



Budget and structural reforms on track

- *In the first half of 2010 the Greek budget deficit shrank by 45.4% year-over-year against a targeted 39.5% decline*

In the second quarter of 2010 the Greek government achieved a number of structural milestones:

- *Overhaul of the country's private sector pension system to ensure its medium and long-term sustainability*
- *Reform of the country's public sector pension system to bring it into line with the new private sector system and the binding decision of the European Union Court of Justice on the equalisation of retirement ages for men and women*
- *Establishment of a 10 billion euro Financial Stability Fund to safeguard the capital adequacy of the country's banking system*
- *Establishment of a new Public Finance Management Framework for drawing up, executing and monitoring the government's budget*
- *Reform of the local and regional public administration, to enhance transparency, productivity and efficiency in the local governance system*
- *Establishment of a Single Payment Authority for the public sector wage bill*
- *A number of labour market reforms to increase flexibility and competitiveness*

2010 Budget on track

Deficit reduced 45.4% in first half of 2010

According to the preliminary data available for first six months of 2010 (January - June) the state budget deficit shrank by 45.4% year-over-year against a targeted 39.5% decline in the Government's economic policy programme.

On a fiscal basis the deficit amounted to 9,754 million euro, versus 17,866 million euro during the same period of 2009.

The fiscal result of the first six months of 2010 is due to both restriction of expenditures and revenue increases. Furthermore, these do not yet fully reflect all fiscal measures included in the Government's programme for 2010.

Central Government Deficit on monthly cumulative basis vs projections
(% GDP and mln Euro)

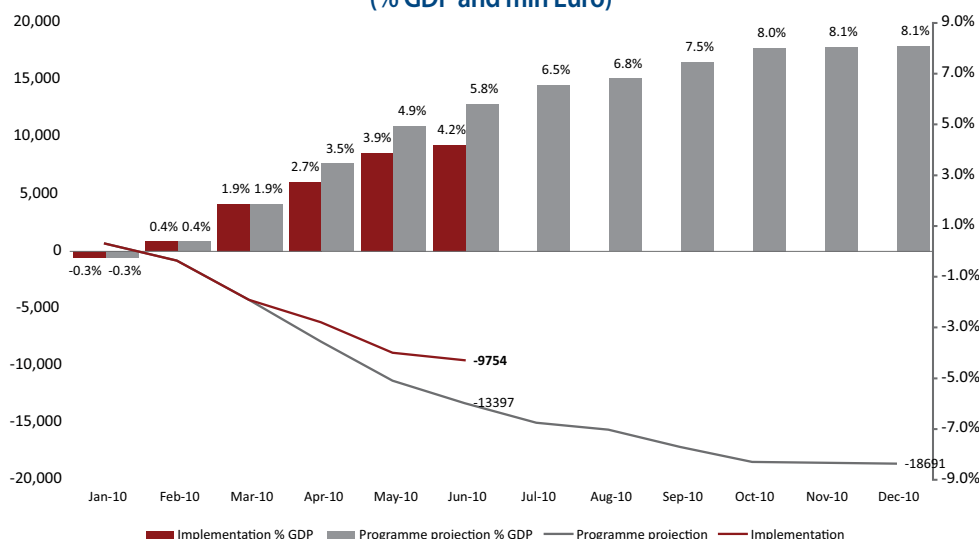


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2010 milestones

August 2010

First assessment of the Greek government's economic and financial policy programme.

September 2010

Greek government meets structural benchmarks
Second disbursement of Euro 9 billion (Euro 6.5 billion by Euro area Member States, Euro 2.5 billion by the IMF).

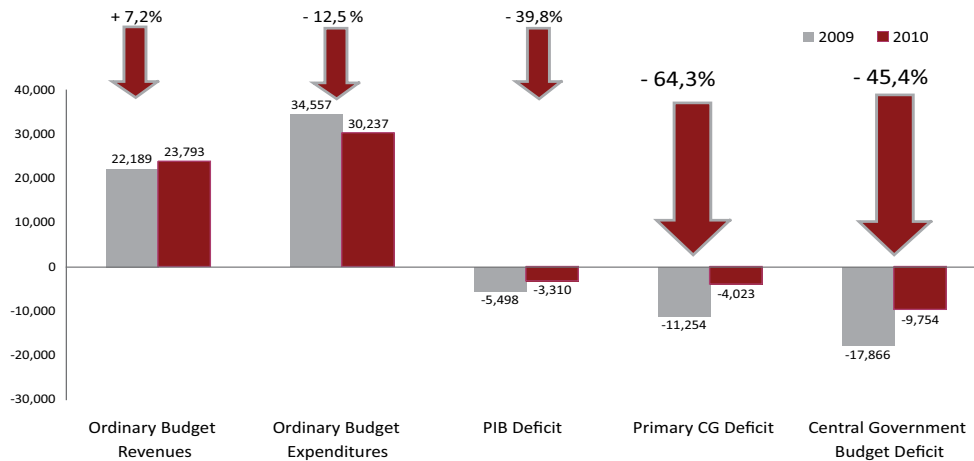
November 2010

Second assessment of the Greek government's economic and financial policy programme.

December 2010

Greek government meets structural benchmarks
Third disbursement of Euro 9 billion (Euro 6.5 billion by Euro area Member States, Euro 2.5 billion by the IMF).

2010 Budget major figures (H1 in mln Euro)



Pension Reform

The Greek Parliament on July 9 and 15 passed sweeping pension reforms that overhaul the country's existing private and public pension systems and bring its viability in line with the EU average. This ensures the system's medium and long-term sustainability, as well as a long-term actuarial balance.

