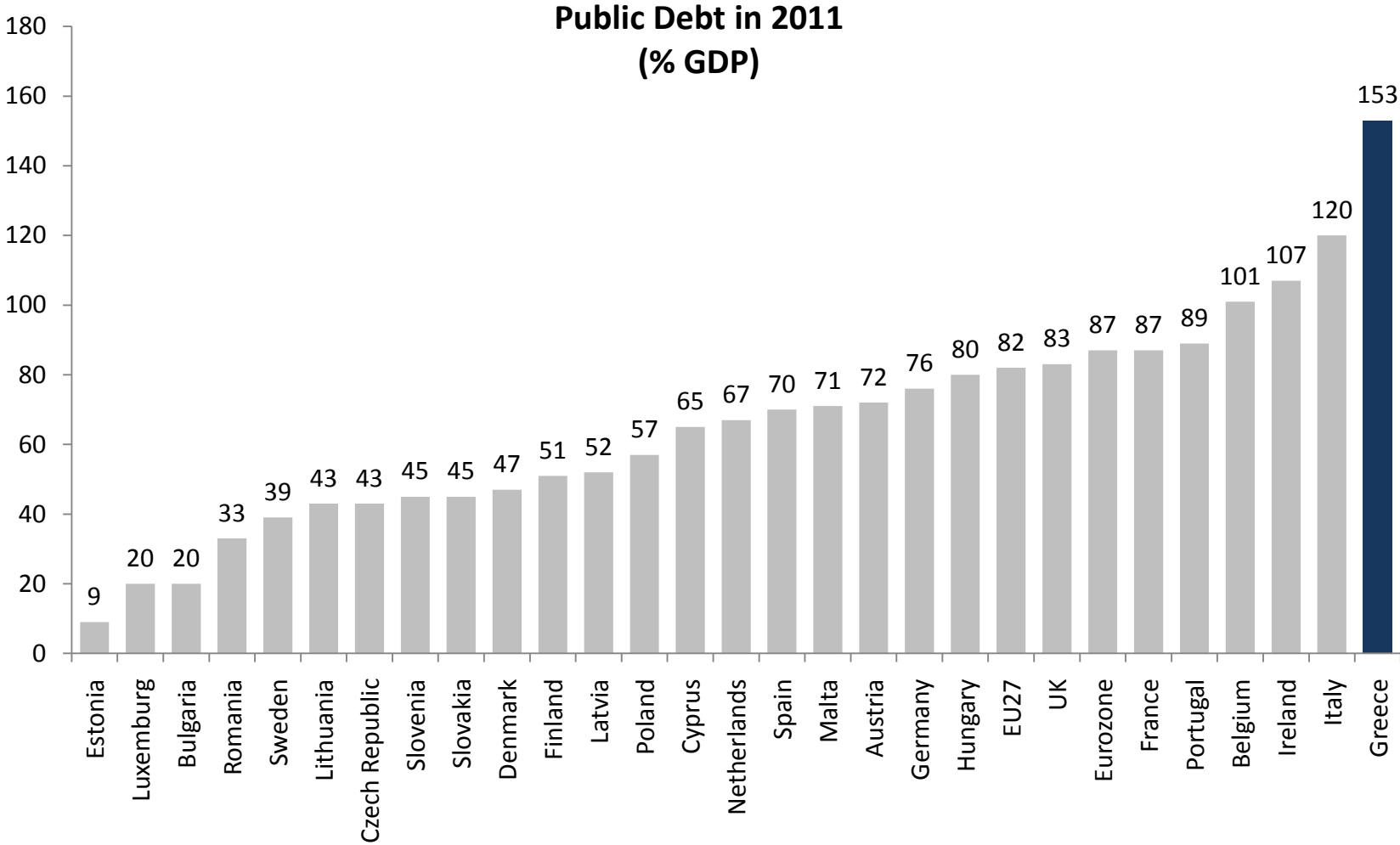
The Medium-Term Fiscal Strategy

The big challenge: Controlling public debt

For a society to plan its future, it needs to ensure the sustainability of the wider economic and fiscal framework

