Medium Term Fiscal Strategy and Policies for Exiting the Crisis

23rd May 2011

MTFS and Policies for Exiting the Crisis

1. May 2010 – May 2011
2. Challenges and Targets 2011-2015
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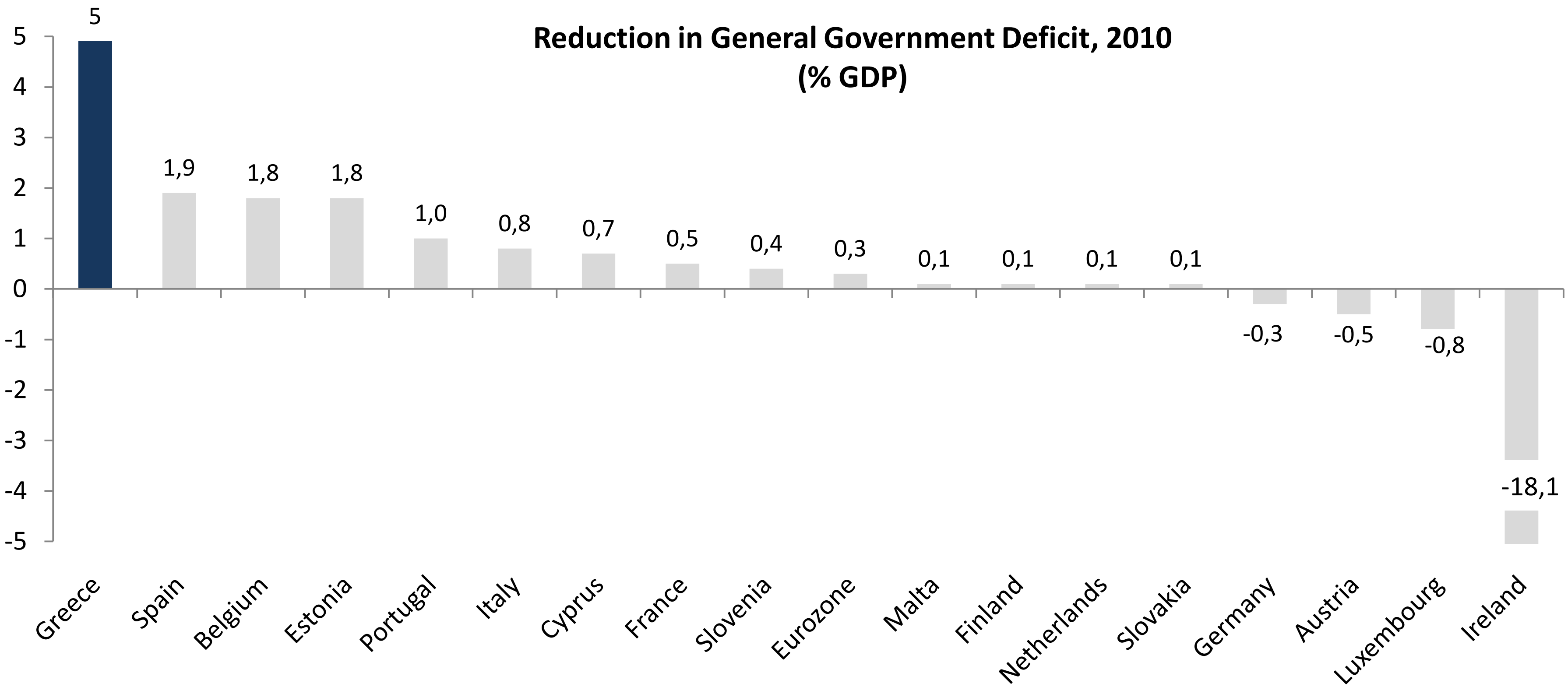
1. May 2010 – May 2011

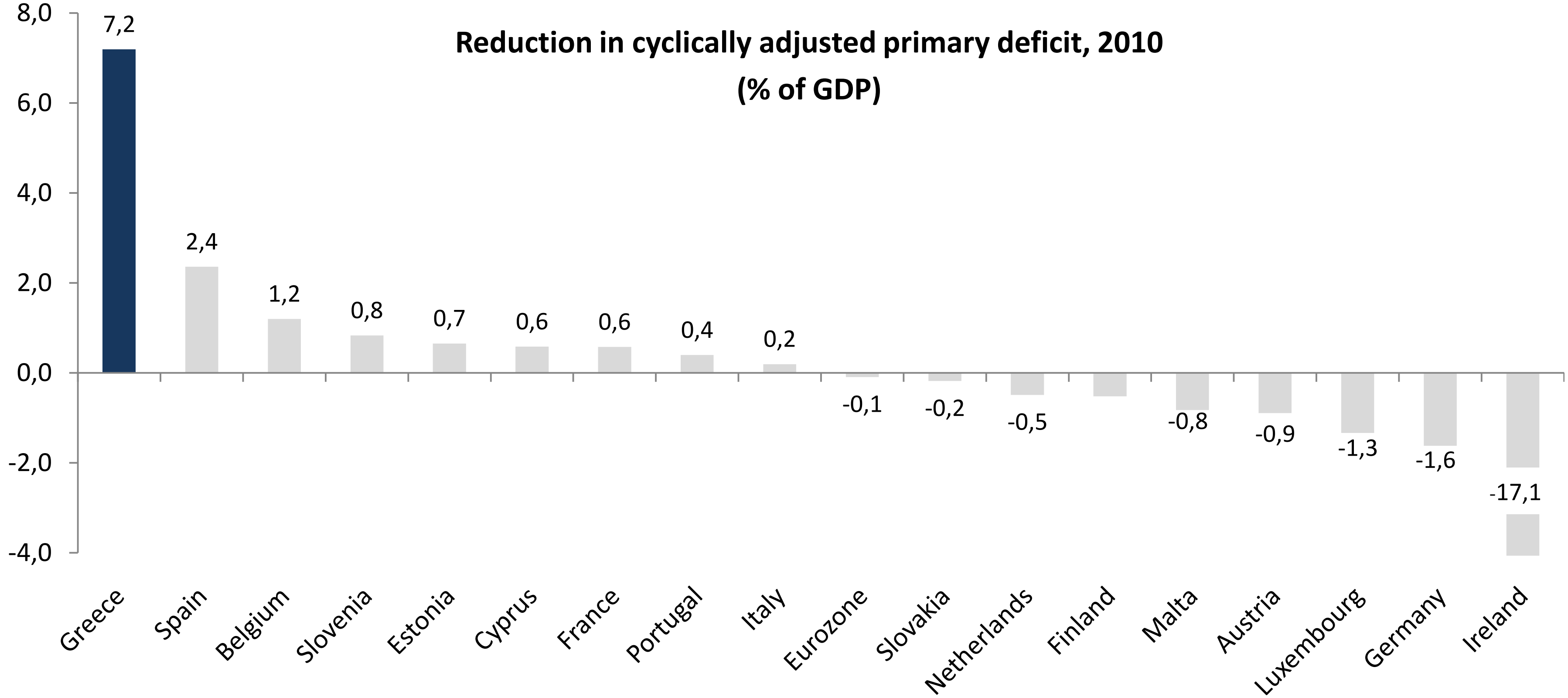
The biggest fiscal consolidation effort in the Eurozone



Source: Eurostat

- The General Government deficit was reduced by **5 percentage points of GDP** in 2010
- The largest reduction in one year by a Eurozone economy

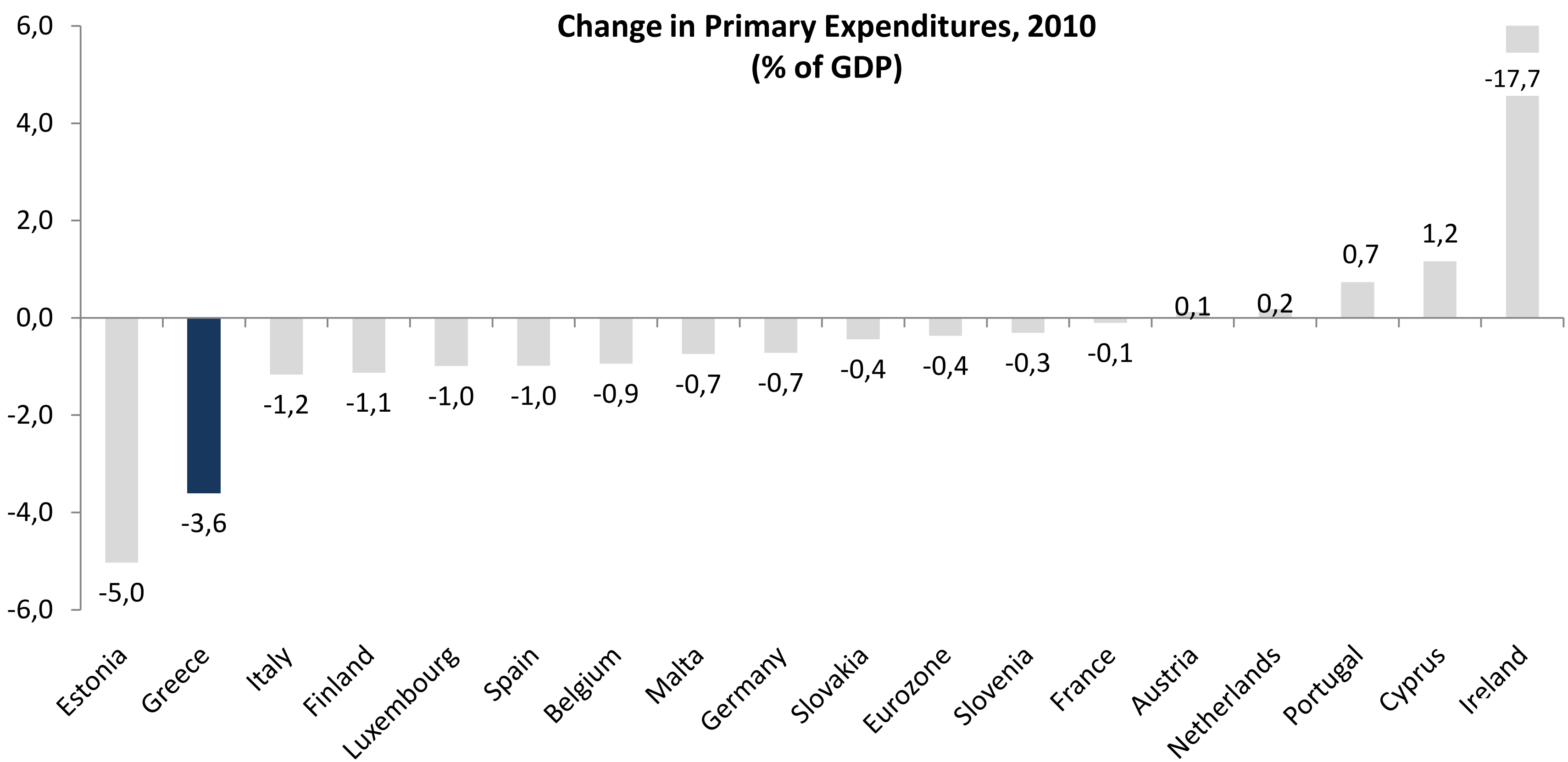
Our fiscal effort is working and can be measured



Source: Eurostat

- The **cyclically adjusted primary deficit** (ie the deficit excluding the impact of the recession and interest expenditures) that measures the clean impact of the fiscal effort, **was reduced by 7.2 percentage points of GDP in 2010**

