Greece: 2010-2011

HELLENIC REPUBLIC
Government

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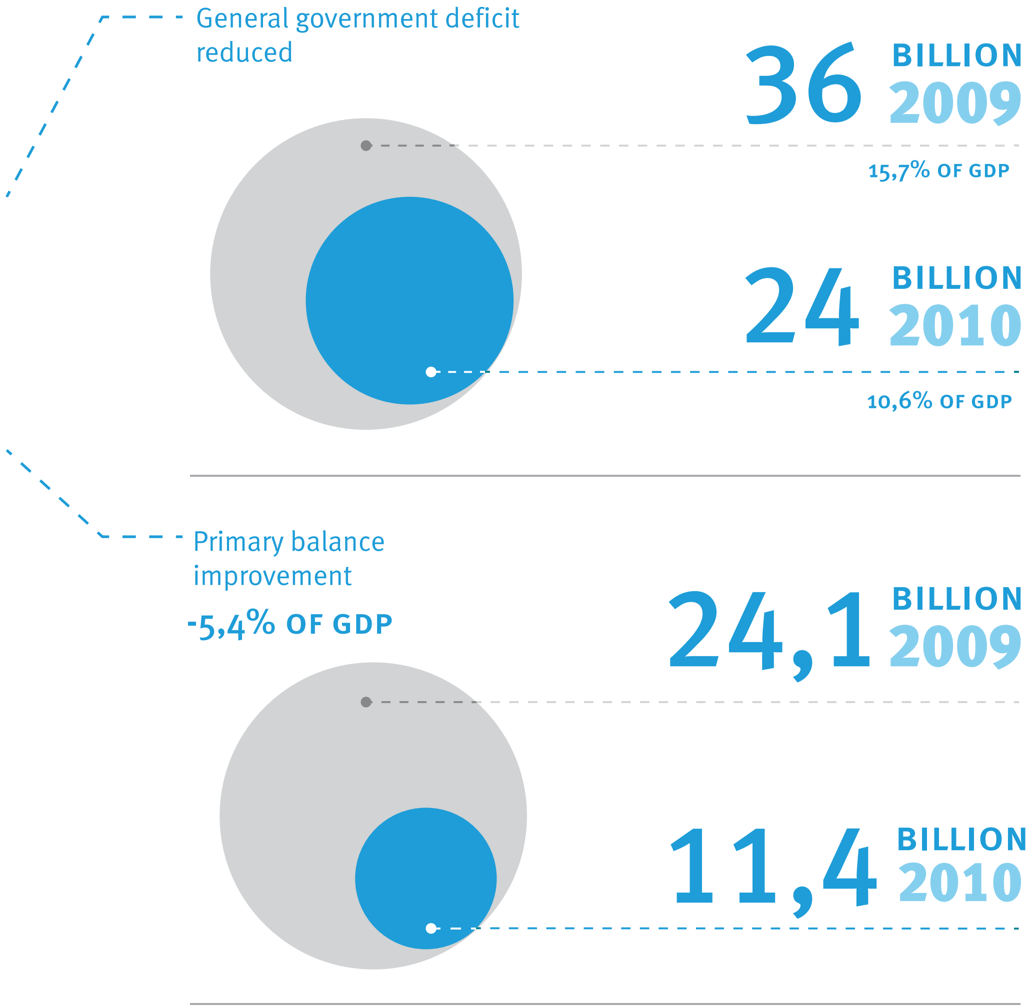
FISCAL CONSOLIDATION

- **Largest annual fiscal consolidation ever by a Euro Area economy:** general government deficit reduced by 5.1 percentage points of GDP in 2010. Sufficient fiscal measures have been taken to reduce the deficit further by 2.1% and 2.7% by the end of 2011 and 2012 respectively. A cumulative 10 percent fiscal consolidation in three years.