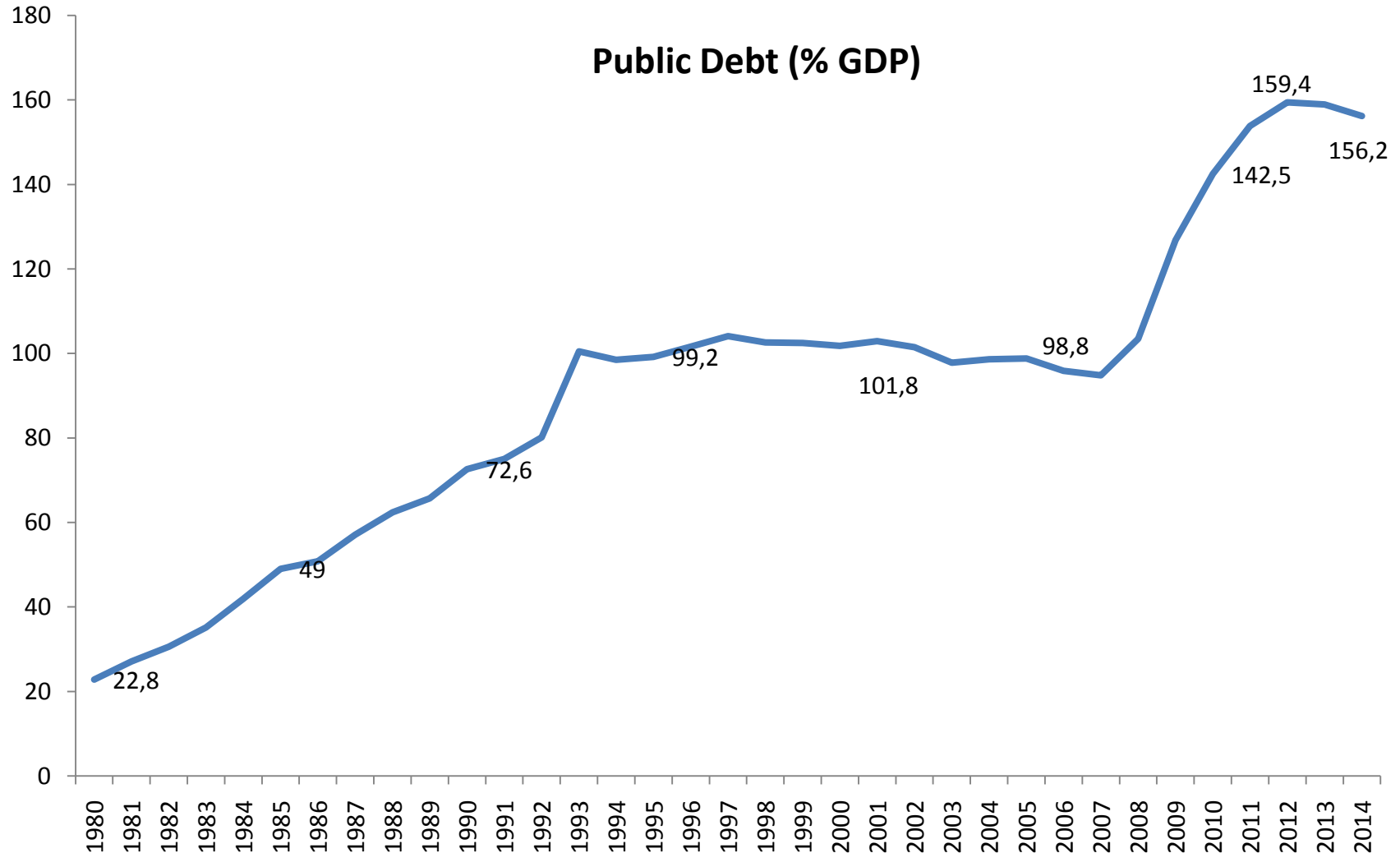
For Greece, the control and containment of public debt is one of the biggest challenges of the next decade

In 2011 Greece will have the largest public debt in the EU



Source: Eurostat, European Commission (DG ECFIN)