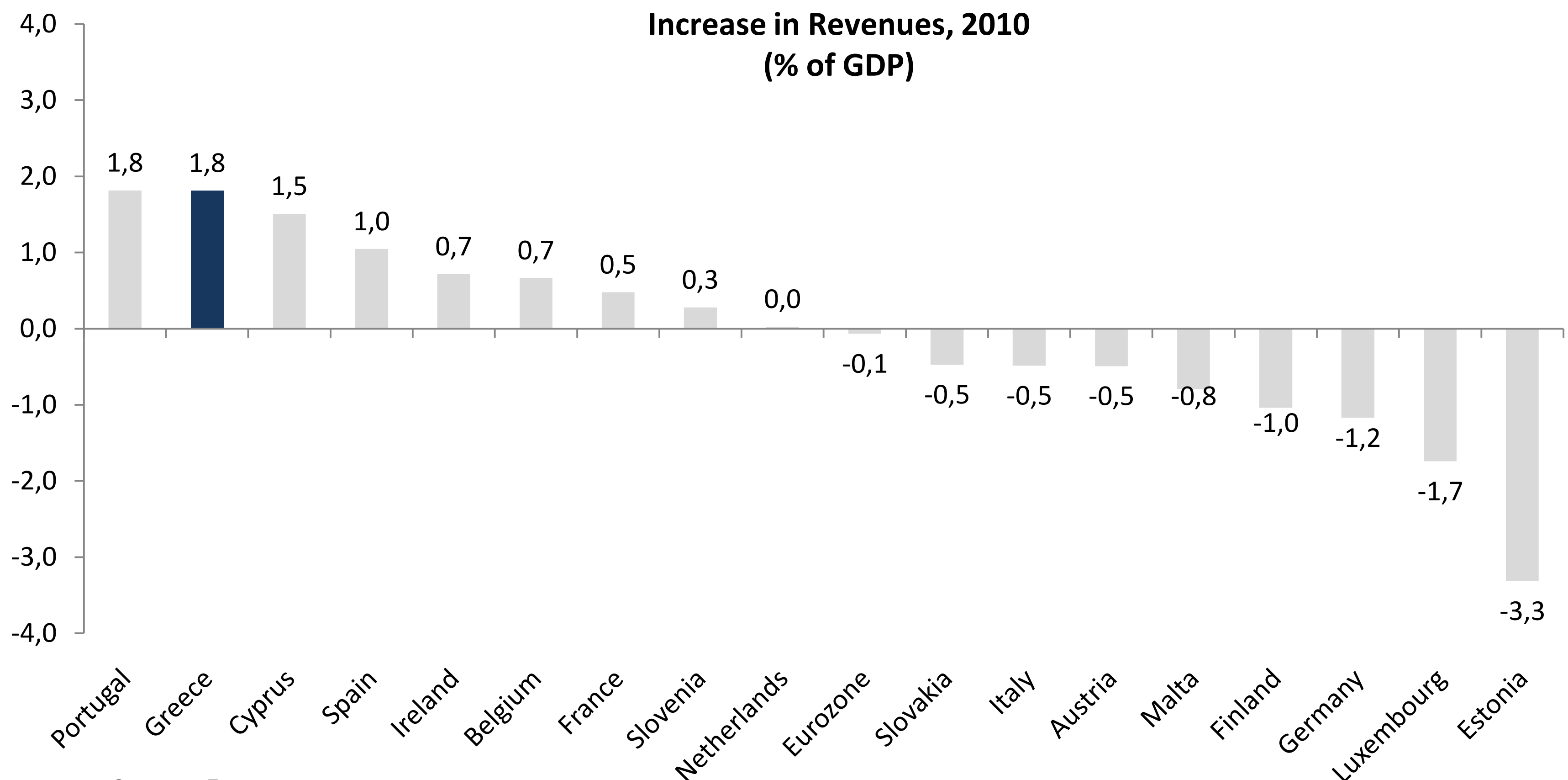
Primary expenditures were reduced drastically



Πηγή: Eurostat

- Primary expenditures were reduced as a share of GDP from **47.6%** in 2009 to **44.0%** in 2010 – the second largest decrease in the Eurozone

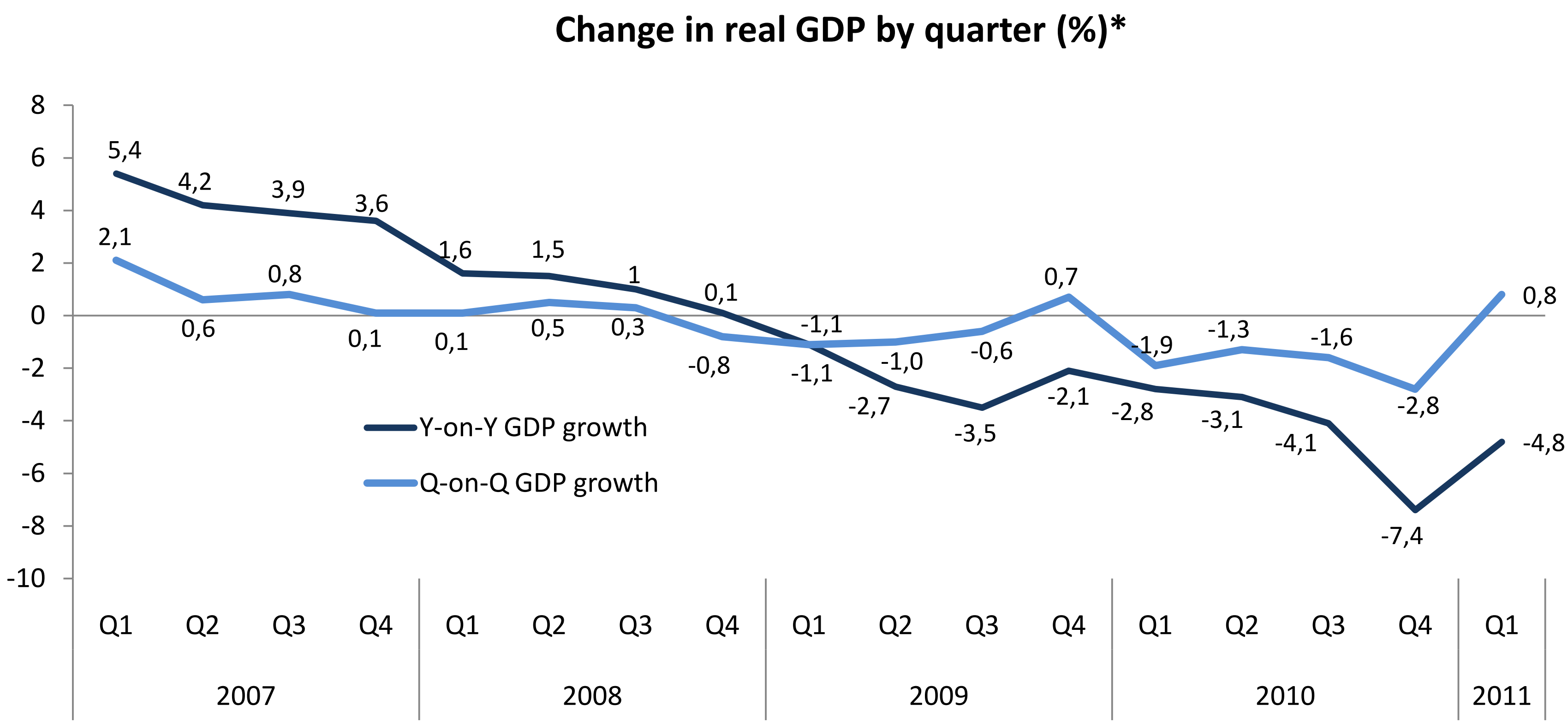
While revenues have increased



Source: Eurostat

- Despite the recession, revenues as a share of GDP increased from **37.3%** to **39.1%** in 2010 – the largest rise in the Eurozone together with Portugal

Already there are first signs of recovery



Source: ELSTAT

*Note: *The figures are at constant prices 2000 and seasonally adjusted*

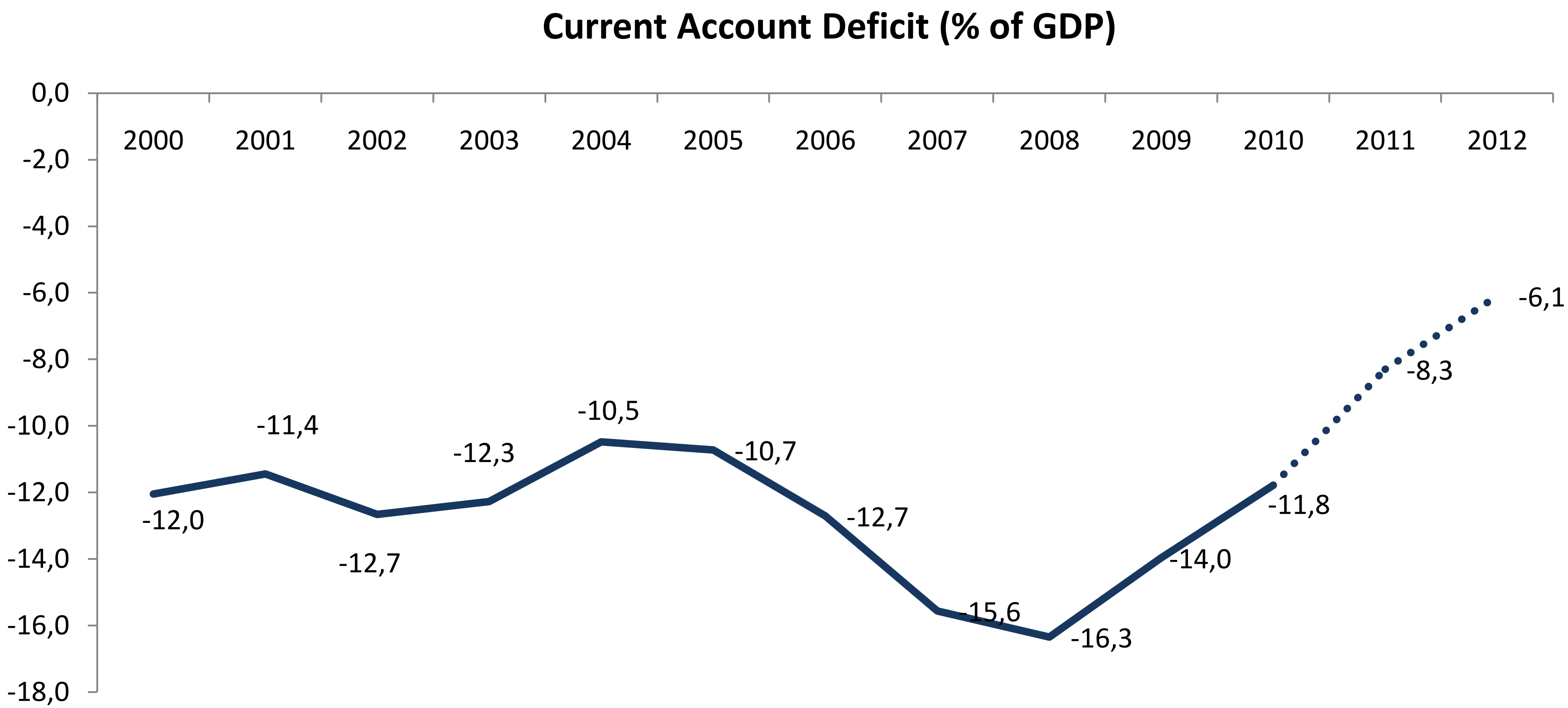
- **After four consecutive quarters of negative GDP growth, there was an increase in real GDP of 0.8% (q-on-q) in the first quarter of 2011**
- **The recession is shallowing**: y-on-y growth of **-7.4%** in the fourth quarter of 2010 was followed by **-4.8% in the first quarter of 2011**