- **Even faster primary balance improvement:** a primary deficit of 24.1 billion in 2009 was reduced to 11.4 billion in 2010. A small primary deficit is expected for the end of 2011 (2.4 billion) before turning to a primary surplus in 2012 (3.2 billion). Thus, in two years (2010, 2011) the primary deficit is reduced by 21.7 billion or about 10 percent of GDP.

- **Much faster cyclically adjusted fiscal consolidation.** The above record fiscal consolidation is achieved within a deep recession environment (cumulative recession of about 15 percent of GDP during 2009-2012). The cyclically adjusted fiscal deficit for 2011 is estimated at 3.6% compared to the 8.5% non-adjusted one.

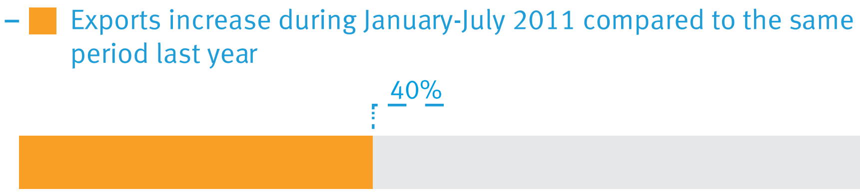


THE REAL ECONOMY

- **The economy is adjusting:** unit labour costs down by 5.3% in 2010-11 and compensation per business sector employee dropped by 5.8%. Much larger reductions in real terms.

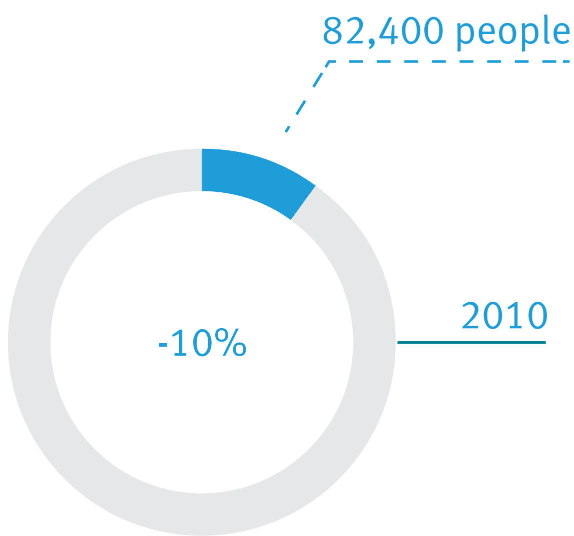
- **Exports are growing fast:** exports increased by 40% during January-July 2011 compared to the same period last year. Trade deficit was reduced by 35% during the same period.

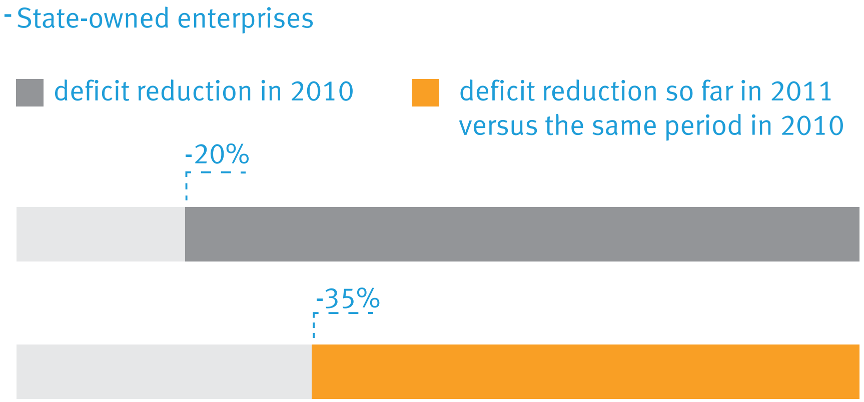
- **Competitiveness is improving:** current account deficit reduced from 14% in 2009 to 11.8% in 2010. In the first half of 2011, the current account deficit fell by €900 million or 6.0% year-on-year, to €13.3 billion.