Public debt will start to fall as a share of GDP as of 2013

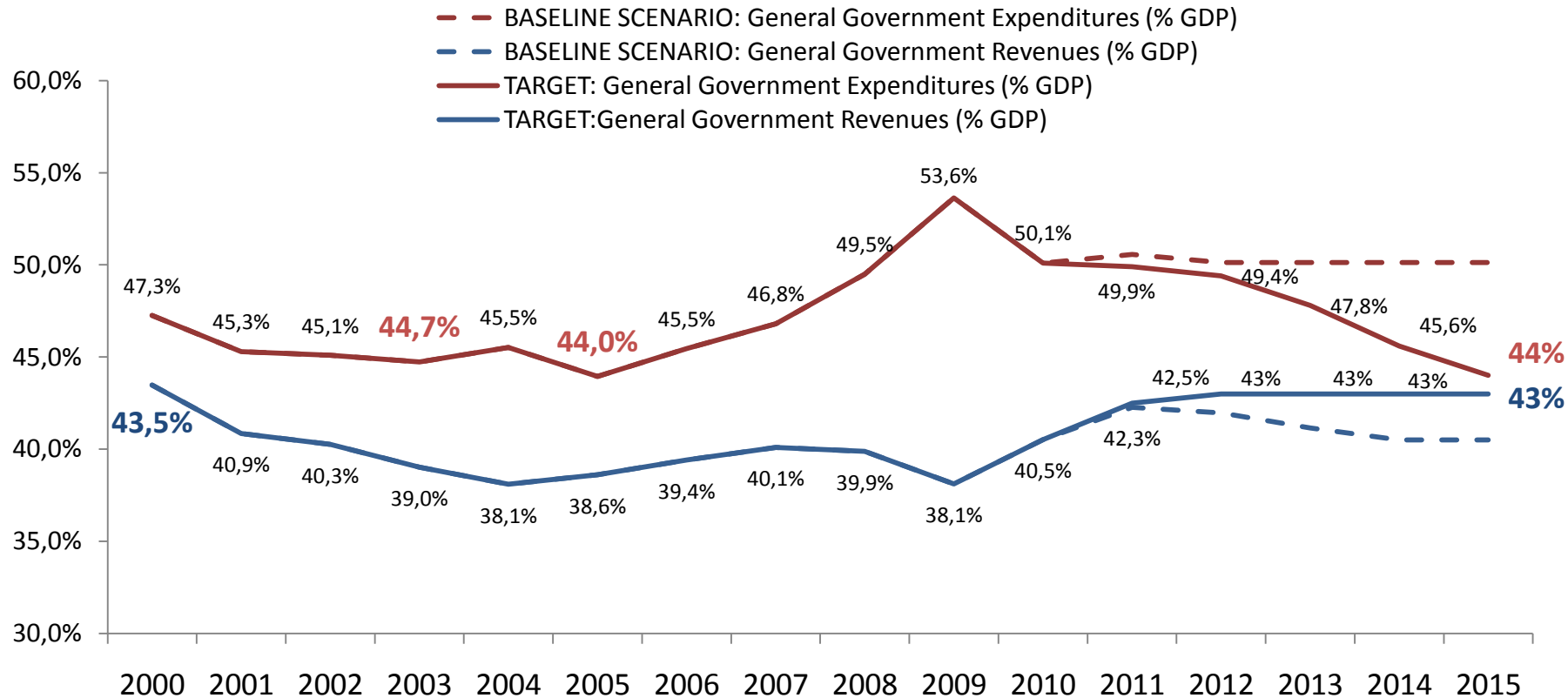


Source: Ministry of Finance

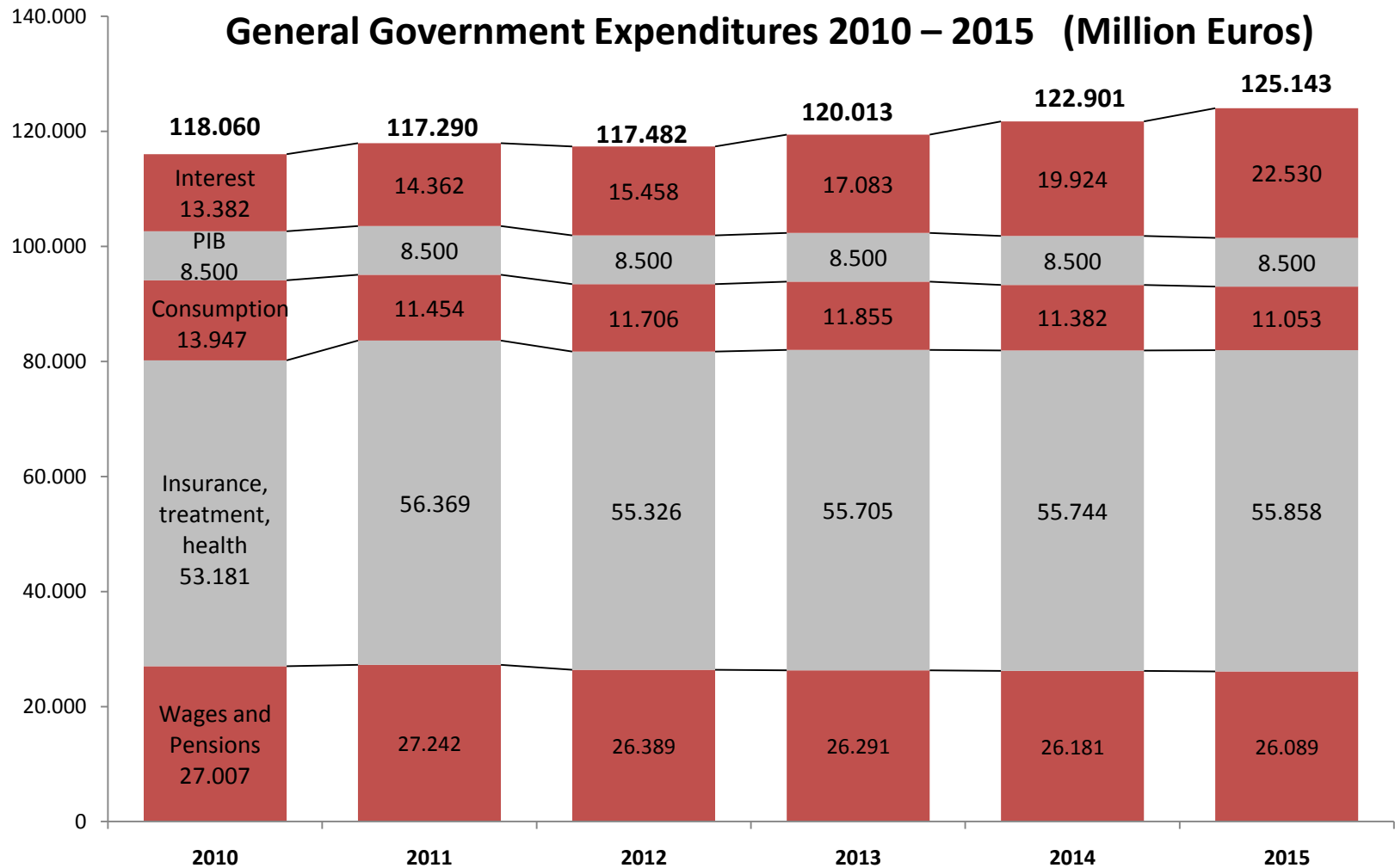
A medium-term fiscal consolidation effort is underway

The objective of the Medium-Term Fiscal Strategy is to increase revenues to the same level as in 2000 and to reduce expenditures to 2003 levels by 2015

Baseline Scenario and Fiscal Targets for the General Government Revenues and Expenditures