Exports are growing rapidly

Source: ELSTAT

- Over the last six months exports have grown at an average rate of 35%

The economy is becoming more competitive



Source: Eurostat

Note: These figures are calculated on a national accounts basis

- The current account deficit was reduced from 14% in 2009 to 11.8% in 2010
- **In 2011 the deficit is projected to be the lowest in the last decade**

These positive results despite vocal opposition

… are the consequence of

- **A strenuous fiscal effort** on the side of both expenditures and revenues
- **Large structural changes to the State and the economy**
- **Sacrifices of the Greek people that all should respect**

This effort must continue…

Large public expenditure cuts in 2010

- **Reduction in consumption expenditure of 35% or over 1 bln Euros**
- **Reduction in defence expenditure of 68% or 2 bln Euros**
- **Reduction in public sector fixed-term contracts:** cut in public sector contractual employees of38% or 29.500 employees in 2010
- **Cuts in nominal public sector wages** up to 15% and up to 30% in SOEs with a ceiling imposed on wages
- **Cuts in nominal public and private sector pensions** of 10%
- **Significant shrinking of the State and public wage bill:** net reduction of 82.400 employees in 2010 or 10% of the total
- **SOEs**: deficit reduction of 20% in 2010 and further reduction of 35% the first quarter of 2011
- **Social spending:** total reduction of 9.6% or 3.4 billion Euros (1.5% of GDP)

Significant increases in revenues in 2010

- Increased revenue from the **fight against tax evasion**:
  - ✓ 1.6 billion Euros from arrears owed to the State
  - ✓ Significant increase (4.5%) in VAT compliance despite the recession and liquidity problems of the economy
  - ✓ Increase in fines from inspections by the Economic and Financial Crime Unit (SDOE) of 182% (**3.4 billion Euros**)
  - ✓ 6-fold rise in inspections, with the confiscation of undeclared personal assets and imposition of fines on off-shore accounts
- **Special levies on profitable firms, high-income individuals and high-value real estate** brought revenues of 1.4 billion Euros
- **Increase in special consumption taxs of 33% on fuel,** tobacco and alcoholic beverages
- **VAT rates increased across the board by 20%** (the 19% rate raised to 23%; the 11% rate raised to 13%; the 5.5% rate raised to 6.5%)

Big changes in the State and the economy

- Independent Statistical Authority and reform to the fiscal framework that establishes tight monitoring and accountability of public expenditure
- Landmark pension system and labor market reforms
- Tighter monitoring and large reduction of pharmaceutical spending
- Reduction in healthcare expenditures and mergers of hospitals
- Tax Policy and Administration reforms
- Local administration reform (Kallicrates)
- Online publication of all decisions involving commitments of public funds
- Reforms in the education system and mergers of schools
- Business registration in 1 day with establishment of a one-stop-shop
- Fast-track registration procedure for strategic foreign investments
- Opening of over 150 restricted professions
- Restructuring of OSE and public transport companies
- Lifting of cabotage restriction to boost cruise tourism

In summary

- We reduced the deficit, but it continues to be large => Continuation of the **fiscal adjustment effort**
- We contained the rate of growth of public debt, but as long as there are deficits, the level of debt and interest expenditures will increase => **Privatizations and management of State assets**
- We made important improvements to the State but it continues to have ailments and inefficiencies => Pursue further **changes to reduce the size and increase the effectiveness of the State**
- The recession is shallowing, but we haven't returned to sustainable levels of growth and reduction in unemployment => **Continue to implement structural reforms to drive economic recovery**
- The banking system remains stable, but there continues to be a shortage of liquidity => Strengthen efforts to **attract new capital into the economy**

2. Challenges and Targets 2011-2015

Immediate Priorities

- Regaining the trust of the country and addressing the sense of "standstill" that exists in the markets => **Need to confirm the determination of the country to implement the Economic Adjustment Programme**

- Continuation of the disbursement of the loan=> **Accelerated decisions and swift conclusion of an agreement with our European partners**

- Ensuring the financing of the country for the next years => **Renewal of the programme, with the deeper restructuring of the economy and society**

The tools and our credibility

- **Ensuring that we meet the fiscal target of 2011** with additional measures
- **Measures that signal the determined implementation of the Programme** and increase the effectiveness of our policies
- **Medium-Term Fiscal Strategy 2012-2015** for attaining primary surpluses by 2012
- **Privatization policy for investments** (inflow of capital and know-how) in critical sectors and reduction of public debt
- **New impetus for structural reforms**

Why further measures are needed in 2011

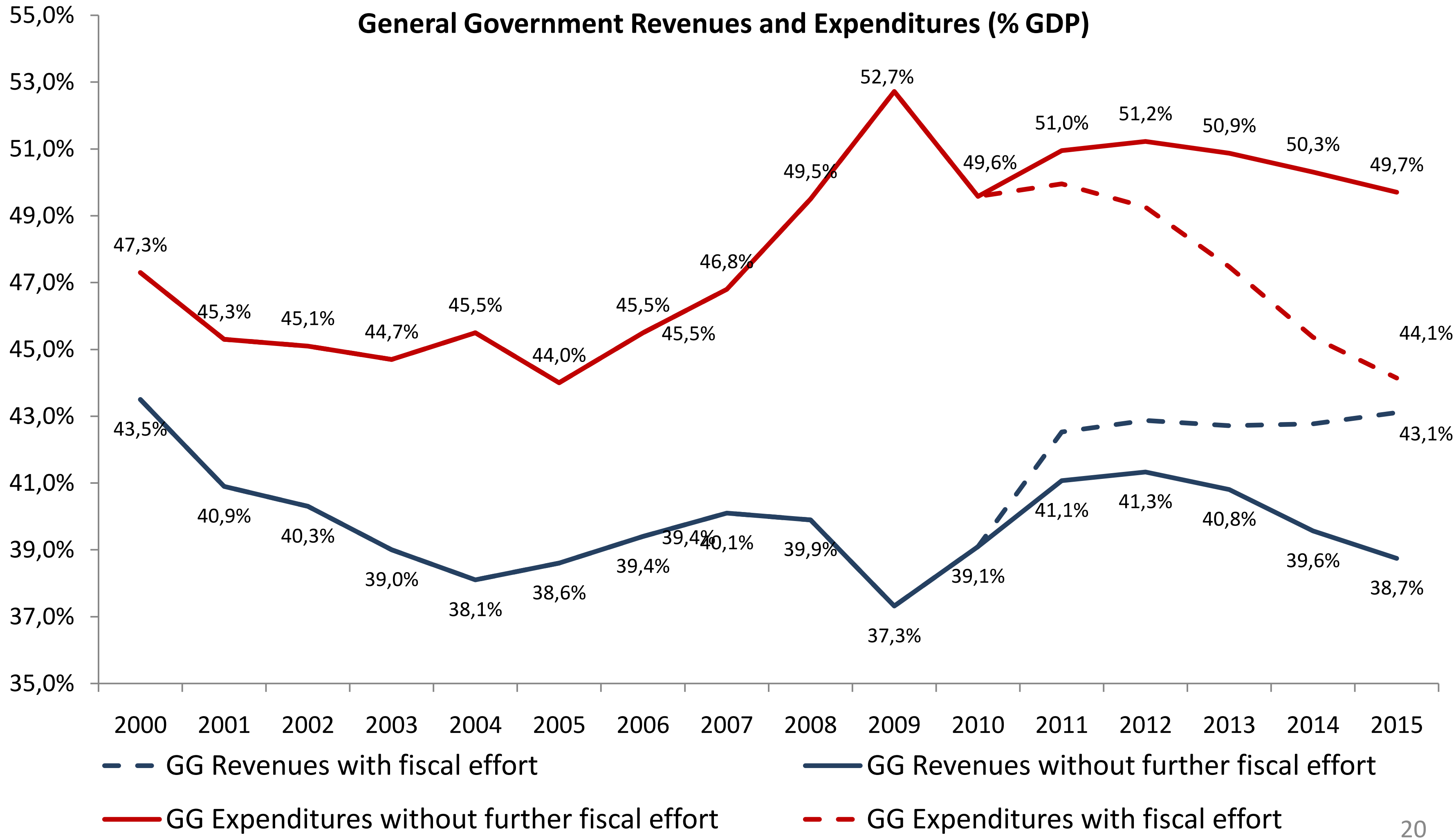
To reach the fiscal target for 2011, we need to describe today measures of **6,4 billion Euros that will be implemented in the second half of the year**

Why?

- **To cover the gap created by the larger than anticipated recession in the last quarter of 2010**
- **To compensate for implementation risks of the measures of 14.3 billion Euros in the 2011 Budget**

Medium-term fiscal consolidation remains vital

The objective of the Medium-term Fiscal Strategy is for public revenues and expenditures to return to **historically viable levels**



Measures for 2011

To achieve the deficit target of 7,5% measures of **6.4 billion Euros are required**

The Government has already identified measures for 2011 worth **4.8 billion Euros**

Next Steps

- **Identification of additional measures worth 1.6 billion Euros**
- **Government agreement on the total package of measures for 2011**

Measures for 2011 mln Euros (1)

		2011	% GDP
	Fiscal Gap	**6.400**	**2,8%**
1.	**Rationalization of the Public Wage Bill**	550	0,2%
	Reduction in contractual employees, introduction of part-time employment, reducing wage drift, increase in working hours from 37.5 to 40 hours per weekl		
2.	**Reduction in Operational Expenses**	140	0,1%
	Reduction in subsidies for newspaper distribution to remote areas, withholding of 7% of elastic operational expenses		
3.	**Closure/merger of public entities and reduction in grants**	450	0,2%
	Reduction in grants to entities outside the General Government, evaluation and reduction of spending of entities within the General Government, reduction in subsidies to remote areas, merger and closure of public entities		
4.	**Streamlining of Health and Pharmaceutical Expenses**	310	0,1%
	Digitization and monitoring of prescriptions by SSFs, expansion of list of non-prescription drugs that are not paid by SSFs , new pricing policy, introduction of a fixed insurance price on pharmaceuticals that is lower than the market price, special agreement for the provision of services by hospitals to private insurance firms,		
5.	**Reduction in SSF expenditures and other social spending**	800	0,4%
	Cross-checking of details of pensioners and welfare beneficiaries, introduction of tighter criteria for benefits (OAED, OEE-OEK,EKAS) single unified regulation on the health benefits, increase in solidarity contribution on high pensions, special contribution for pensioners under 60 years old with high pensions, reduction in lump-sun benefits in the public sector, reduction in supplementary pension from Funds running deficits		

Measures for 2011 mln Euros (2)

		2011	% GDP
6.	**Reducing social contribution evasion and increasing the revenues of Social Security Funds**	380	0,2%
	Full implementation of single unified payroll and insurance contribution payment method, solidarity contribution for the unemployed for the public sector, increase in unemployment solidarity contribution for private sector employees and introduction of unemployment solidarity contribution to be made by public sector employees		
7.	**Reduction in Tax Exemptions and other Tax Revenues**	770	0,3%
	Increase in tax rates on yachts, pools, luxury vehicles, high-value property, evaluation and reduction of tax exemptions		
8.	**Other Revenue**	1.400	0,6%
	Change in the structure of tax on tobacco, special consumption tax on soft drinks, vehicle tax, transfer of products from the 13% VAT bracket to the 23%		
	Total	**4.800**	**2,1%**
	Expenditures	2.250	1.0%
	Revenue	2.550	1,1%
	Measures that need to be identified	**1.600**	**0,7%**

Measures for 2012 – 2015

The total required fiscal effort for the period 2012-15 is **22 bln Euros**

The effort that has been **presented** for the period 2012-15 is **19.1 bln Euros**. Of these:

- Around **3 bln Euros** of measures are needed for the period 2013-2015 of the target to be met (assuming the 2011 target is met)
- The identification of additional measures of around **6 bln Euros is required** (leaving some measures as targets for 2014-2015)