MAIN EXPENDITURE CUTS AND TAX MEASURES

- **Cuts in nominal public sector wages** by 15%. An additional 20% cut is imposed in 2011-12.
- **Cuts in wages of State-owned Enterprises** by 30% as well as ceilings imposed on bonuses and wages. An additional 20% cut is imposed in 2011-12.
- **Cuts in nominal pensions** in the public and private sector by 10%. An additional 4% is imposed in 2011-12.
- **Reduction of public sector contract employees** by 70% or 85,000 people in 2010-11, compared to 2009.
- **Total public sector employment significantly cut:** net reduction of 82,400 people in 2010 or 10% decline of the total. By the end of 2011, the total number of public sector employees - whether permanent, under contract, casual or interns - will be reduced by 200,000, compared with 2009 figures.
- **Creation of a labour reserve** to which 30 thousand employees will be transferred by the end of 2011.
- **State-owned enterprises:** reduction in deficits by 20% in 2010; additional reduction (before subsidies) by 35% so far in 2011 versus the same period in 2010.
- **Social spending:** overall reduction of 3.4 billion Euros (1.5% of GDP) on pensions, illness and pharmaceutical benefits in 2010.





MAIN EXPENDITURE CUTS AND TAX MEASURES

- **VAT rates increased across the board by 20%** (the 19% rate was raised to 23%; the 11% rate to 13%; the 5.5% rate raised to 6.5%). Many goods and services were also transferred from the 13% rate to the 23% rate in September 1, 2011.

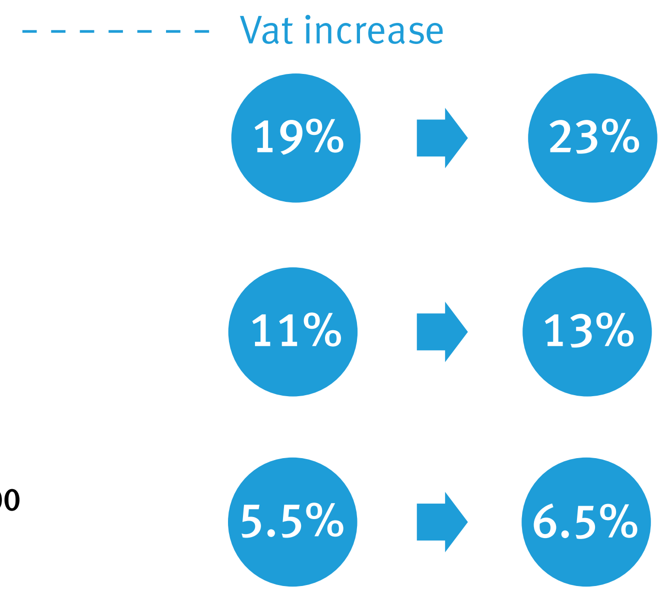
- **A drastic reduction in the tax free threshold from** 12 to 5 thousand euro from 2011.

- **Excise taxes raised by 33%** on fuel, cigarettes and alcohol.

- **Special levies on profitable firms, high income individuals and high-value real estate.**

- **A solidarity tax on total declared incomes higher than 12,000 Euros was introduced.** The tax rate ranges from 1% to 5%.

- **Additional property tax** to be collected via the electricity bills from 2011 with expected revenues of 1 percent of GDP.



MAJOR REFORMS ADOPTED

- **Pension reform:** completed ahead of schedule; measures reducing the actuarial deficit to 2060 by 10 percentage points of GDP; retirement age will now be 65 years; effective retirement age raised by at least two years, 40 years of work now required for full pension; pension benefits now linked tightly to lifetime contributions; retirement age has already been automatically linked to life expectancy; retirement penalties increased and voluntary exit plans abolished

- **Labour market reform:** fully symmetric arbitration system, reduction in severance payments by 50%, cut in overtime remuneration by 20%, extension of probation period from 3 to 12 months, increase of permissible dismissals from 2 to 5% per month; special firm level agreements prevailing over sectoral collective agreements; measures promoting part time employment.