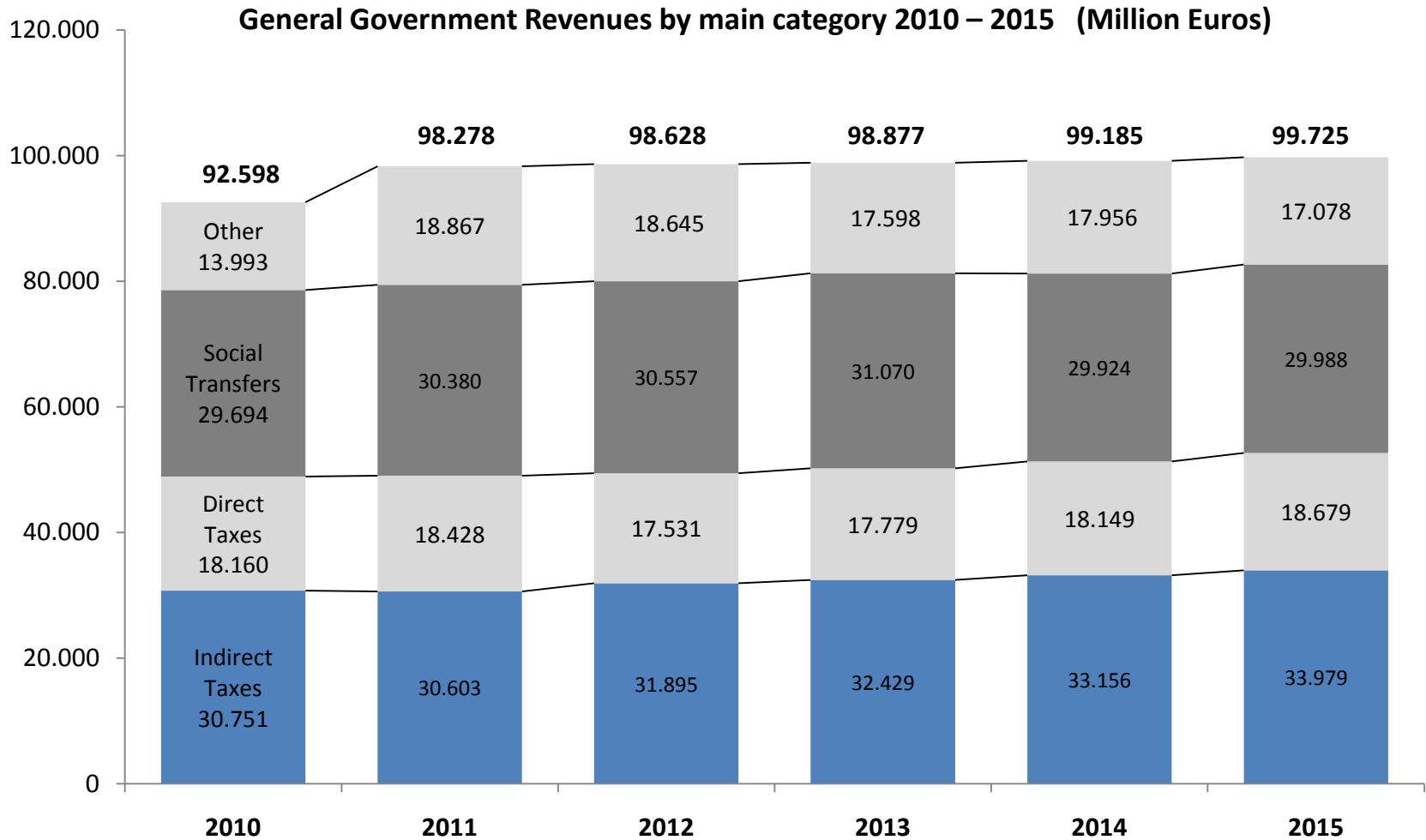


Without further interventions General Government expenditures would increase between 2011-15