Next Steps

- **Identification of additional measures worth 3 bln Euros.**
- **Government agreement on the total package of measures for 2012-15**

Measures for 2012-2015 mln Euros

		2012	2013	2014	2015	2012-2015	% GDP
	Fiscal Gap	**5.543**	**5.131**	**6.834**	**3.917**	**22.025**	**8,7%**
1.	**Rationalization of the Public Wage Bill**	570	278	246	96	1.190	0,5%
2.	**Reduction in Operational Expenses**	334	230	75	565	1.204	0,5%
3.	**Closure/merger of public entities and reduction in grants**	75	115	230	285	705	0,3%
4.	**Restructuring of State-owned Enterprises**	468	363	332	334	1.497	0,6%
5.	**Reduction in Defence Expenditures**	100	100	450	550	1.200	0,5%
6.	**Streamlining of Health Expenditures**	204	149	153	188	694	0,3%
7.	**Streamlining of Pharmaceutical Spending**	493	200	42	0	735	0,3%
8.	**Reduction in SSF spending and other social spending**	1.075	615	540	400	2.630	1,0%
9.	**Strengthening Tax Compliance**	350	703	800	1.147	3.000	1,2%
10.	**Reduction in Tax Exemptions and other tax revenue**	2.259	190	0	0	2.449	1,0%
11.	**Improved SSF revenues and tackling of social contribution evasion**	528	578	637	692	2.435	1,0%
12.	**Increase in revenues of Local Governments**	105	170	180	145	600	0,2%
13.	**Other Expenditures**	320	175	170	160	825	0,3%
	Total	**6.881**	**3.866**	**3.855**	**4.562**	**19.164**	**7,6%**
	Measures to be identified					**2.941**	**1,1%**

Privatization and management of state assets

The privatization and state asset management programme is a critical tool for growth and debt reduction

- **Target revenues of 50 bln Euros by 2015:** 10-15 bln Euros from companies and infrastructure, 35 bln Euros from the sale of rights and development of real estate assets

- **Total estimated revenues:** 15 bln Euros until 2013, 50 bln Euros total by 2015

The completion of the programme by 2015 will lead to **the reduction of annual interest expenditures by 3 bln Euros**

Urgent need to accelerate the programme

Negotiations are ongoing for its finalization

With the privatization programme…

We aim **not only to reduce the large debt burden** but in parallel to ensure

- **Inflow of capital and investment**
- **Transfer of know-how** to critical sectors such the transition to a green economy
- **Training of human capital** in critical sectors of the economy
- **Support for sectors** in which we have comparative advantages
- **Creation of business alliances** to help break into global markets
- **Better practices** and modern management
- **Maintaining national control** in critical or strategic sectors
- **Maximize the value of sales** but without delays

How we will proceed

Advisers have already been selected for the following projects: Public Gas Corporation (DEPA), Athens International Airport Hellenic Defence Systems, Loan and Consignment Fund, Hellenikon S.A, Frequency Spectrum, OPAP, Hellenic Horse Racing Corporation, Hellenic Vehicle Industry S.A. (ELBO), State Lottery Tickets, ELVO, Natural Gas storage «South Kavala», Hellenic Motorways, Public Real Estate Investment Portfolio.

Procedures have been initiated for: PPC, TRAINOSE, Athens Water Supply and Sewage Company, Hellenic Post, LARCO, Casino Mont Parnes, Regional Airports and Ports. A specialized entity **("Sovereign Wealth Fund")** in which all individual portfolios of State assets will be included is being established

There is an urgent **need to accelerate the programme** and proceed immediately with the sale of public stakes in listed companies:

- **Hellenic Telecommunications Organization (OTE)**
- **Hellenic Postbank**
- **Piraeus Port**
- **Thessaloniki Port**
- **Thessaloniki Water and Sewage Company**

Privatization Programme 2011

Asset	HR's stake (%)	% to be sold	Privatisation Method	Current status	Date of Transaction
Hellenic Telecommunications Organisation	16%	**up to 16%**	Sale of shares	-	Q2 2011
Hellenic Postbank	34%	**up to 34%**	Sale of shares	-	Q2-Q4 2011
Piraeus Port	75%	**up to 75%**	Sale of shares	in process	Q2-Q4 2011
Thessaloniki Port	75%	**up to 75%**	Sale of shares	in process	Q2-Q4 2011
Thessaloniki Water Supply and Sewage Company	74%	**up to 40%**	Sale of shares	advisor selection process	Q2-Q4 2011
Athens International Airport	55%	**-**	Extension of concession	in process	Q3 2011
Hellenic Football Prognostics Organisation	34%	**-**	Extension of concession	in process	Q3 2011
Hellenic Defence Systems (EAS)	100%	**up to 66%**	Sale of shares	in process	Q4 2011
State Lotteries	100%	**49%-66%**	Sale of SPV shares	in process	Q4 2011
Public Gas Corporation (DEPA)	65%	**up to 32%**	Sale of shares	in process	Q4 2011
TRAINOSE	100%	**49%-100%**	Sale of shares	advisor selection process	Q4 2011
LARCO	55%	**up to 55%**	Sale of shares	advisor selection process	Q4 2011
Hellenic Horse Racing Company (ODIE)	100%	**100%**	Sale of shares	in process	Q4 2011
Casino Mont Parnes	49%	**49%**	Sale of shares	advisor selection process	Q4 2011
Mobile Telephony Licenses	100%	-	Sale of rights	in process	Q4 2011
Hellinikon S.A I	100%	-	Sale of SPV shares	in process	Q4 2011
Real Estate Assets I	100%	-	Sale of SPV shares	in process	Q4 2011

Total Estimated Revenues 2011: 3.5-5.5 bln Euros

Privatization Programme 2012

Asset	HR's stake (%)	% to be sold	Privatisation Method	Current status	Date of Transaction
Athens International Airport	55%	**up to 21%**	Sale of SPV shares	in process	Q1 2012
Egnatia Odos Motorway	100%	**up to 100%**	Sale of SPV shares	in process	Q1 2012
Hellenic Post	90%	**up to 40%**	Sale of shares	advisor selection process	Q1 2012
Hellenic Football Prognostics Organisation	34%	**up to 34%**	Sale of shares	in process	Q1 2012
Ports I	77-100%	**43%-66%**	Sale of SPV shares	advisor selection process	Q1-Q4 2012
Athens Water Supply and Sewage Company	61%	**up to 27%**	Sale of SPV shares	advisor selection process	Q3 2012
Hellenic Vehicle Industry	51%	**up to 16%**	Sale of shares	in process	Q2 2012
Loan and Consignment Fund	100%	**up to 100%**	Sale of SPV shares	in process	Q2 2012
Public Power Corporation	51%	**up to 17%**	Sale of shares	-	Q4 2012
Hellenic Motorways I	100%	**-**	Sale of SPV shares	-	Q1-Q4 2012
Regional Airports I	100%	**up to 49%**	Sale of SPV shares	advisor selection process	Q1-Q4 2012
Hellinikon II	100%	-	Sale of SPV shares	in process	Q1-Q4 2012
Real Estate Assets I, II	100%	-	Sale of SPV shares	in process	Q1-Q4 2012
Digital Dividend I	100%	-	-	in process	Q3-Q4 2012

Total Estimated Revenues 2012: 4.0-6.0 bln Euros

Privatization Programme 2013

Asset	HR's stake (%)	% to be sold	Privatisation Method	Current status	Date of Transaction
Other Banking Participations	-	**100%**	Sale of shares	-	Q1-Q4 2013
Agricultural Bank	76%	**up to 25%**	Sale of shares	-	Q1-Q4 2013
Regional Airports II	100%	**up to 49%**	Sale of SPV shares	advisor selection process	Q1-Q4 2013
Ports II	77-100%	**43%-66%**	Sale of SPV shares	advisor selection process	Q1-Q4 2013
Real Estate Assets II, III	100%	-	Sale of SPV shares	in process	Q1-Q4 2013
Digital Dividend II	100%	-	-	in process	Q1-Q4 2013
Hellenic Motorways II	100%	-	Sale of SPV shares	in process	Q1-Q4 2013

Total Estimated Revenues 2013: 4.5-5.5 bln Euros

Real Estate Asset Development

- **Advisors have been chosen for the complete registration and valuation of commercially viable public real estate assets** for the first time and the establishment of a unified inventory

- **The creation of a Public Real Estate Investment Portfolio is proceeding** with individual specialized portfolios of significant properties

- The **Real Estate Investment portfolios will be structured as Special Purpose Vehicles** and will be sold to international investors by Greek and foreign banks with large revenues anticipated very quickly

Real Estate Development

Institutional interventions introduced to solve chronic obstacles that have prevented real estate asset development:

- Surface rights and long-term leaseholds legally established
- Conditions for tourist accommodation and property development
- Zoning and building conditions for specific large State properties for faster through the fast-track procedure

Procedures for **100 properties** will proceed immediately:

- 70 properties managed by the Public Real Estate Corporation (KED)
- Hellenikon S.A and 10 other properties managed by the Hellenic Tourism S.A (ETA)
- 18 properties managed by GAIOSE
- 40 Buildings held by the Central Government