- **Local administration reform:** municipalities have been reduced from 1034 to 325, decrease in the existing local authority entities by more than 4500 (from 6000 to less than 1500); decrease in elected officials from 30,795 to 16,657.

- **Liberalization of closed professions:** the new Law imposes default of opening effective July 1, 2011 and covers over 150 professions; reversal of burden of proof for retaining restrictions: need for special decrees that fully specify the need.

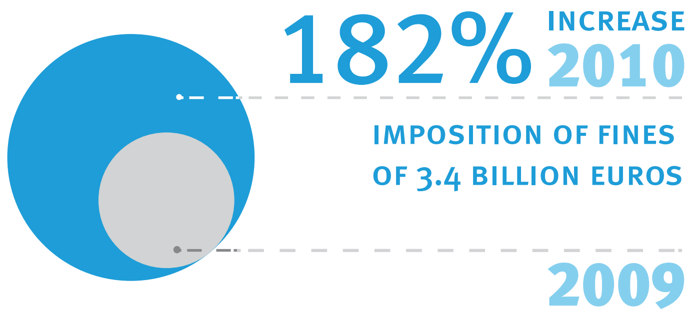
MAJOR REFORMS ADOPTED

- **Independent Statistical Authority:** President and majority of the Board members appointed by a four-fifths majority by Parliament); full validation of data by Eurostat following reform.

- **Strengthening fiscal management:** medium-term fiscal framework, expenditure monitoring mechanisms strengthened through creation of a commitment registry, binding expenditure ceilings in Ministries.

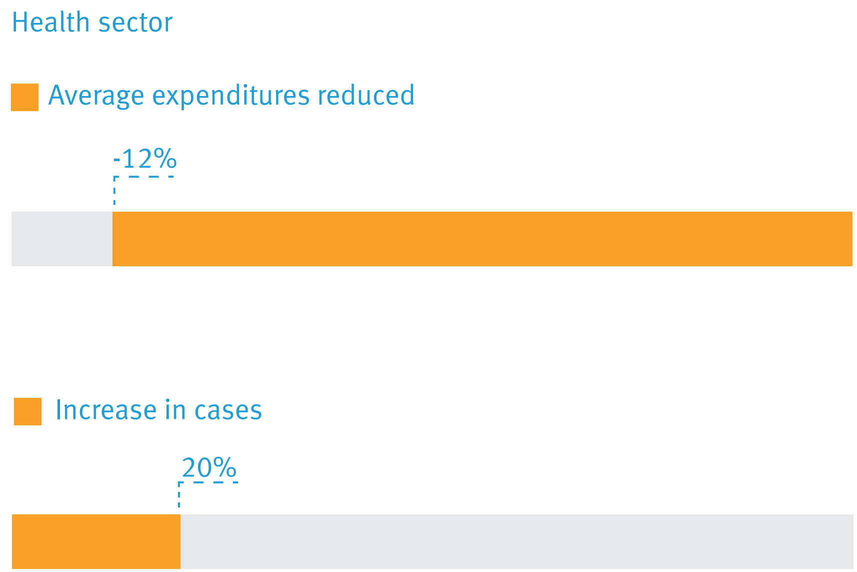
- **Tax reform:** new management information systems, a special administrative structure to assist reform, alternative tax dispute resolution mechanism legislated, shortened judicial procedures for tax cases.

- **Combating tax evasion:** Imposition of fines of 3.4 billion Euros in 2010 (182% increase compared to 2009), big rise in audits (six-fold increase in audits on self-employed professionals) and penalties for undeclared assets (555 yachts seized, 10 million Euros in fines for offshore real estate assets in 2010) and preparation of 3 year anti-tax evasion plan.



MAJOR REFORMS ADOPTED

- **Health sector:** average expenditures reduced by 12% (y-on-y) in S1 2011 alongside a 20% increase in cases.
- **Online publication** of all decisions involving commitments of funds in the general government sector.
- **Simplification of the start-up of new businesses:** set up in 1 day from 19 days.
- **“Fast track” process** for large investments legislated and implemented.



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