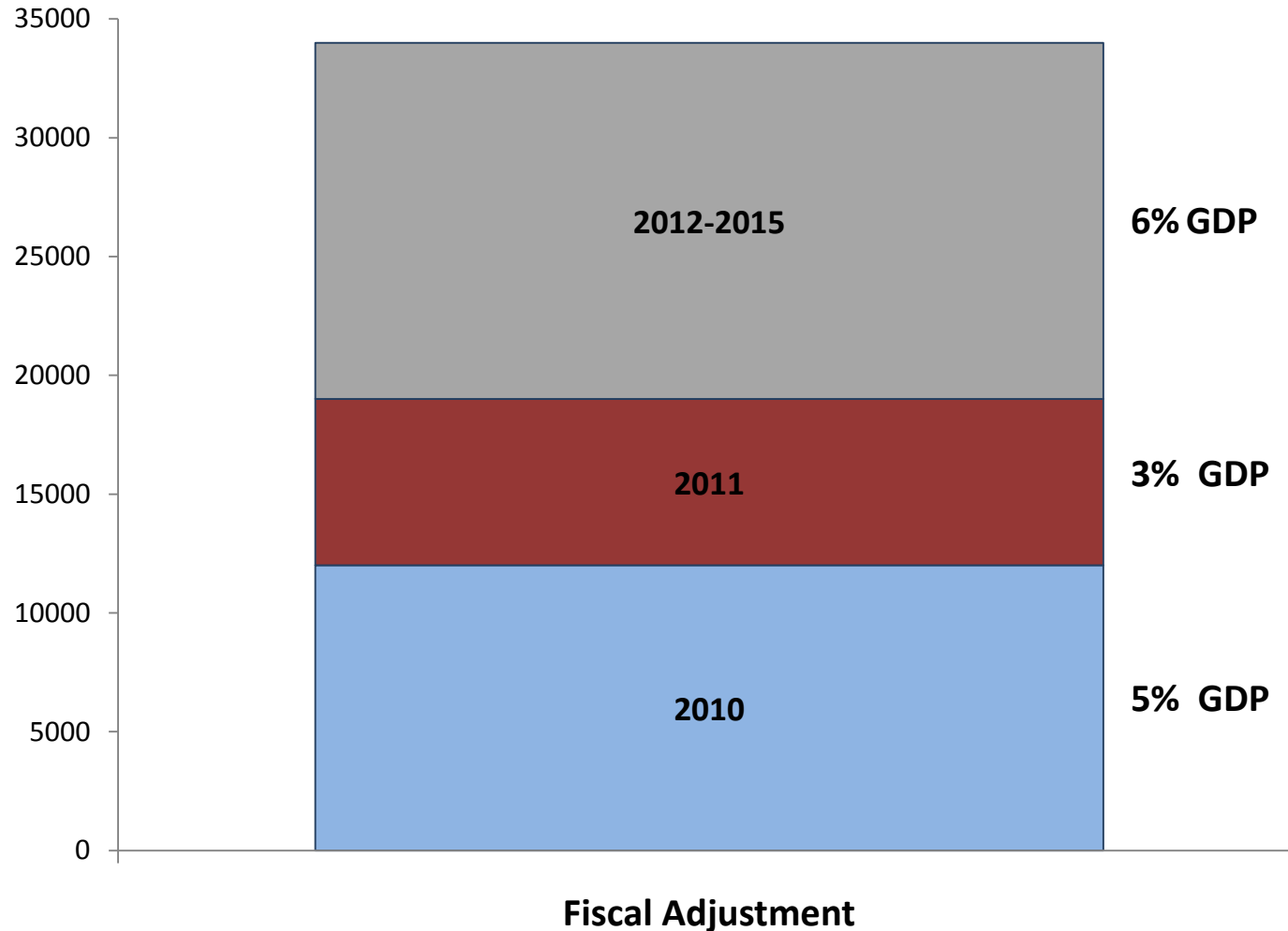
Source: General Accounting Office, Ministry of Finance

Without further interventions, the revenues of the General Government would remain at the same level



Source: General Accounting Office, Ministry of Finance

In 2010-2011 the Government will have undertaken 50% of the adjustment needed by 2015