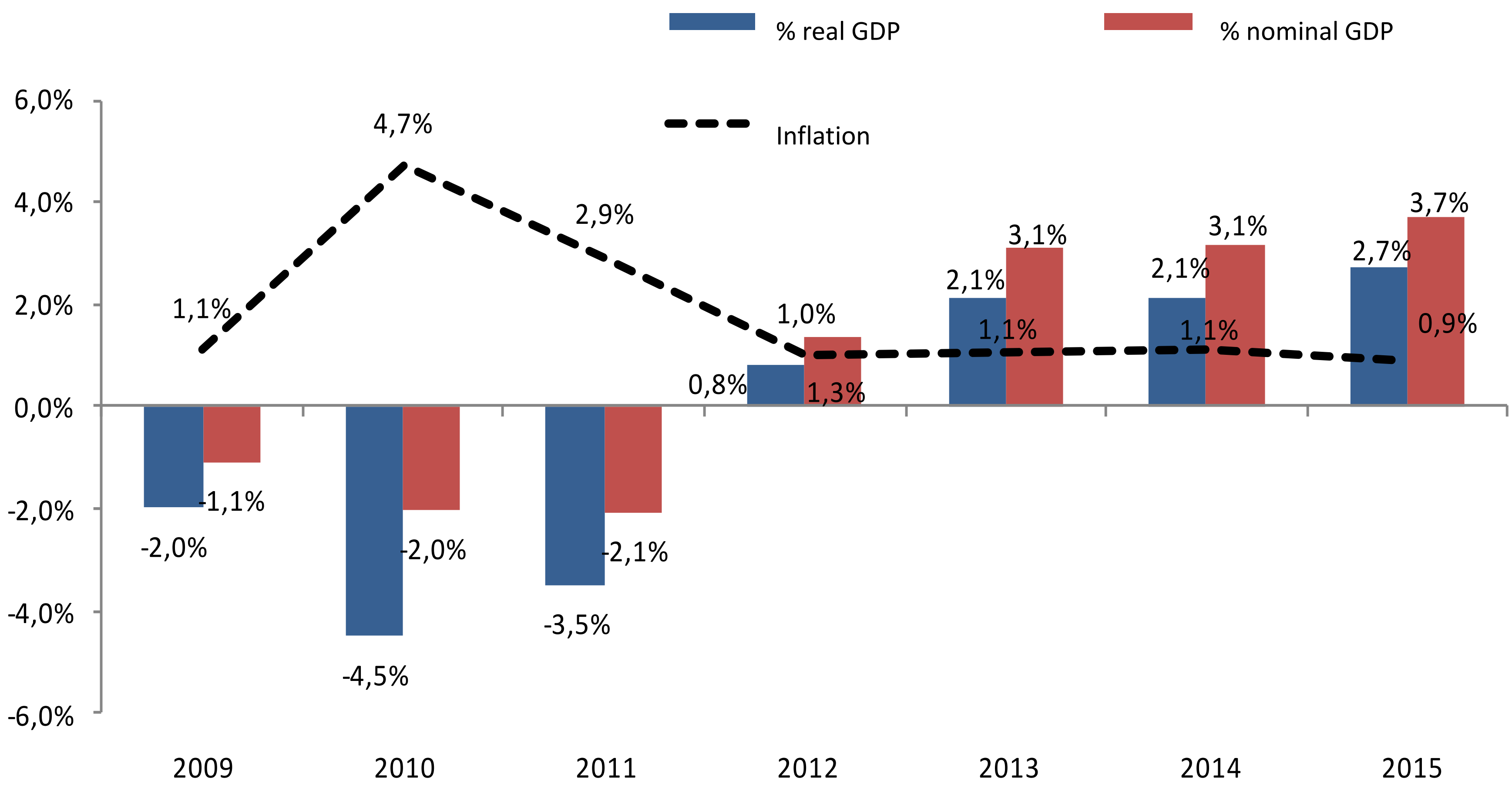
Structural Reform Programme …

… with the following core objectives

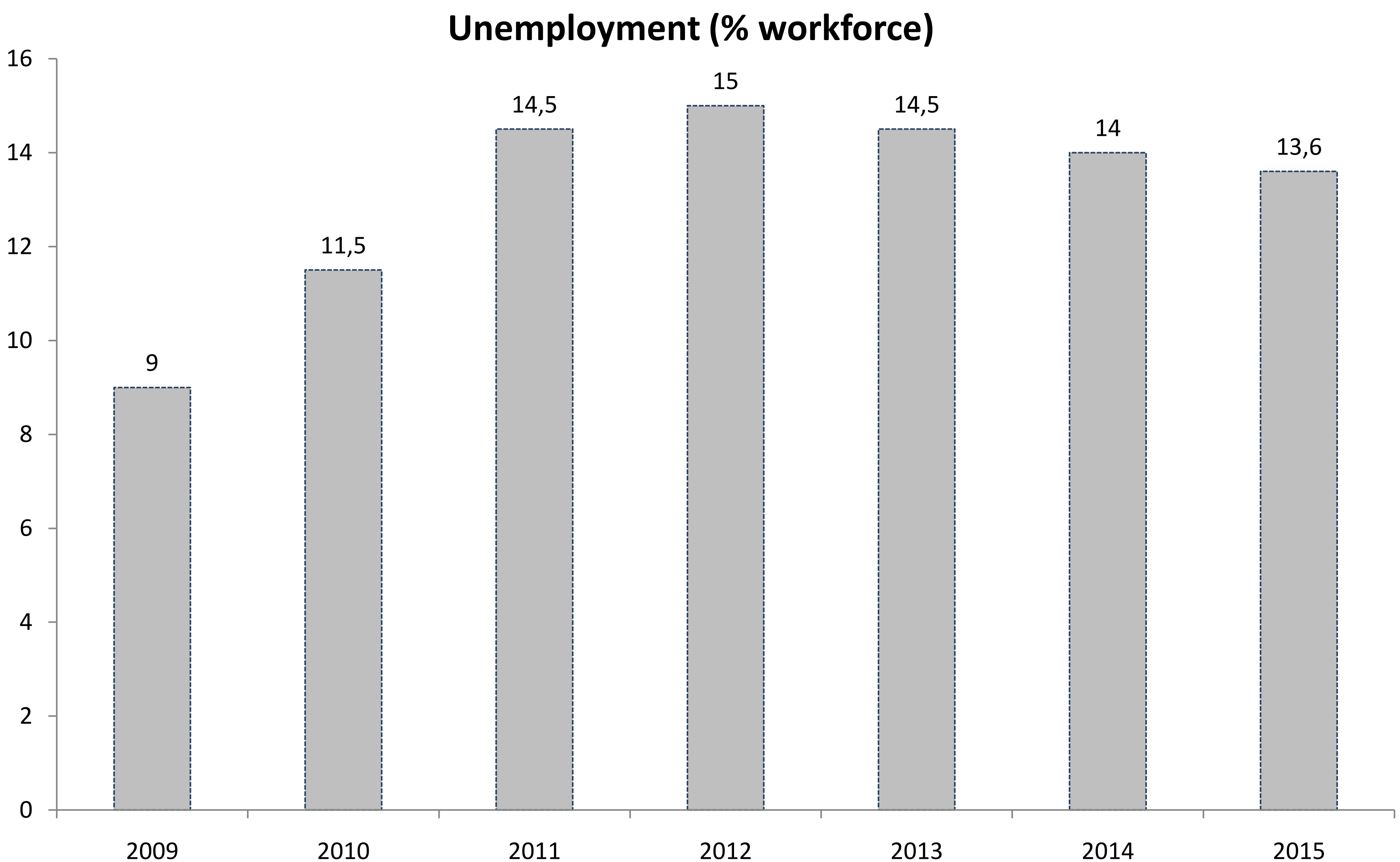
- Combating tax and social contribution evasion
- Changing the development model
- Investments that increase employment and real incomes
- Acceleration of public procurement procedures
- Acceleration of licensing procedures and establishment of land use conditions, especially for public real estate assets
- More effective public administration
- Financial sector stability