Left unchanged, public pension expenditures under the existing system would have doubled from around 12% of GDP in 2010 to 24% in 2050. The new system will cap the increase of public sector spending on pensions, over the period 2010-2060, to under 2.5% of GDP.

The private sector pension reform:

- **Merges existing pension funds into three** and introduces a unified new system for current and future employees
- **Introduces a unified statutory retirement age of 65** years by December 2013, increasing in line with changes in life expectancy
- **Increases the minimum early retirement age to 60** by 2011
- **Increases the minimum contribution period** for retirement on a full pension from 35-37 to 40 years by 2015
- **Cuts pension benefits by 6 percent a year for people retiring between the ages of 60 and 65** with less than 40 years of pension contributions
- **Cuts the average annual accrual rate to 1.2%** from 2%.
- **Eliminates the 13th and 14th monthly pensions** (Christmas, Easter and summer bonuses – effectively reducing pensions by 14% per year)
- **Extends the calculation of the pensionable earnings** from the current last five years to the entire lifetime earnings
- **Freezes pensions for 2011-2013**
- **Redistributes pensions in favour on lower ones** by imposing a monthly tax on pensions above 1,400 euros from August 2010

The public sector pension reform:

- **Brings Greece's pension system of civil servants into line with the private sector** pension system
- **Ensures a more just and equal treatment** of all public sector employees
- **Introduces a unified statutory retirement age of 65** for both male and female public sector employees by December 2013, bringing Greece into line with the binding decision of the European Union Court of Justice and raising considerably the effective retirement age in the public sector
- **Creates a sustainable public sector pension system** - which currently makes up more than 10% of budget expenditures

Labour market reform

The Greek Parliament has also adopted legislative provisions on the following labour market reforms:

- **Reducing the overall level of severance payments**
- **Raising the minimum threshold for activating rules on collective dismissals** especially for larger companies
- **Extending the probationary period** for new jobs to one year
- **Introducing sub-minima to minimum wage levels** for groups at risk such as young and long-term unemployed

Social partners have also recently concluded a collective bargaining agreement with a 3-year horizon, which foresees a wage freeze for 2010 and average annual wage increase below 1% per year over the 2010-2012 period.

Fiscal Management and Responsibility Act

The Ministry of Finance on June 30 brought to parliament a Fiscal Management and Responsibility Act. This bill establishes a new framework for drawing up, executing and monitoring the government budget.

It puts in place expenditure caps for state and central government spending, sets transparency standards and makes information on government spending public. It reinforces the trustworthiness of the state's fiscal policy and official data, and creates a framework for the implementation of a medium-term fiscal policy.

The act:

- Requires the Ministry of Finance to present a three-year fiscal and budget strategy
- Introduces top-down budgeting with expenditure ceilings for the State budget and multi-year expenditure estimates by line ministry
- Introduces standard contingency margins
- Requires a supplementary budget for any overspending above the contingency
- Introduces commitment controls
- Requires monthly reporting of general government fiscal data

The law will be put into effect immediately and the 2011 budget will be prepared accordingly.

Public Administration

Kallikrates Plan

The government is in the process of re-organising local and regional public administration following the "Kallikrates" law adopted at the end of May. These reforms are aimed at generating sizeable productivity gains and fiscal savings.

The government has:

- Reduced local administration entities (municipalities) from 1000 to 325
- Pledged to cut down some 2000 public entities in the broader public sector

Structural Reforms Scorecard

Independence of the Hellenic Statistical Service	✓
Reform of local public administration (Kallikrates)	✓
Private and public sector pension reform	✓
Reform of local public administration	✓
Single payment authority for the public wage bill	✓
Fiscal Management and Responsibility Act	✓
Publication by the General Accounting Office (GAO) of timely monthly statistics	✓
Online publication of all decisions involving commitments of funds in the general government sector	✓
Financial Stability Fund	✓
Allocate private insurance sector supervision to the Bank of Greece	✓
Simplification of the start-up of new businesses	✓
Recovery plan for the railway sector with a timetable for measures	✓
Horizontal legislation on the Services Directive	✓
Review of law concerning indebted households based on ECB recommendations	✓
Raise the absorption rates of Structural and Cohesion Funds	✓
Start discussion with social partners to prepare the revision of private sector wage bargaining and contractual arrangements	✓

The reform is expected to generate savings of about 1.5 billion euro at the local administration level.

Single payment authority for the public wage bill

The Greek Parliament has also passed a law providing for the establishment of a **centralised Single Payment Authority to monitor public sector wage bill**. The Ministry of Finance in cooperation with the Ministry of Interior is conducting a complete inventory of staff on public sector payrolls. By February 2011 all public sector employees payments will be made only through the new Authority.

Financial Stability Fund

The Greek Parliament on July 13 approved the creation of a **10 billion euro Financial Stability Fund (FSF)**.

The primary function of this new fund will be to maintain the stability of the Greek banking system by **providing equity capital in the case of a significant decline in banks' capital ratios**.

The FSF will thus serve as a safety net to Greek credit institutions to allow them to continue financing the Greek economy. The Fund will not provide liquidity support. This will continue to be provided under existing arrangements.

- The 10 billion euro fund will be fully funded by the government out of the resources available under the EU-IMF program for this purpose
- All credit institutions authorised by the Bank of Greece will be eligible for recapitalisation by the fund
- The fund will provide capital support to the banks through the purchase of preference shares from the banks. Under certain circumstances these instruments will be convertible to ordinary shares after five years
- The FSF will report semi-annually to the Greek parliament, the European Commission, the ECB, and the IMF staff
- The fund will have a seven-year mandate