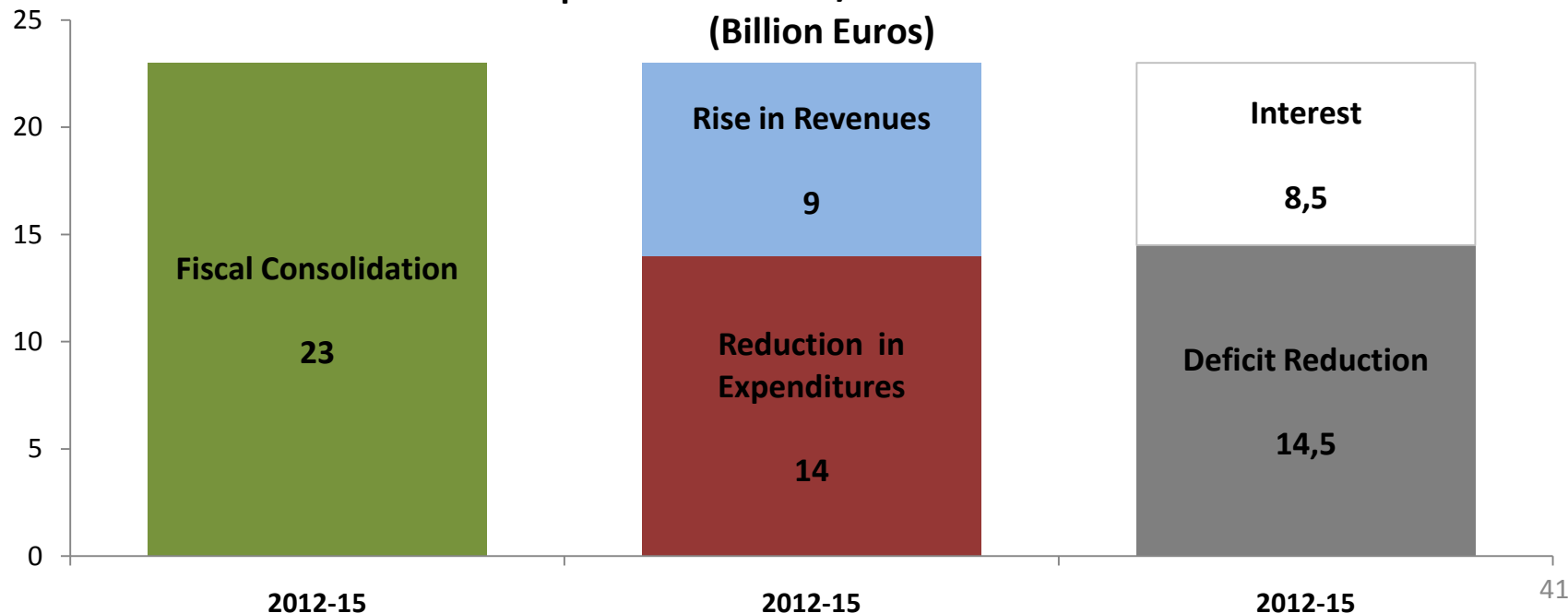


A fiscal consolidation effort of 26 billion Euros in 2011-2015

2011: The Government has identified policy measures of 3 billion Euros to address fiscal risks in 2011 so that it meets its deficit reduction targets this year

2012-2015: Fiscal Consolidation of 23 billion Euros will reduce the deficit by 14,5 billion Euros since around 8,5 billion Euros is accounted for by the autonomous rise in interest expenditures.

The fiscal consolidation of 2012-15 will be approximately 2/3 from the side of expenditures and 1/3 from revenues



The Fiscal Consolidation Effort (% of GDP)

	% of GDP
1. Streamlining the Public Wage Bill	0,9%
2. Reduction in Operational Expenses	1,1%
3. Closure/Merger of Public Entities	0,5%
4. Restructuring of State-owned Enterprises	1,0%
5. Reduction in Defence Spending	0,5%
6. Streamlining Health Expenditures	0,5%
7. Streamlining of Pharmaceutical Expenditures	0,7%
8. Reduction in Social Security Fund expenditures and streamlining of other social spending	1,1%
9. Strengthening Tax Compliance	1,5%
10. Reduction in Tax Exemptions	0,9%
11. Increase in Social Security Fund revenues and tackling social insurance contribution evasion	1,5%
12. Increase in Local Government Revenues	0,3%
13. Other Expenditures	0,9%
Total	11,4%

1. Streamlining the Public Wage Bill

Target 2011-2015: 0.9% of GDP or 2 billion Euros

- Implementation of the 1:5 rule for hiring (1 hire for 5 withdrawals)
- Reduction in contractors hired by the public sector by at least 10% a year
- Increase in working hours from 37,5 to 40 hours a week
- Reduction in the number of compensated committees
- Reduction in overtime pay
- Establishment of part-time employment in the public sector
- Restrictions in the number of permanent posts and positions of responsibility
- Reduction in admissions to police and military academies

2. Reduction in Operational Expenses

Target 2011-2015: 1.1% of GDP or 2.5 billion Euros

- Implementation of electronic procurement platform for all State purchases (e-procurement)
- Reduction of all telecommunication expenses with Syzefxis
- Rationalization of electricity expenses
- Reduction in building rental expenses through more effective utilization of the State's real estate properties
- Drastic reduction in other operational expenses at Ministries and public entities (i.e public relations, employee travel expenses etc)
- Reduction of other expenses in the narrow and wider public sector (subsidies for newspaper distribution, cost of managing Public Investment Budgets etc) with a target of reducing expenses by a further 0.9% of GDP or 2 billion Euros

3. Closure/Merger of Public Entities

Target 2011-2015: 0.5% of GDP or 1.2 billion Euros

- Revaluation of the mandate and expenditures of all public entities that received grants from the State
- The new Education Map of the country will be used to identify the schools/institutes that can merge or close
- Closure or merger of Tax and Customs Offices
- Closure and merger of public entities overseas (embassies, consular departments, press offices etc)
- Reduction in the number of police stations