3. The Path for 2011-2015

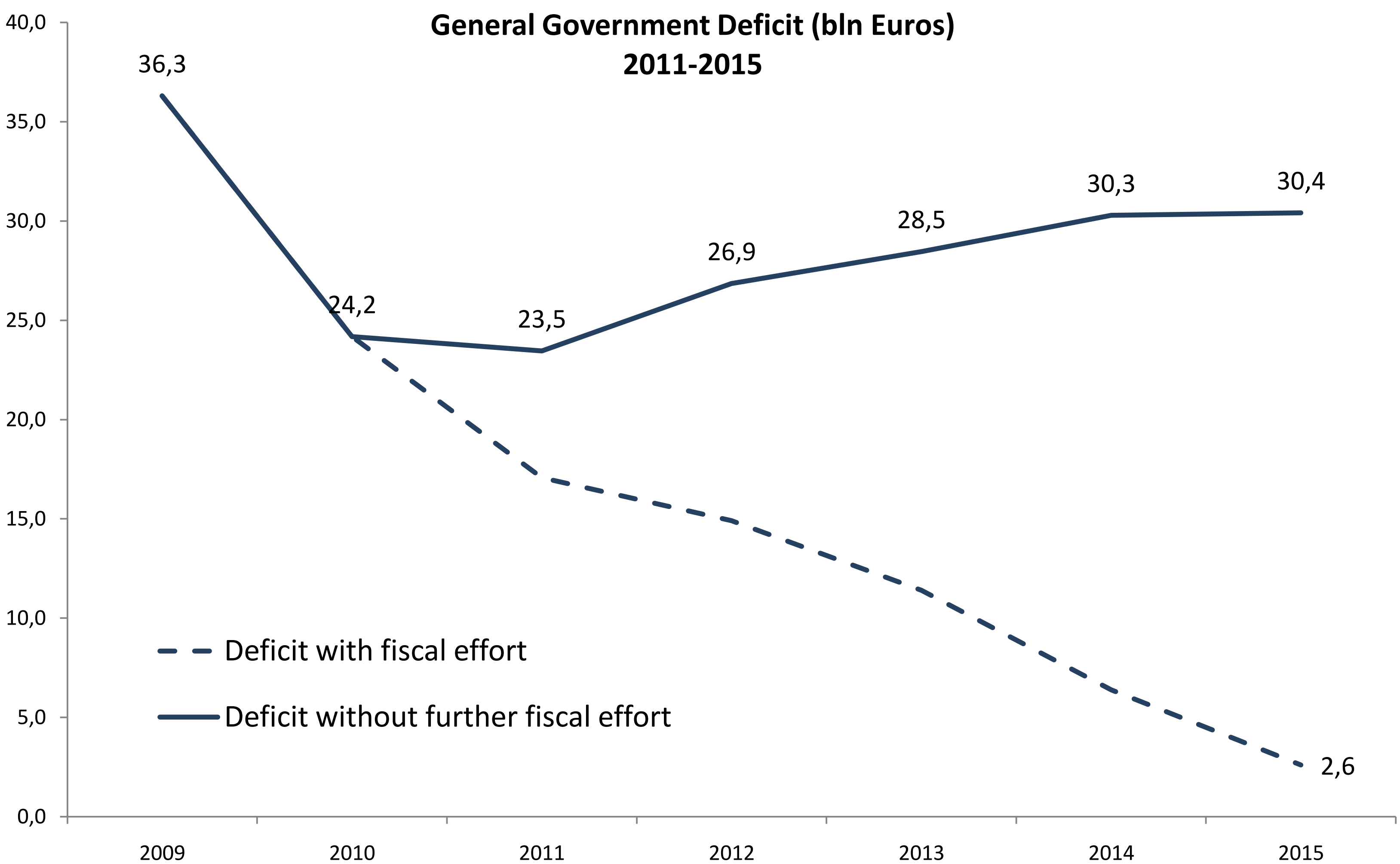
Prices and Growth



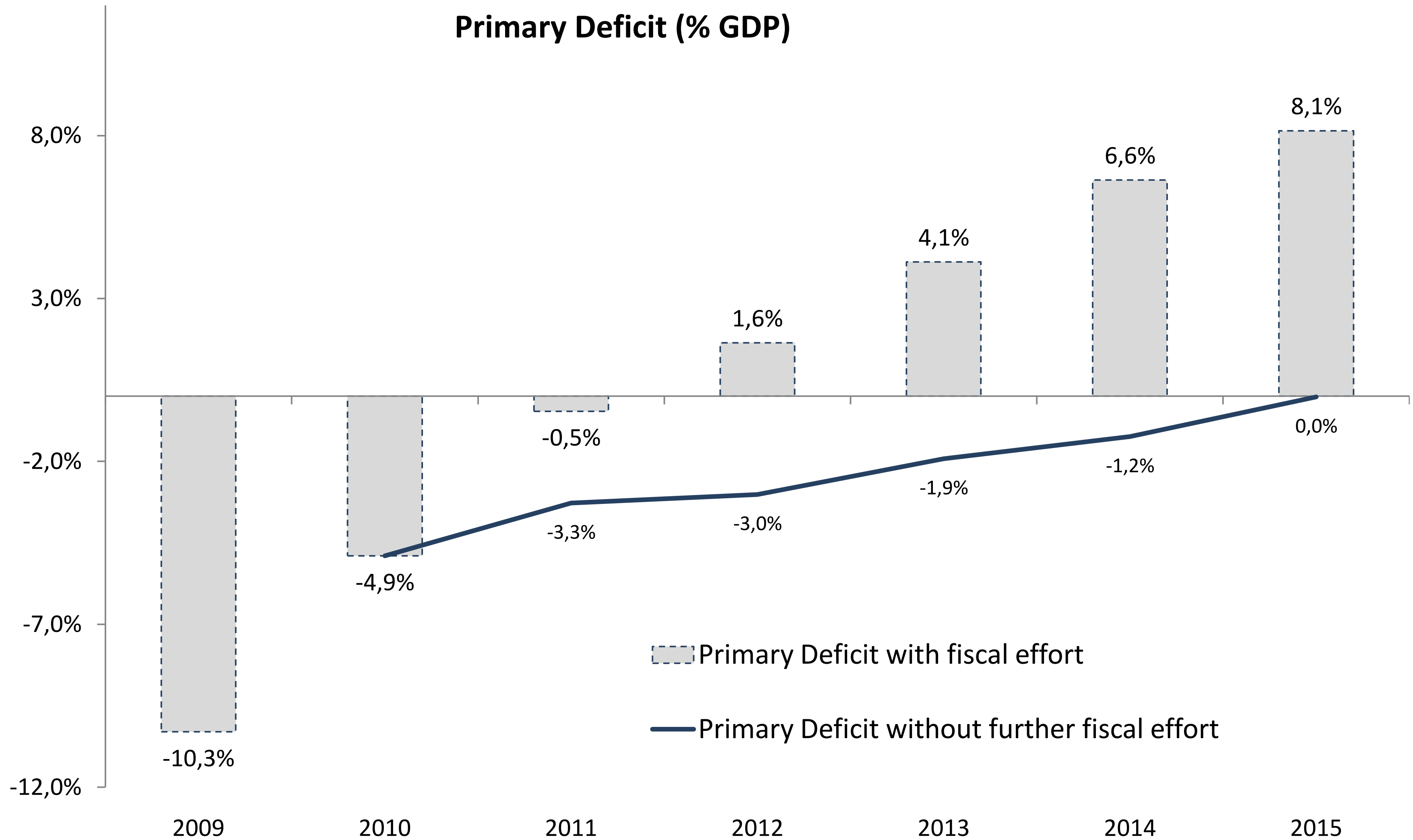
Unemployment



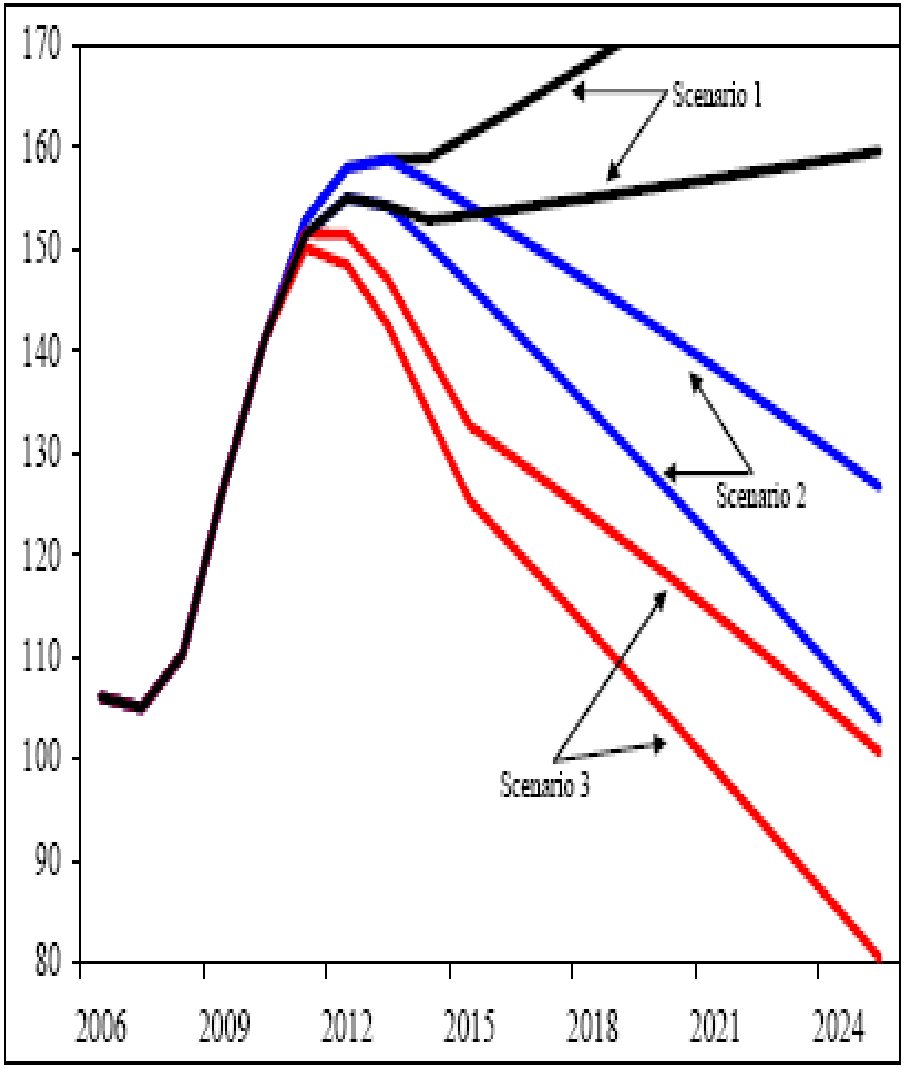
Fiscal Deficit (bln Euros)



Primary Deficit



Public Debt



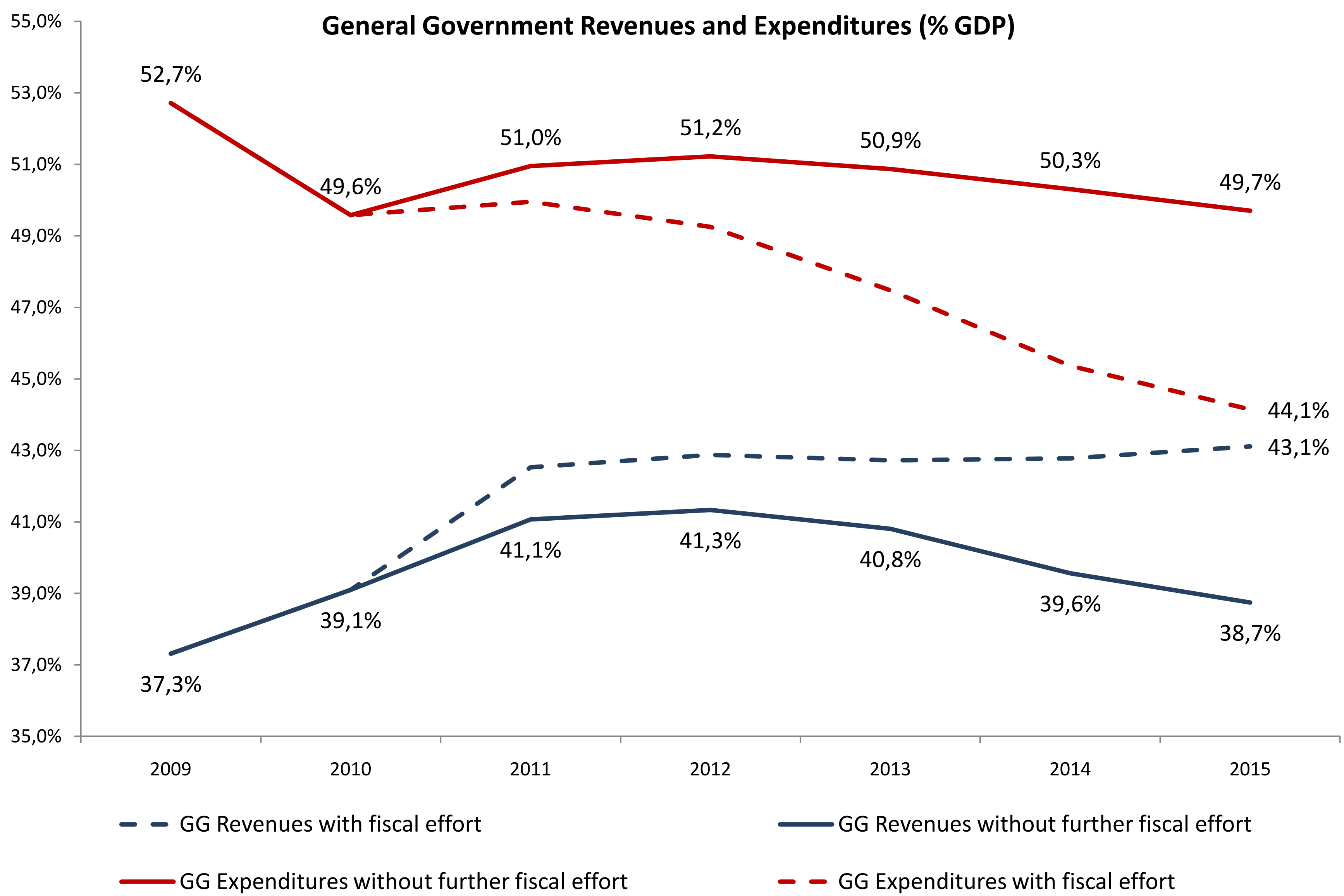
Scenario 1: GDP growth does not exceed 2% and the primary surplus does not exceed 3.2% of GDP, resulting in an unsustainable growth in public debt.

Scenario 2: GDP growth above 3.5% as of 2014 and a **primary surplus above 5.5% beyond 2014.** This results in sustainable debt levels but debt will remain above 100% of GDP in 2025.

Scenario 3: GDP growth above 3.5% as of 2014, **a primary surplus above 5.5%** and the **privatization and state asset management programme of 50 bln Euros in the period 2011-15, lead to a reduction in public debt below 100% of GDP in 2025**. Without the implementation of the privatization and state asset management programme, to achieve the same level of public debt by 2025 would require continuous primary surpluses above 7.5% beyond 2014.

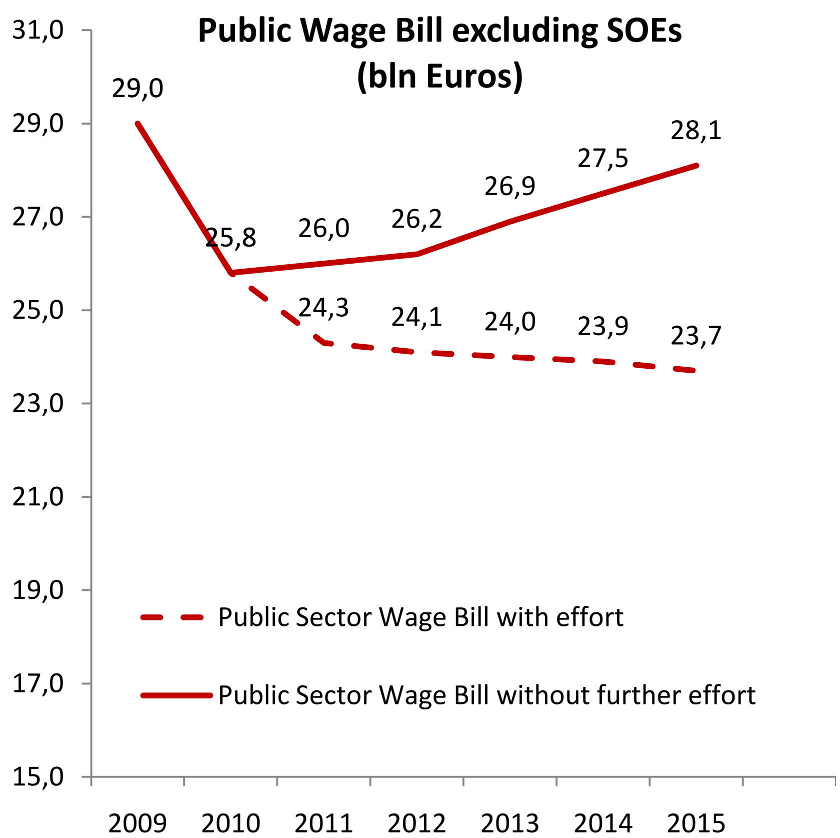
Note: For each Scenario there are two trajectories based on two different assumptions on nominal interest rates of 4.5% and 5.5%.

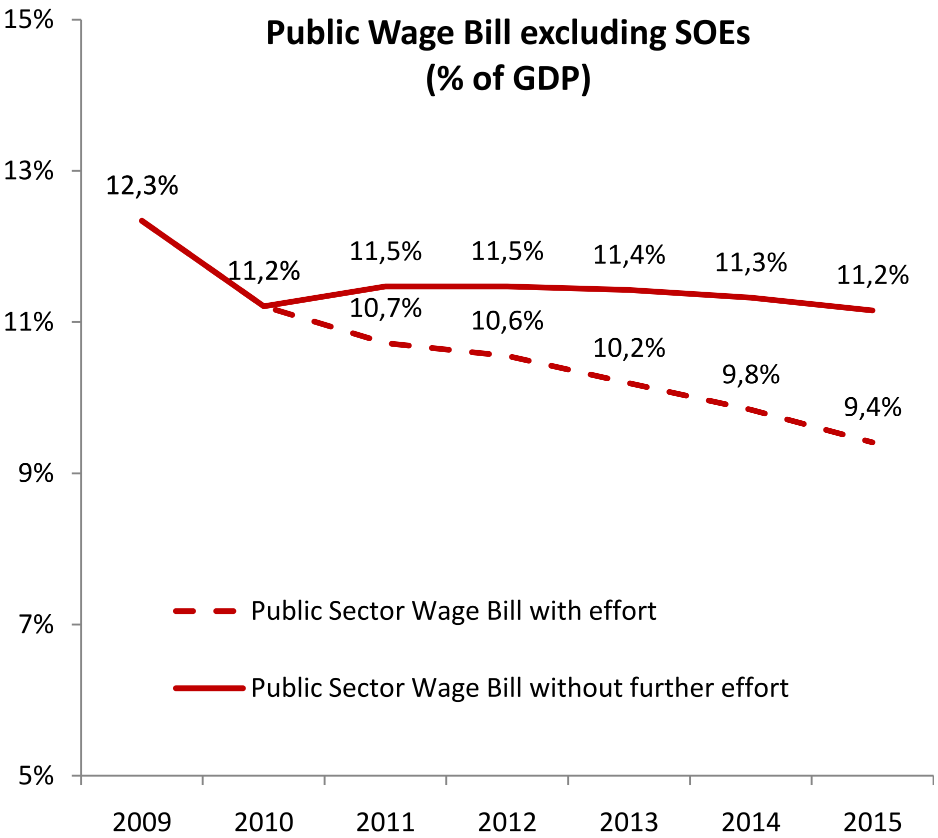
Revenues and Expenditures in 2015



Public Sector Wage Bill (including pensions)

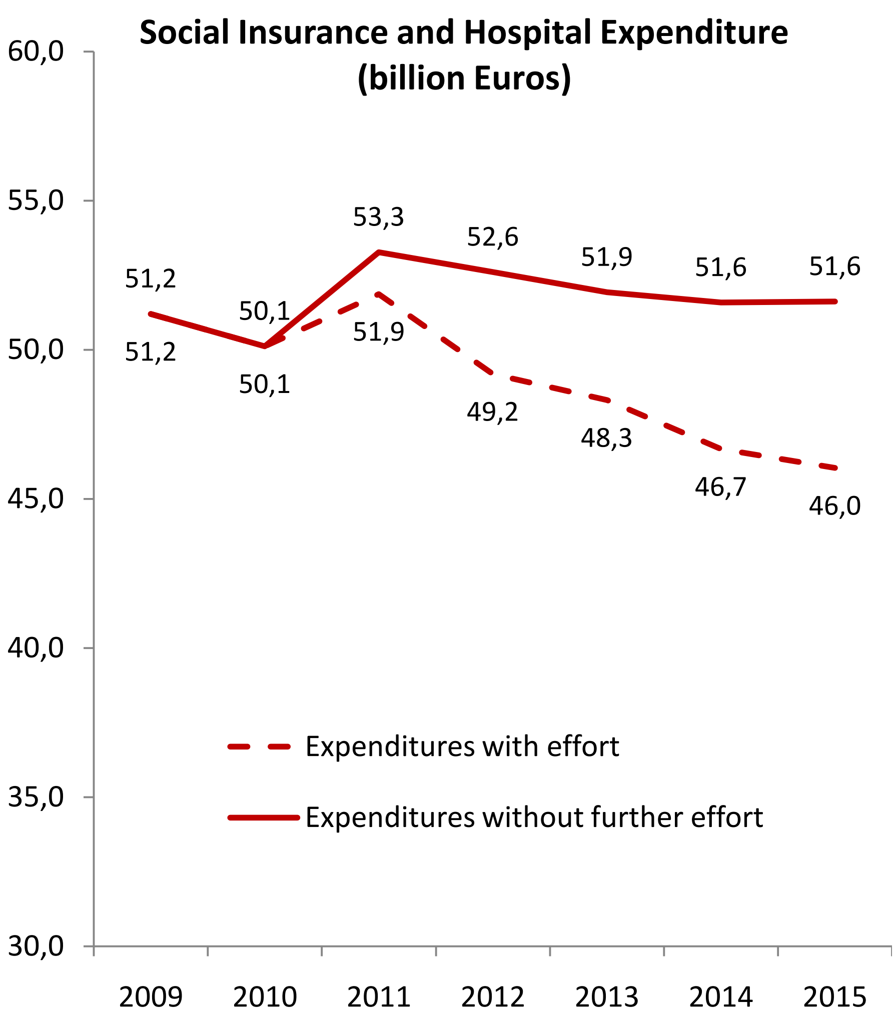
The Public Sector Wage Bill (including public sector pensions) will start growing again after 2011 if there are no further policies taken to contain it …

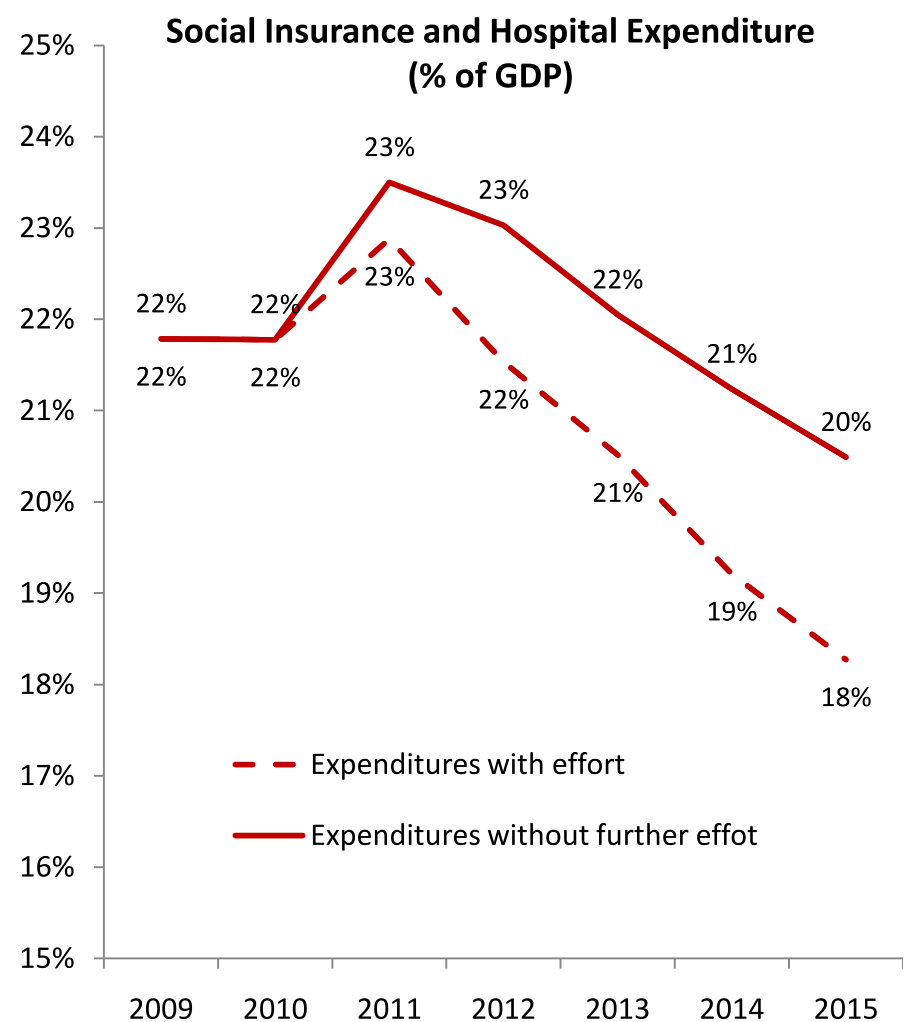




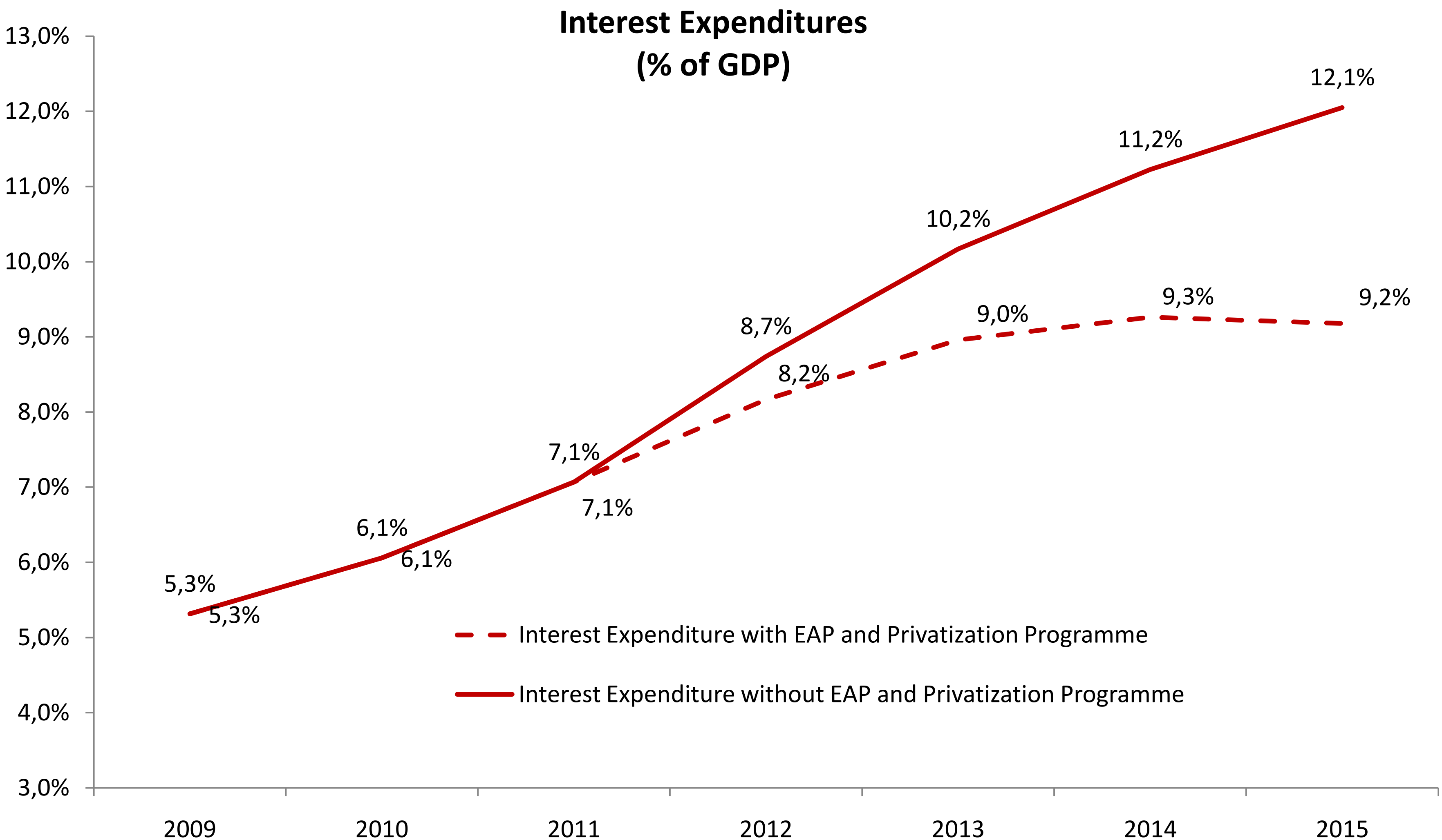
Note: The growth in the public sector wage bill with no containment policy shown above doesn't include any of the measures that have been announced. The evolution of the public sector wage bill with containment policy scenario includes the recruitment policies (1:5 and reduction in contractual employees) as well as the additional measures included in the programme.