4. Restructuring of State-Owned Enterprises

Target 2011-2015: 1.0% GDP or 2.3 billion Euros

- Intensification of the restructuring plans of OSE (rail transport organisation) and OASA (Athens city transportations) and focus on actions to increase revenues and revenues collection
- New restructuring plans for other state-owned enterprises (e.g. public TV, EAV etc)
- Additional revenues by launching new commercial activities
- Streamlining of fees and prices
- Enhanced productivity of certain enterprises (e.g. defense industry)

5. Reduction in defence spending

Target 2011-2015: 0.5% GDP or 1.2 billion Euros

- Reduction in defence procurement spending
- Reduction in operational expenses
- Reduction in the number of army camps
- Reduction in expenses for other supplies/equipment through the streamlining of the procurement processes

6. Streamlining health expenditures

Target 2011-2015: 0.5% GDP or 1.2 billion Euro

- Reduction in the cost per patient per case with a number of cost-control measures (Diagnosis Related Groups system for hospital financing, quality and quantity indicators)
- The new Health Map of the country will enable the Ministry of Health to identify hospitals that can be merged or closed
- Introduction of primary health care in order to reduce the congestion of hospital units
- Introduction of a centralized procurement system that will lower prices per item through increased purchasing power, a clear price comparator system, and product and technical specifications
- Re-pricing of medical services

7. Streamlining of Pharmaceutical Expenditures

Target 2011-2015: 0.7% GDP or 1.5 billion Euros

- Streamlining of hospital procurements
- Implementation of e-prescription system
- Better monitoring by social security funds of pharmaceutical prescription and spending in hospitals
- Expanded use of generic drugs

8. Reduction in SSF expenditures and streamlining of other social spending

Target 2011-2015: 1.1% GDP or 2.5 billion Euros

- Reduction in the deficits of the supplementary Social Security Funds in order to safeguard their long-term sustainability
- Introduction of means-testing for welfare benefits, including the establishment of income and wealth thresholds
- Establishment of a single organization responsible for the provision of social transfers, that will lower operational expenses significantly
- Targeting of welfare benefits for the most vulnerable members of society

9. Enhancing tax compliance

Target 2011-2015: 1.5% GDP or 3.5 billion Euros

- Operational plan for tackling tax evasion
- Increase in quantity and quality of targeted audits in enterprises and VAT
- Enhanced quality of auditing of medium and large enterprises through the utilisation of new information systems and methods
- Identification of tax offences by individuals with large wealth assets
- More effective receipt of arrears and fines owed to the State
- Increase in tax revenues from income generated in Greece that has been transferred overseas
- More effective taxation of real estate assets
- More efficient tackling of smuggling/contraband

10. Reduction in Tax Exemptions

Target 2011-2015: 0.9% GDP or 2 billion Euros

- Elimination of tax exemptions that don't have a clear social or developmental rationale and benefit
- Re-assessment of all exemptions on indirect and direct taxes
- Use of social criteria to determine the height of the tax exemptions and discounts
- Re-assessment of the taxes of third parties

11. Increase in SSF revenues and tackling social insurance contribution evasion

Target 2011-2015: 1.5% of GDP or 3.5 billion Euros

- Fair and effective changes to the levels of social contributions
- Drastic reduction in the share of uninsured labor from 26% to 12% by 2015 (in line with EU average)
- A new operational framework for Labor Inspections that will make audits stricter and more effective
- Introduction of incentives for compliance with social insurance requirements
- Joint collection mechanisms for tax and social insurance systems

12. Increase in Local Government revenue from their own resources

Target 2011-2015: 0.3% of GDP or 0.6 billion Euros

- Increase in revenue from fees, tolls, rights and other sources of revenue for Local Governments due to the unification of the public administration and the ensuing benefits of economies of scale in revenue collection mechanisms.
- Increase in compliance of dues to Local Government following the requirement to issue municipal tax clearance

Next Steps

Submission to Parliament by 15th May 2011

The Medium-Term Fiscal Strategy will be ratified as a formal law and will include:

- General Government Revenue and Expenditure Projections before and after the policy interventions
- Description of permanent fiscal interventions for the achievement of fiscal targets
- Annual expenditure ceilings for each Ministry and targets
- Long-term debt projections
- Sectoral Action Plans in the following areas
 - State-owned Enterprises, other public entities and special accounts,
 - Tackling of Tax Evasion
 - Public Administration and public wage bill
 - Social expenditures, Public Investments, Defence spending.