Social Spending



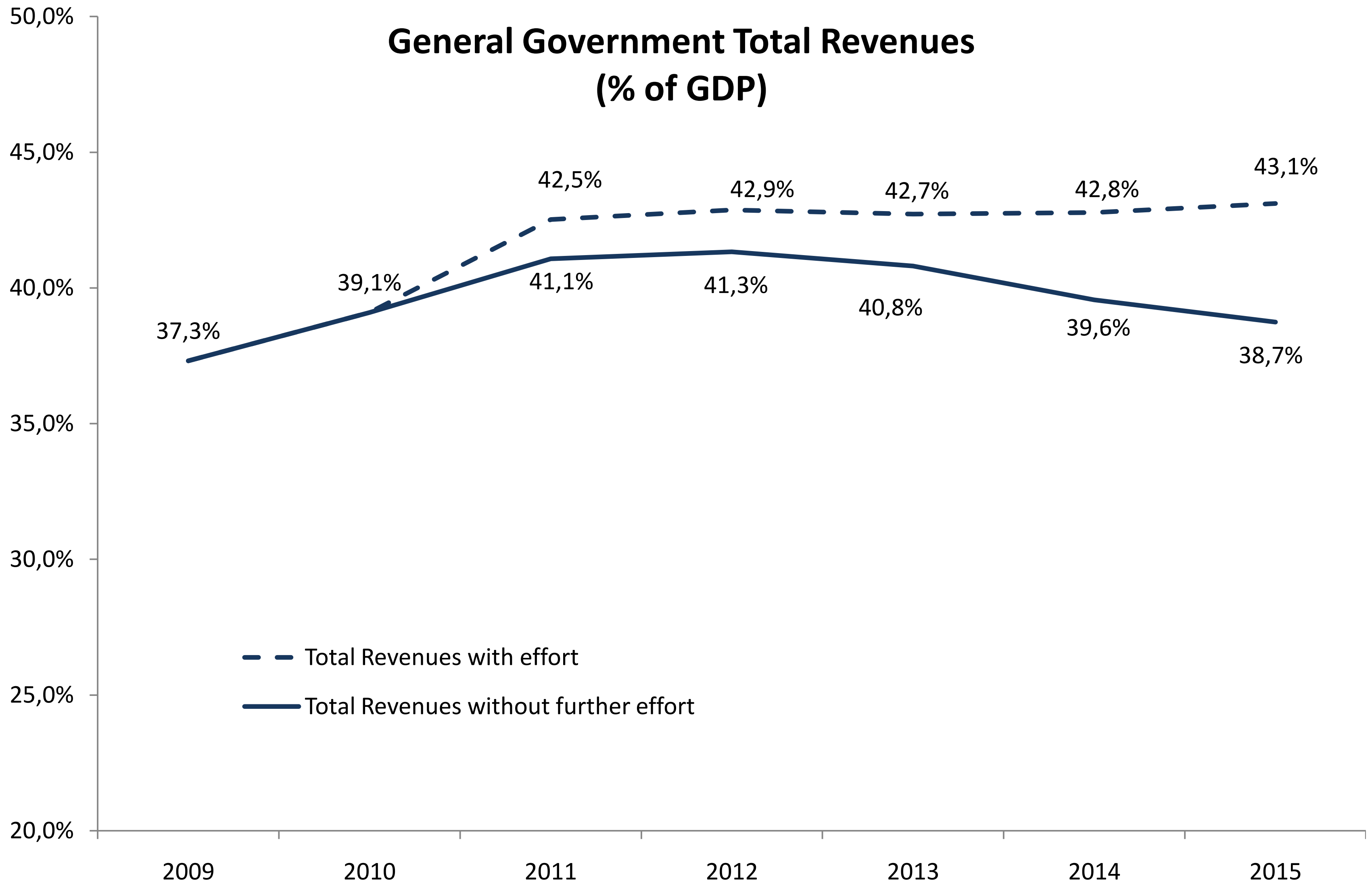


Interest Expenditures

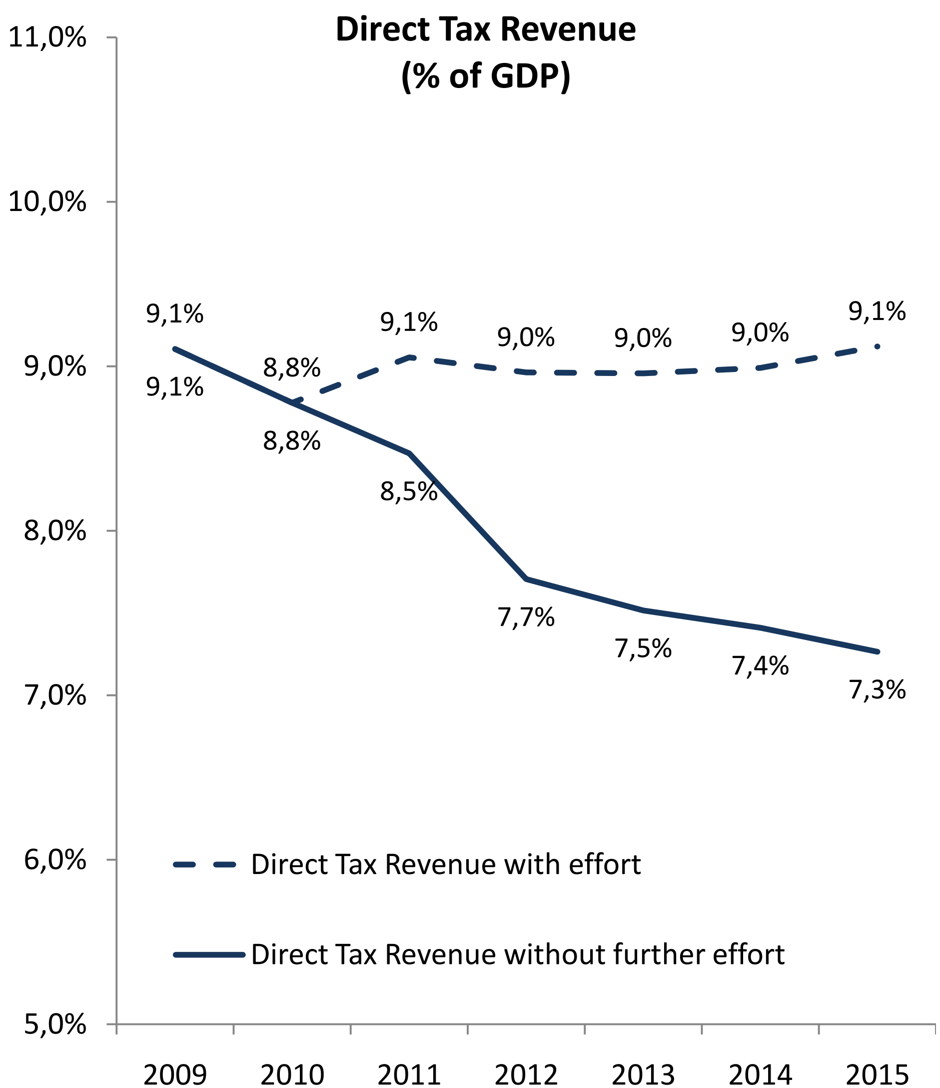


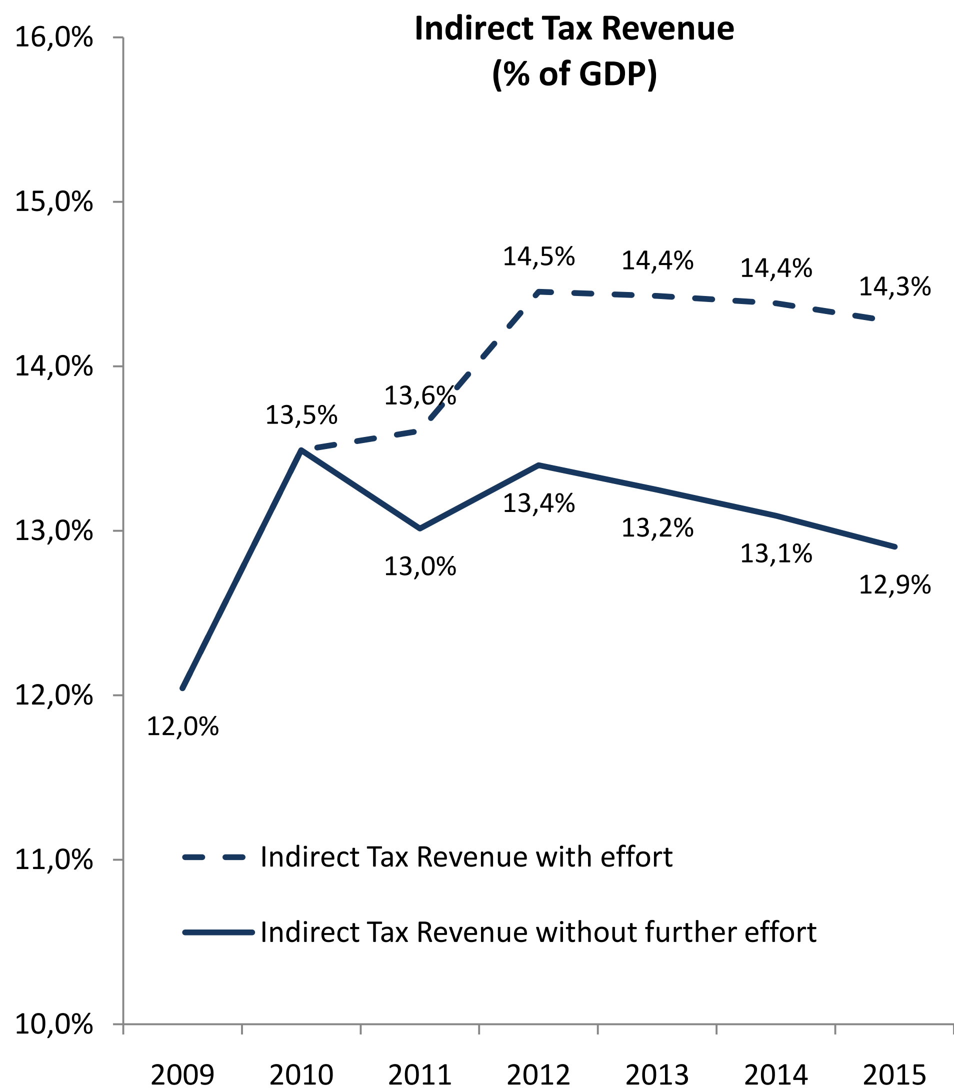
Note: EAP stands for Economic Adjustment Programme

General Government Revenues



Direct and Indirect Taxes





4. Next Steps

Next Steps

- Finalization of measures for 2011 and the Medium-Term Fiscal Strategy
- Immediate actions to accelerate privatization projects
- Finalization of the complete privatization programme
- Completion of the review of the Economic Adjustment Programme by EU/ECB/IMF (early June)